

October 21, 2003



Mr. James M. Sylph  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

Dear Mr. Sylph:

**Re: Proposed International Standards on Quality Control**

IOSCO's Standing Committee No. 1 ("SC1") appreciates the opportunity to comment on the exposure drafts of proposed ISQC 1, Quality Control for Audit, Assurance and Related Services Practices and proposed revised ISA 220, Quality Control for Audit Engagements.

IOSCO is committed to enhancing the integrity of financial information available to participants in capital markets by promoting the development of high quality accounting and auditing standards, supported by rigorous application and enforcement. Our comments reflect those matters on which the members of Standing Committee No. 1 have reached a general consensus and do not necessarily reflect all comments that might be provided by individual members on behalf of their respective jurisdictions.

In reviewing the proposed standards, we have focused on the importance of rigorous quality controls within accounting firms providing services that lend credibility to financial and other information on which investors in capital markets rely to make investment decisions. The importance of such quality control systems, both firm wide and at the level of individual engagements, cannot be overemphasized. We commend the IAASB for addressing this matter. As a number of jurisdictions establish auditor oversight bodies, it will be particularly important to achieve an international consensus on the essential elements of quality control systems. This will greatly facilitate interaction among national inspection programs and assist in promoting confidence in the quality of auditing worldwide.

We are concerned that, as drafted, the proposed ISQC 1 and revised ISA 220 may not distinguish with sufficient clarity between quality controls required at the firm wide level and those required at the level of an individual engagement. In general terms, we believe ISQC 1 should define the objectives of a firm wide system of quality control, identify those areas in which a firm should establish appropriate policies and procedures and define the matters to be addressed in those policies and procedures. We urge the Board to consider carefully whether, at least in some cases, the standard should be more explicit in specifying the procedures to be followed rather than merely identifying a topic that should be addressed in a firm's policies and procedures and allowing for a potentially wide range of different policies and procedures.

Mr. James M. Sylph  
IAASB  
Page 2

ISA 220 should establish the responsibilities of the engagement partner and other members of the engagement team in implementing appropriate quality control processes in the context of an individual audit engagement. While the requirements of ISA 220 need to be aligned with the firm wide policies and procedures, we would expect this standard to provide significant additional guidance beyond that included in ISQC 1. As currently drafted, ISA 220 appears to contain a large amount of verbatim repetition of material from ISQC 1 without additional explanation. In addition, there are several places where material is almost identical but there are minor wording differences that may lead readers to conclude that a different meaning was intended. In other places, there is selective repetition and the reasons for this are not apparent to us.

We note that the distinction between what is included in ISQC 1 and what is included in ISA 220 is particularly significant because of the different status of the two standards in relation to an assessment of whether an individual engagement has been performed in accordance with International Standards on Auditing. In this regard, we recommend that the Board consider carefully the status of material in ISQC 1 that appears to be incorporated by cross-reference into ISA 220. From our perspective, it is particularly important for ISA 220 to contain a level of detail that will ensure the required standard of performance in each individual engagement is sufficiently robust.

We note that paragraph 2 of ISQC 1 establishes the objective of a firm's quality control system as to provide "reasonable assurance" of compliance with relevant standards and other requirements and that reports issued are appropriate in the circumstances. In the absence of any discussion in the proposed standards of the meaning of "reasonable assurance", we are not clear how these words should be interpreted. While we could infer that the Board intended the words to have the specialized meaning given to them in relation to the objectives of an audit of financial statements, we question whether this would be appropriate since the context is quite different. In particular, many of the factors that limit the level of assurance an auditor can provide on the financial statement assertions of a third party are not relevant to activities conducted under the direction and control of the accounting firm and its personnel. In our view, the quality control systems of an accounting firm should be designed to provide a high level of confidence as to compliance with relevant standards and other requirements and that reports issued are appropriate in the circumstances. We recommend that the Board adopt for use throughout the standard terminology that more appropriately conveys this objective.

Mr. James M. Sylph  
IAASB  
Page 3

As you know, it is a matter of continuing concern to us that ISAs do not distinguish adequately between procedures that are required to be undertaken in all circumstances, procedures that would be presumed to be relevant unless demonstrated otherwise and other procedures that should be considered by the auditor. We refer you to the comment letter issued by SC1 on February 5, 2003, regarding the Exposure Draft on "Terms of Reference, Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services and Operations Policy No. 1 – Bold Type Lettering". The concerns expressed in that letter also apply to these exposure drafts. We note that the status of material that is not "black-lettered" is particularly unclear in these exposure drafts and we believe there is significant potential for differences in interpretation as a result of this lack of clarity. This can only serve to undermine the credibility of the standards and ultimately the credibility of auditors if it becomes apparent that there is significant diversity in implementation. We are encouraged that the Board is currently actively engaged in exploring appropriate solutions to the concerns about lack of clarity resulting from existing drafting conventions.

We have made a number of detailed comments in the attachments to this letter. The comments in Attachment A relate to proposed ISQC 1. The comments in Attachment B relate to proposed ISA 220.

If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-942-4400.

Sincerely,



Scott Taub  
Chair  
IOSCO Standing Committee No. 1

## Attachment A

### Comments on Proposed ISQC 1

#### Paragraph 4

We believe the wording of the first sentence of this paragraph is potentially confusing because the context in which the word “differing” is used appears to contradict the opening statement that the ISQC applies to all firms. We suggest rewording the paragraph as follows: “This ISQC applies to all firms that practice in the area of audit, assurance and related services, regardless of their size. The nature and extent of the specific policies and procedures adopted by each firm will differ, however, depending on its particular circumstances, including its size and operating characteristics.”

#### Paragraph 5(a)

We recommend that the Board consider shortening the definition of “engagement partner” to read: “The partner or other person in the firm responsible for the performance of the engagement and for issuing the report on the subject matter on behalf of the firm”. The attributes that an engagement partner should possess would then be covered comprehensively in paragraph 40 which specifies the content of policies and procedures relating to assignment of engagement teams. These attributes would include sufficient and appropriate experience, sufficient authority in the firm and that the person is permitted by law, regulation or a professional body to act in the role in the relevant jurisdiction.

#### Paragraph 5(e)

In the context of ISQC 1, we question whether it is appropriate to qualify the definition of a “network firm” by referring to “a reasonable and informed third party having knowledge of all relevant information” (emphasis added). By definition, most reasonable and informed third parties will not have knowledge of all relevant information dealing with the nature of the relationships that exist among, for example, national firms that operate as part of an international network. In our view, when the appearance is of a single firm that is sufficient to establish a network relationship regardless of whether knowledge of all relevant information might change that perception.

#### Paragraph 5(h)

The definition of the term “professional standards” is restricted to IAASB engagement standards. In the context of the usage of this term throughout ISQC 1, we question whether this is too restrictive. First, it is not clear whether the term “engagement standards” includes all literature issued by the IAASB, including International Auditing Practice Statements. Second, the Board should consider whether other relevant standards beyond those of the IAASB may apply to a particular engagement and should be referenced. We note that recognition is given to national ethical requirements.

### **Paragraph 7**

We note that the lead in to this paragraph dealing with leadership and responsibilities within the firm starts off by referring to "the firm". We suggest that the Board consider replacing the reference to the firm with a reference to "the senior management of the firm". We believe this would recognize more appropriately where the accountability and responsibility rests.

### **Paragraph 8**

We agree that the messages and actions of management are critical in promoting a culture of quality. In our view one of the most critical issues in promoting a commitment to quality is the design and implementation of incentive systems, including the appraisal process for partners and staff and the firm's promotion and remuneration policies. These matters are touched upon in paragraphs 8 and 11 but we believe they are worthy of greater focus. For example, there should be an explicit statement that the design and implementation of incentive systems, as reflected in the firm's personnel policies and procedures, should evidence a clearly demonstrable commitment to quality. To the extent paragraph 11 is retained in substantially its current form, the first sentence should be revised along the following lines: "Partner and staff appraisal policies as well as promotion and remuneration policies provide positive recognition for compliance with the firm's quality control policies and procedures".

### **Paragraph 10**

We recommend deleting the words "to assist in effective implementation" at the beginning of the first sentence. Clear communication of quality control policies and procedures to all affected personnel is a pre-requisite to effective implementation of those policies and procedures rather than merely "assisting" with effective implementation.

### **Paragraph 12**

We agree that the Chief Executive Officer (CEO) of the firm should assume ultimate responsibility for the firm's quality control system. In addition, we believe the firm's policies and procedures should acknowledge explicitly that the CEO has the ultimate responsibility for ensuring appropriate actions are taken to address the findings of the firm's monitoring process. We believe a firm's policies and procedures should also go beyond acknowledging the CEO's ultimate responsibility for quality control and should acknowledge the responsibility of the firm's governing body.

### **Paragraph 18**

We note that sub-paragraph 18(a) provides for a firm to take appropriate action to eliminate a threat to independence or to apply safeguards to reduce the threat to an acceptable level. We believe this sub-paragraph should be amended to recognize the possibility that, in some circumstances, the only appropriate means of addressing a threat to independence might be to withdraw from the engagement. We recognize that the

potential need to withdraw from an engagement is identified in paragraph 22 but we do not believe this gives sufficient prominence to the point.

We also note in passing that some provisions of the Code of Ethics, such as paragraph 8.105, convey a confusing message by using the term "safeguards" in a context that encompasses taking action to eliminate a threat by, for example, disposing of a financial interest. We consider this a misuse of the word that the IAASB should not repeat in ISQC 1.

In addition to establishing policies and procedures designed to enable the firm to identify potential threats to independence and to address those threats internally, we believe a firm should have clearly defined policies and procedures for communicating such matters to clients. We note that securities regulators commonly require an issuer to file financial statements that are accompanied by a report from an independent auditor. Accordingly, we believe issuers have a vital interest in being made aware on a timely basis of actual or potential threats to independence identified by the auditor and how the auditor plans to address those threats. In our view, issuers are entitled to expect to be made aware of such issues regardless of whether the auditor has concluded that the identified threat can be addressed through the application of appropriate safeguards.

#### **Paragraph 19**

In sub-paragraph (b), we are unclear as to the significance of the words "where applicable". We recommend that the words be deleted.

#### **Paragraph 20**

Sub-paragraph (b) implies that a breach of the firm's policies and procedures relating to independence would not always need to be communicated to the engagement partner responsible for the engagement to which the breach relates. It is not clear to us in what circumstances that would be the case. If, however, such circumstances can be clearly defined, it may be helpful to add some words in sub-paragraph (c) to provide a clearer link to the matters identified in sub-paragraph (b).

#### **Paragraphs 23 and 24**

We believe paragraph 23 should be modified to require written confirmation of compliance at least annually. Consistent with this, paragraph 24 should be amended to indicate that confirmation can be in either "paper or electronic form".

#### **Paragraph 25**

This paragraph addresses rotation of the engagement partner only. We refer the Board to the October 2002 statement by the IOSCO Technical Committee concerning Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence. Paragraph 14 of this statement indicates that: "Standards of

auditor independence should address specifically the need to ensure appropriate rotation of the audit engagement team such that *senior members* of a team do not remain in key decision-making positions for an extended period.” (*emphasis added*) We believe the Board should amend paragraph 25 to require that a firm’s policies and procedures address the need for appropriate rotation of senior members of an engagement team consistent with the IOSCO Technical Committee statement.

#### **Paragraphs 28 to 34**

These paragraphs address acceptance and continuance of client relationships and specific engagements. We note that this is an area in which the recent report of the IFAC Task Force on Rebuilding Public Confidence in Financial Reporting observed that greater rigour is required. While we take no position as to the validity or otherwise of the observations made by the Task Force, the views expressed highlight the importance of adopting and implementing thorough procedures to be conducted prior to accepting or continuing a client relationship or accepting a specific engagement. We encourage the Board to consider carefully whether the existing proposals are sufficient to lead firms to adopt policies and procedures that have the necessary rigour.

We note that paragraph 29 refers to “discussions with .... existing or previous providers of professional accountancy services to the client” as one element in assessing the integrity of a client. We recommend that the Board consider expanding this reference such that it captures the need for appropriate policies and procedures to address the key issues set out in the IFAC Ethics Code, paragraphs 13.15 to 13.26, dealing with superseding another professional accountant in public practice.

In paragraph 30, we believe that the elements noted in the bulleted points would need to be considered in all cases. The use of the words “for example” in the lead in is therefore subject to misinterpretation.

In paragraph 34, we were unable to discern the meaning of the third bullet. Indeed, we recommend that the Board review the structure of the entire paragraph with a view to ensuring clarity. In particular, it should be made clear whether policies and procedures on withdrawal from an engagement should in all cases address each of the matters identified in the bulleted points.

#### **Paragraphs 35 to 39**

The continuing competency of a firm’s human resources at all levels depends significantly on an appropriate level of continuing professional education. While this can be viewed in part as a personal professional responsibility, we believe it is a matter that requires significant emphasis in this standard. The growing complexity of the body of professional knowledge and the pace of change necessitates a significant focus on training at all levels of a firm, including partners.

#### **Paragraph 40**

As noted in our comments on sub-paragraph 5(a), this paragraph should be expanded to capture comprehensively all of the relevant attributes that an engagement

partner should possess. These attributes would include sufficient and appropriate experience, sufficient authority in the firm and the qualifications required to act in the role in accordance with laws, regulations or requirements of a professional body in the relevant jurisdiction.

Sub-paragraph (b) notes that the firm's policies and procedures should require the engagement partner to have sufficient time to perform the role. We agree that this is crucial. We believe, however, there is also a broader point that should be captured. In our view, the firm should be required to establish policies and procedures for monitoring and evaluating on an ongoing basis the workload of each engagement partner to ensure that the demands placed on each individual are consistent with maintaining quality.

#### **Paragraph 47**

We recommend that the Board consider whether the guidance set out in this paragraph can be made more specific. For example, an important element of the effective review of each section of the work performed by the members of an engagement team should be to assess whether the presumptions on which the audit plan was developed have been borne out by the findings. This should result in explicit consideration of whether there are indications that suggest a need to revise or extend the nature, extent or scope of the work performed.

#### **Paragraphs 48 to 56**

Appropriate policies and procedures concerning consultation on complex or contentious matters are a critical element in promoting sound judgment by the members of an engagement team in the application of professional standards. We note that the Task Force Report on Rebuilding Public Confidence in Financial Reporting includes a number of suggestions relating to procedures concerning consultation. While we do not necessarily endorse all aspects of the Task Force's suggestions, we encourage the Board to consider carefully whether ISQC 1 can be strengthened in ways that address the underlying concerns raised by the Task Force.

In paragraph 48(c), we believe it should be made clear that documentation relating to consultations should address more than simply the conclusions reached. Paragraph 53 appears to define more completely the scope of the matters that should be documented. For a firm's policies and procedures on consultation to be considered appropriate they would need to address the nature and scope of documentation that should be prepared in relation to consultations.

The means by which differences of opinion are resolved is fundamental to ensuring that sensitive and difficult matters are addressed appropriately. First, we recommend that the Board consider seriously whether it is ever appropriate for a firm's policies and procedures to permit an engagement team alone to override specialist technical advice obtained as a result of following the firm's consultation procedures. Second, the Board should consider making more explicit the guidance provided on appropriate conflict resolution procedures, including the key elements of an escalation process that might be



followed to determine the firm's position on a complex issue. For example, the standard should make clear the extent to which an engagement quality control reviewer can play a role in resolving a difference of opinion between an engagement partner and a technical expert with respect to the appropriate interpretation and application of accounting standards.

### **Paragraph 61**

We believe the standard should state explicitly and clearly the objective of the engagement quality control review. A clear statement of objective should assist in determining the range of specific procedures that should be performed by an engagement quality control reviewer. While paragraph 61 might be viewed as a statement of objective, we urge the Board to consider whether this is sufficiently clear and is consistent with the procedures described. We note that ISA 910, paragraph 3, includes in bold type a statement of the objective of a review engagement and we believe a similar type of statement would contribute to achieving clarity in ISQC 1. The objective should be stated in terms that will provide a clear basis for determining what is and is not within the scope of an engagement quality control review. For example, we believe it is essential that the engagement quality control reviewer take responsibility for carrying out an objective review and evaluation of key decisions made by the engagement team in areas requiring significant judgment. On the other hand, we would not expect the engagement quality control reviewer to take responsibility for ensuring the completeness of documentation throughout the working paper files. This is a matter that should be addressed by policies and procedures on review of working papers in the course of an engagement and as part of a firm's monitoring procedures involving review of selected engagements after their completion.

### **Paragraph 62**

We have several concerns about the content of this paragraph. First, the wording of the second sentence could be read as implying that it is acceptable for an engagement quality control reviewer to decide that it is not necessary to review *any* working papers. In our view, it should be made clear that a quality control reviewer would *always* need to review key working papers. The Board should also consider providing more explicit guidance on factors that should be considered in making the judgment as to the extent of the working paper review.

Second, we are unclear what is meant by the reference in the third sentence to the extent of the engagement quality control review depending on "the risks associated with the engagement". Which risks is it that the reviewer might take into account? Is it the risks to the firm in a particular situation or is it the risks arising from the nature of the business or management's approach to financial reporting or is it other risks that might be considered to exist in a particular situation?

Third, we question the appropriateness of the suggestion in the third sentence that a quality control reviewer might reduce the extent of his or her review based on an assessment of the level of experience of the engagement team. Such an approach calls into question the effectiveness of the engagement quality control review process. We can

envisage that the time spent in reviewing an engagement conducted by an experienced engagement team might turn out be less than where the engagement team is not experienced but we would expect this to be a product of fewer issues arising rather than a result of a decision to conduct a less extensive review.

In our view each of these three issues could be addressed more effectively in the context of an appropriately stated objective for an engagement quality control review.

Finally, this paragraph is one of many throughout the proposed standard where the status of a list of items in an "ordinary type" paragraph is unclear. On the basis of the language used, we would interpret the bulleted list of items considered in the scope of an engagement quality control review as being necessary elements in any quality control review. In light of the debate about "black-lettering" and the status of material that is not "black-lettered", we cannot be certain either that our interpretation is consistent with the Board's intent or that others would share our interpretation.

### **Paragraph 63**

We agree that the quality control review should be conducted on a timely basis throughout the engagement. We believe it would be helpful to highlight the importance of this by noting the need for a quality control reviewer to undertake a review of the planning phase of the engagement prior to execution of the planned procedures. In our view, if this part of the quality control review is not done on a timely basis, there is a significant risk that the rigour of the review will be compromised if problems with the planning phase of the engagement are discovered at a late stage when there will be significant pressure to complete and issue a report.

### **Paragraph 65**

We believe there may be circumstances in which an engagement quality control review would be conducted by a small team rather than by a single person. It may be helpful to modify the wording of this paragraph to accommodate such a possibility.

### **Paragraph 66**

In our view, policies and procedures relating to appointment of a quality control reviewer should address not only the factors identified in this paragraph but also the process by which a reviewer is identified.

Sub-paragraph 66(b) requires a firm's policies and procedures on the eligibility of engagement quality control reviewers to address the degree to which a reviewer can be involved with an engagement without compromising the role. In our view, there is a need for greater clarity as to what is and is not permissible if the reviewer is to avoid the danger of losing the objectivity that is critical to the performance of the role. We recognize that aspects of this issue are discussed in paragraphs 69 to 71 but we believe there is significant potential for this material to be interpreted quite differently in similar situations. We believe it is crucial for an engagement quality control reviewer to maintain sufficient distance from the engagement team to maintain the ability to challenge constructively the

adequacy of the work done to support the conclusions reached and to provide an objective evaluation of key judgments. We recognize that there is a delicate balance between maintaining objectivity and ensuring that review takes place on a timely basis throughout the engagement. Timely review is essential to avoid a situation in which problems are identified at the last minute when, for example, key deadlines for filing of financial statements of a public company may be imminent. In view of the importance of this issue, we question the use of the word "involved" in paragraph 66(b). Paragraph 70 suggests that "consultation" with the engagement partner is acceptable to a certain degree and this may be the more appropriate word to use in paragraph 66(b).

#### **Paragraph 72**

We recommend that policies and procedures on documentation of the engagement quality control review should set out the required content of documentation relating to the disposition of matters on which the reviewer and the engagement team disagreed and that were subsequently resolved through the firm's procedures for dealing with differences of opinion.

#### **Paragraph 74**

An effective system for ongoing monitoring of all aspects of the design and implementation of a firm's system of quality control is an essential element in maintaining its effectiveness. To emphasize the importance of the monitoring process, we recommend separating the second sentence of this paragraph into two distinct points. Thus, the standard should require a firm to establish policies and procedures relating to the periodic inspection of a selection of completed engagements and to establish policies and procedures relating to the ongoing evaluation of each of the elements of the quality control system set out in paragraph 6. The paragraphs supporting each of these requirements would comprise much of the content of paragraphs 75 to 87 but might also be supplemented to ensure that the ongoing evaluation addresses appropriately each of the elements set out in paragraph 6. We suggest, for example, that the Board carry out a careful review of paragraph 75 to ensure that the factors noted for attention are sufficient to address all of the relevant elements.

#### **Paragraph 77**

We are concerned about the third sentence of this paragraph. We believe it is appropriate, indeed essential, that the design of a firm's internal monitoring program and the selection of completed engagements for inspection should take into account weaknesses or concerns identified in the findings of an independent, external inspection program. We are not convinced, however, that it is appropriate for a firm to reduce the scope of its internal inspections on the basis of positive findings from an independent, external inspection program. It seems to us that the latter approach would become circular since the scope of the examination by an independent, external inspection program at a subsequent date may well need to be expanded to compensate for the reduced scope of the firm's own inspection program.

As a minor wording point, we recommend inserting the word "independent" in front of "external monitoring program".

### **Paragraph 85**

In our view, appropriate documentation relating to monitoring should include as part of a report to the CEO and other members of a firm's senior management team a clear description of the scope of the work performed to provide a basis for the conclusions reached. In addition, it would be helpful to recognize as a factor to be taken into account in determining the extent of documentation the needs of an independent, external monitoring program.

In the structure of the paragraph, we find it odd that sub-paragraph (c) would not include as an element an evaluation of the effectiveness of the design of the firms' quality control procedures.

### **Paragraphs 88 to 90**

Policies and procedures for investigating and resolving complaints relating to the quality of a firm's work are something that should be a focus of attention for a firm's senior management. We believe it is particularly important for management to provide an effective and timely vehicle for all personnel to be able to raise on a confidential basis concerns about matters arising in the course of an engagement. In a number of situations that individual members of SC#1 have encountered in the course of investigating financial reporting failures, it has become apparent that staff at various levels within an engagement team had identified concerns about matters that may not have received adequate or appropriate attention at higher levels within the engagement team. This suggests to us that all firms should establish and communicate to personnel clearly defined channels for raising concerns in a manner that enables individuals to come forward without fear of reprisals. We believe this is a matter that is worthy of coverage in the proposed standard.

### **Paragraph 93**

As written, this paragraph appears to allow destruction of documentation after the minimum period for which retention is required by applicable law or regulation even if retention for a longer period would be required in order to meet the needs of independent, external monitoring programs. In our view, the needs of external monitoring programs should take precedence and the requirements of applicable law or regulation should come into play only when they require retention for a longer period than would otherwise be necessary.

## **Attachment B**

### **Comments on proposed ISA 220**

#### **Paragraph 4**

In paragraph 4(b), the cross reference to paragraph 22 does not appear to be correct.

#### **Paragraph 8**

We recommend that the Board consider placing a more direct and explicit responsibility on the engagement partner to identify potential threats to compliance with relevant ethical requirements, identify appropriate safeguards and communicate unresolved issues to relevant firm personnel. In our view, merely obtaining an understanding of whether there are potential threats does not capture adequately the nature of the responsibility that the engagement partner should assume.

#### **Paragraphs 19 to 22**

Paragraph 21 does not appear to align well with paragraphs 28 to 34 of ISQC 1. Certain elements of the paragraphs in ISQC 1 are repeated using different words but the Board's rationale for selecting some elements and not others is not apparent to us. We note also that "proposed use of other auditors' work" is an element that appears in paragraph 21 but does not appear in ISQC 1.

We note that the guidance in paragraph 33 of ISQC 1 has not been carried forward into ISA 220 and we wonder whether this is appropriate. If there is a clear and consistent rationale for the selection of what has and has not been carried forward, we would like to understand this rationale.

#### **Paragraph 23**

We suggest revising the lead in to this paragraph so that it reads: "The engagement partner is responsible for ensuring that the engagement team .....". In our view, this describes more clearly the responsibility that the engagement partner assumes.

#### **Paragraph 24**

We note that the third bullet differs from the corresponding bullet in paragraph 42 of ISQC 1 while the remaining points are identical. This is but one example of where we are unclear as to the reason for the difference.

#### **Paragraph 25**

This paragraph, together with the additional explanation provided in paragraphs 26 to 29, describes the fundamental responsibilities of the engagement partner. We believe it would be useful to clarify in this section the fact that the engagement partner is ultimately responsible for understanding and concluding on the findings of others, including specialists to be used on the engagement.

As a minor point, we suggest that the meaning of the bulleted points identified word would be clearer if some additional contextual description were added.

### **Paragraph 26**

This paragraph does not appear to link clearly to paragraph 25 which is framed in terms of the responsibilities of the engagement partner. The first sentence in paragraph 26, in contrast, merely makes a passive statement about the engagement team "being informed". We would expect language such as "The engagement partner directs the audit engagement by informing the members of the engagement team .....".

### **Paragraph 29**

In sub-paragraph (a), we believe the words "where applicable" should be deleted since it should always be the case that the reviewer would evaluate how the work performed conforms to the audit plan.

In our view, the review responsibilities of the engagement partner throughout an audit engagement are particularly important and are worthy of more specific guidance than is provided currently. For example, we consider the risk assessment and planning stages of any audit engagement to be of sufficient importance that they should always be subject to a timely review by the engagement partner.

### **Paragraph 30**

We note that the second sentence starts with a negative statement about the extent of the engagement partner's review. We believe it would be more appropriate to avoid the negative statement and instead have a clear positive statement about what would be included within the scope of the review. We suggest the Board consider language along the following lines: "At a minimum, the review includes working papers concerning critical areas of judgment, especially those relating to ....." In this context, we also refer you to our comments on ISQC 1 concerning the need for a clear statement of the objective of an engagement quality control review.

### **Paragraph 33**

We believe the responsibilities of the engagement partner go beyond what is stated in this paragraph. First, the engagement partner is responsible for consulting at the appropriate level within the firm in accordance with the firm's stated policies. Second, we believe the engagement partner should satisfy himself or herself that other members of the engagement team have undertaken appropriate consultations during the course of the audit.

### **Paragraph 41**

We are surprised that the first sentence in this paragraph omits the key words "and, in particular, consideration of whether the report is appropriate" which appear at the end of the corresponding sentence in paragraph 62 of ISQC 1.

We have commented in relation to ISQC 1 on matters affecting the extent and timing of the engagement quality control review. These points are, of course, equally relevant here.