



January 8, 2008

Mr. Jim Sylph
Executive Director, Professional Standards
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on proposed redrafted International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*, and proposed redrafted International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (the “proposed standards”) as developed by the International Auditing and Assurance Standards Board (IAASB).

We are supportive of the development of this guidance and believe that the overall redrafting of the proposed standard was completed in accordance with the clarity conventions and criteria adopted by IAASB.

We are especially pleased to see that the definition of the “engagement team” excludes “external experts,” as we believe that including such in the definition would lead to significant issues of finding experts not employed by the auditor who are able to comply with the stringent independence requirements of engagement team members.

Throughout our letter, additions are noted in bold-underline and deletions are noted in double-strike through.

RESPONSES TO QUESTIONS IN THE EXPLANATORY MEMORANDUM

1. Are the objectives stated in the proposed redrafted ISA and ISQC appropriate?

Yes, we believe the objectives in both the ISA and ISQC are appropriate.

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

No, we believe that guidance was inconsistently distributed between requirements and application material from extant ISQC 1-paragraph 65, into proposed ISQC 1-paragraphs 45 and A38 (and equivalent paragraphs in proposed ISA 220-paragraphs 22 and A16).

We noted that the “mapping documents” state that some of the bullets in extant ISQC 1, paragraph 65 were considered applicable in all cases, and that other bullets were considered to be examples of significant judgments. The requirements and application material were divided as follows:

Requirements: Proposed ISQC 1, paragraph 45 and Proposed ISA 220, paragraph 22.

The engagement quality control review for audits of financial statements of listed entities shall include consideration of the following:

- (a) The engagement team’s evaluation of the firm’s independence in relation to the specific engagement;*
- (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and*
- (c) Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.*

Application Material: Proposed ISQC 1, paragraph A38 and Proposed ISA 220, paragraph A16. *Matters of significant judgment include, for example:*

- Significant risks identified during the engagement and the responses to those risks.*
- Judgments made, particularly with respect to materiality and significant risks.*
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.*
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.*

We believe that elevating the three bullets in paragraph 45 of proposed ISQC 1 (and similarly paragraph 22 of proposed ISA 220) departs from a principles-based approach where the engagement quality control reviewer defines the scope of the review based on the specific circumstances of each engagement. Accordingly, we recommend that the bullets in ISQC 1, paragraph 45 (and similarly ISA 220, paragraph 22) be moved back into the application material in ISQC 1, paragraph A38 (ISA 220, paragraph A16) to support ISQC 1, paragraph 43 (ISA 220, paragraph 20).

Additionally, we recommend that the application material specifically state that the “selected working papers” described in ISQC 1, paragraph 44 (and similarly ISA 220, paragraph 21) are selected based on the judgment of the engagement quality control reviewer.

COMMENTS BY PARAGRAPH

- **Proposed ISA 220, paragraph 11**

Paragraph 11 of proposed ISA 220 states that:

The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate.

We are concerned that if the engagement partner discovers that *appropriate procedures* regarding acceptance or continuance of a specific audit engagement were *not* conducted by the firm, that the audit engagement itself may automatically be out of compliance with the ISAs, regardless of full compliance with all other requirements in the ISAs. We do not believe that this requirement belongs in this ISA, and recommend that it be revised as follows:

The engagement partner ~~shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard~~ **related to acceptance and continuance of client relationships and audit engagements** are appropriate.

- **Proposed ISA 220, paragraph 22(c)**

To be consistent with proposed ISQC 1, we recommend that the phrase “audit documentation” in paragraph 22(c) be changed to “working papers.”

- **Proposed ISQC 1, paragraph 45(c) and proposed ISA 220, paragraph 22(c)**

This bullet states that an engagement quality control review includes consideration of:

Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.

This bullet could be read to mean that the engagement quality control reviewer need only determine whether the conclusions reached by the engagement team are supported by the working papers, but not to mean that such reviewer should also assess whether those conclusions were appropriate. We believe the latter is the more important role of the engagement quality control reviewer, and accordingly suggest the following revision to this bullet:

Whether working papers selected for review **(1)** reflect the work performed in relation to the significant judgments, **(2) include the appropriate conclusions,** and **(3)** support the conclusions reached.

- **Proposed ISQC 1, paragraph 12 (p)**

This bullet refers to “an audit of financial statements,” however, since ISQCs refer to all types of engagements, this reference should be changed.

- **Proposed ISQC 1, paragraph 67**

In order to avoid potential confusion that this paragraph relates to the monitoring procedures performed by those external to the firm, we recommend the following revision to paragraph 67:

67. The firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit ~~those~~ **firm personnel** performing monitoring procedures to evaluate the firm’s compliance with its system of quality control, or for a longer period if required by law or regulation.

- **Proposed ISQC 1, paragraph A42**

We are concerned that the example provided in the second sentence is in contradiction with paragraph 12(d) of the proposed ISQC 1, as the example states that the engagement quality control reviewer for an audit of a listed entity would be an individual with the authority to act as an audit engagement partner. However, paragraph 12(d) states that an engagement quality control reviewer could be a partner, other person in the firm, suitably qualified external person, or a team of such individuals. The wording of the example in paragraph 12(d) could lead one to believe that for audits of listed entities, the reviewer should be a partner, not an “other person in the firm, suitably qualified external person, or team of such individuals.” Accordingly, we recommend either deleting the example from paragraph A42, or making the following revision:

A42. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of the financial statements of a listed entity ~~would~~ **could** be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.

- **Proposed ISQC 1, paragraph A43**

We do not agree with the changes made from paragraph 71 in extant ISQC 1 to form paragraph A43. Particularly, we believe the newly added sentence that begins with “however” is confusing, and not necessary. Also, we believe that it contradicts with paragraph 19(b) of ISA 220, which requires consultation during the engagement. Accordingly, we recommend the following revisions to bring the paragraph back in line with the extant paragraph 71:

The engagement partner may consult the engagement quality control reviewer during the engagement, for example, to establish that a judgment made by the engagement partner will be acceptable to the engagement quality control reviewer. Such consultation avoids identification of differences of opinion at a late stage of the engagement and need not compromise the engagement quality control reviewer’s eligibility to perform the role.

~~However when the consultation is a necessary part of the engagement partner's process of forming an opinion on a matter, consultation with the engagement quality control reviewer for this purpose would not be appropriate. Similarly, when **Where**~~ the nature and extent of the consultations become significant, the reviewer's objectivity may be compromised unless care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 1 212 492 3689 or John Fogarty, Chairman – DTT Assurance Technical Policies and Methodologies Group at + 1 203 761 3227.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jens Simonsen". The signature is written in a cursive style with a large, stylized initial "J".