

The “Possible Changes and Enhancements” presented below are indicative of changes that could be made and do not necessarily reflect the actual drafting that will still be discussed at a later IAASB meeting. The purpose of the changes is to obtain IAASB views about possible amendments that could be made so that the Crossover Working Group (WG) can begin the drafting process. Further context for the possible changes and enhancements can be found in Agenda Item 8-A. Paragraphs in shaded boxes will still be considered by the WG. The application material for ISA 220 is presented in the Appendix to this Agenda Item for reference purposes only (i.e., the Crossover Working Group has not yet proposed any changes to the Application Material).

## ISA 220 Analysis

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
<b>Introduction</b>			
<b>System of Quality Control and Role of Engagement Teams</b>			
2	Quality control systems, policies and procedures are the responsibility of the audit firm. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that: <ul style="list-style-type: none"> <li>(a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and</li> <li>(b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>1</sup></li> </ul>	Further changes to be considered as necessary arising from revision to ISQC 1.	N/A

<sup>1</sup> International Standards on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 11

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	This ISA is premised on the basis that the firm is subject to ISQC 1 or to national requirements that are at least as demanding. (Ref: Para. A1)		
3	Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures that are applicable to the audit engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.	Further changes to be considered as necessary arising from revision to ISQC 1.	N/A
4	Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. (Ref: Para. A2)	See possible change to paragraph 8 below.	31
<b>Objective</b>			
6	The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that: (a) The audit complies with professional standards and applicable legal and regulatory requirements; and (b) The auditor's report issued is appropriate in the circumstances.	The objective of the auditor is to <del>implement quality control procedures</del> <u>manage quality</u> at the engagement level <del>that in order to</del> provide the auditor with reasonable assurance that: (a) The audit complies with professional standards and applicable legal and regulatory requirements; and (b) The auditor's report issued is appropriate in the circumstances.	16

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
<b>Definitions</b>			
7	<p>For purposes of the ISAs, the following terms have the meanings attributed below:<sup>2</sup></p> <p>(a) Engagement partner – The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p>(c) Engagement quality control reviewer – A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor’s report.</p> <p>(d) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who</p>	<p>Engagement partner – Possible application material to demonstrate that this includes appropriate direction, supervision and review (and that this may vary in different circumstances). In addition, may also highlight that responsibility can be assigned, but still drawing attention to the fact that overall responsibility always remains with the engagement partner.</p> <p>Engagement quality control reviewer – Changes in ISQC 1 will be further considered for the impact on ISA 220 (see <b>Agenda Item 7-A</b> discussing issues and possible actions regarding engagement quality control reviewers).</p> <p><i>New Application Material</i></p> <p>Engagement team – New application material to demonstrate who the “engagement team”</p>	17 – 28

<sup>2</sup> Not all definitions have been included, only those that are relevant to the discussion

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	<p>perform audit procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or a network firm.<sup>3</sup> The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)<sup>4</sup>.</p> <p>(i) Network Firm – A firm or entity that belongs to a network.</p> <p>(j) Network – A larger structure:</p> <ol style="list-style-type: none"> <li>i. That is aimed at cooperation, and</li> <li>ii. That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy,</li> </ol>	<p>incorporates. Examples could be provided to illustrate that the engagement team includes:</p> <ul style="list-style-type: none"> <li>• Individuals working on the engagement who are situated at audit delivery models (ADM) – through describing various scenarios.</li> <li>• Other examples where individuals may be working on an engagement that is not a traditional structure (i.e., all working from the same location).</li> <li>• Individuals from a network firm (including what the impact on the direction, supervision and review by the engagement partner is).</li> </ul> <p>Network firm – In addition to more specific application material relating to individuals from a network firm who may be part of the engagement team, further consideration will need to be given to application material relating to network firms for ISA 220 more generally.</p>	

<sup>3</sup> ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

<sup>4</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	the use of a common brand name, or a significant part of professional resources.		
<b>Requirements</b>			
<b>Leadership Responsibilities for Quality on Audits</b>			
8	The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. (Ref: Para. A3)	<p>The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. <u>Responsibility for the overall quality includes managing quality at the engagement level to be satisfied that, for the engagement:</u> (Ref: Para. A3)</p> <ul style="list-style-type: none"> <li>• <u>Firm policies and procedures relevant to the engagement have been identified.</u></li> <li>• <u>Firm policies and procedures have been appropriately implemented for the engagement.</u></li> <li>• <u>A determination as to whether there are other matters relating to the quality of the engagement that need to be addressed.</u></li> </ul> <p>In managing quality at the engagement level, the engagement team is entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. <i>[from paragraph 4 of this ISA]</i></p>	29 – 35

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
		<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>• Application material to support new bullets in paragraph 8 explaining how the engagement partner considers what more needs to be done in relation to the firm’s policies and procedures (e.g., networks vs non-networks or situations where can’t rely on firm’s system of quality control).</li> <li>• Revise the extant application material in A3 to explicitly state that the engagement partner’s actions include appropriate messaging to the engagement team to “emphasize all members of the engagement team have a responsibility to deliver a quality audit,” i.e., emphasize “tone at the middle.”</li> <li>• New application material emphasizing importance of appropriate involvement by the engagement partner at all stages of the audit (planning, performance, completion).</li> </ul>	
<b>Communication</b>			
NEW	N/A	<p>NEW requirement: <u>In addition to the specific communication requirements of the ISAs, when performing audit procedures to comply with the ISAs the engagement partner and engagement team</u></p>	36 – 40

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
		<p><u>(and any others involved in the engagement) shall have ongoing, frequent and comprehensive two-way communication.</u></p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>• New application material with examples to illustrate interactive communication, as the auditor plans, performs and assesses the work performed, between the engagement partner and engagement team (and any others involved in the engagement), but in particular for situations where other auditors are used, including ADMs and situations where the EP is not situated where the majority of the audit work is performed.</li> <li>• New application material setting out the appropriate types of communications in different situations, for example in-person, telephonic, in a virtual form, written confirmations, etc.</li> <li>• New application material to link back to the documentation requirements in ISA 230<sup>5</sup> regarding communications.</li> </ul>	

<sup>5</sup> ISA 230, *Audit Documentation*

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
<b>Relevant Ethical Requirements</b>			
9	Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. (Ref: Para. A4–A5)	Further consideration to be given by WG to: <ul style="list-style-type: none"> <li>• The revised application material in ISA 700 (Revised)<sup>6</sup> relating to relevant ethical requirements and the impact on quality control for the engagement.</li> <li>• Changes arising from revisions to ISQC 1.</li> <li>• Changes arising from changes relating to non-compliance with laws and regulations (NOCLAR) in ISA 250 (Revised).</li> </ul>	N/A
10	If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5)	See above	N/A
<i>Independence</i>			
11	The engagement partner shall form a conclusion on compliance with independence requirements that	Further exploration of possible impact of changes being made by the International	N/A

<sup>6</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs A34–A39

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	<p>apply to the audit engagement. In doing so, the engagement partner shall: (Ref: Para. A5)</p> <p>(a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;</p> <p>(b) Evaluate information on identified breaches, if any, of the firm’s independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and</p> <p>(c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6–A7)</p>	<p>Ethics Standards Board for Accountants (IESBA) in its project on Safeguards</p>	
<b>Acceptance and Continuance of client Relationships and Audit Engagements</b>			
12	<p>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</p>	<p>Strengthen the requirement to have more specificity about the matters that need to be understood before accepting, or continuing, an engagement.</p>	41 – 45

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	determine that conclusions reached in this regard are appropriate. (Ref: Para. A8–A9)	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>• Emphasis on the need for a more active understanding of the entity at the acceptance/continuance stage that allow for a more enhanced consideration by the EP about possible issues and the appropriate responses to those issues.</li> <li>• Detailed examples relating to firm, engagement and other considerations to explain the types of matters that need to be understood before accepting, or continuing, an engagement.</li> <li>• Highlight that the understanding of the entity does not need to be to the same extent as that required under ISA 315 (Revised)<sup>7</sup> but needs to be sufficient to be able to make an informed decision about acceptance / continuance.</li> <li>• Consideration of the resources that will be necessary, and the availability of such resources, to the engagement team in the early stages of the acceptance and continuance process in order to attempt to mitigate any potential impediments to the exercise of professional skepticism.</li> </ul>	

<sup>7</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
		<ul style="list-style-type: none"> <li>Clearly demonstrate how the principles set out for the acceptance of audit engagements are applied in the context of continuance decisions.</li> </ul>	
13	If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A9)	<p>This requirement will be assessed in light of changes made to the requirement in paragraph 12. In addition:</p> <ul style="list-style-type: none"> <li>The requirement also needs to consider the continuation of an engagement.</li> <li>The application material needs to be expanded beyond public sector only.</li> </ul>	41 – 45
<b>Quality Risk Assessment</b>			
NEW	N/A	<p>NEW requirement:</p> <p><u>The auditor shall:</u></p> <ul style="list-style-type: none"> <li><u>Identify risks to quality through the process of understanding of the entity and its environment.</u></li> <li><u>Implement responses to address the identified risks to quality.</u></li> </ul> <p>Identifying the risks to quality would always be linked to the engagement partner's responsibilities, i.e., :</p> <p>(a) The direction, supervision and performance of the audit engagement in</p>	46 – 53

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
		<p>compliance with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) The auditor's report being appropriate in the circumstances.</p> <p><i>Application Material:</i></p> <p>Application material to be developed providing guidance about the required understanding to be able to identify the risks to quality at the engagement level, factors that would increase risks, including in varying circumstances, and provide guidance on how the engagement partner might respond to the assessment of the risks to audit quality.</p>	
<b>Assignment of Engagement Teams</b>		<b>Assignment of Engagement Teams Determination of Engagement Resources, Including Assignment of the Engagement Team</b>	
14	<p>The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:</p> <p>(a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and</p>	<ul style="list-style-type: none"> <li>Revise the title of this section to clarify the engagement partner's responsibility for consideration of <u>all resources</u> related to the audit, e.g., engagement team members (including any other auditors at network firms or ADMs), auditor's experts,</li> </ul>	54 – 60

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	<p>(b) Enable an auditor's report that is appropriate in the circumstances to be issued. (Ref: Para. A10–A12)</p>	<p>automated audit technologies, other data analytics software required, etc.</p> <ul style="list-style-type: none"> <li>• Broaden the requirement by replacing the phrase “engagement team, and any auditor’s experts who are not part of the engagement team, collectively have the appropriate competence and capabilities” with “audit engagement has the appropriate and adequate resources necessary to:...” i.e., broadening the engagement partner’s responsibilities for ensuring that the assignment of the engagement team includes all aspects of resources needed for the audit engagement, above and beyond individual staffing considerations.</li> <li>• Revise the requirement to build in the quality risk assessment that has taken place.</li> <li>• Provide more specificity in the requirement or application material as appropriate about the various resources that need to be considered, such as auditor’s experts and engagement team collectively having competence, skills and experience (and adding sufficient time to perform the work before reporting date), software required to</li> </ul>	

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
		<p>be able to perform the audit procedures, audit methodologies, availability to technical experts if needed etc.</p> <ul style="list-style-type: none"> <li>• Make any other changes arising from relevant changes in ISQC 1.</li> </ul>	
<b>Engagement Performance</b>			
<i>Direction, Supervision and Performance</i>			
15	<p>The engagement partner shall take responsibility for:</p> <p>(c) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (Ref: Para. A13–A15, A20)</p> <p>(d) The auditor's report being appropriate in the circumstances.</p>	<p><i>Revised requirement (for paragraphs 15 and 16):</i></p> <p>The engagement partner is responsible for the performance of the engagement through appropriate direction, supervision and review of the engagement. The nature, timing and extent of the engagement partner's involvement in the engagement is based on the assessment of risks to quality.</p> <p><i>(Note – extant paragraphs 15(a) and 15(b) are now included in the new “quality risk assessment requirement” above)</i></p> <p>Application Material developed to clarify and provide guidance for:</p> <ul style="list-style-type: none"> <li>• Responsibility being assigned as appropriate, but emphasizing that the engagement partner retains overall responsibility and should remain involved</li> </ul>	61 – 69

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
		<p>throughout, i.e., from planning to completion</p> <ul style="list-style-type: none"> <li>• That the appropriate nature and extent of the engagement partner's involvement, highlighting that the nature, timing, and extent of involvement is dependent on risks to quality that have been identified, with examples for different situations of what may be appropriate</li> <li>• More specificity about the factors affecting the nature, timing, and extent of the engagement partner's review</li> </ul>	
<b>Reviews</b>			
16	The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16–A17, A20)	<ul style="list-style-type: none"> <li>• See above.</li> </ul>	61 – 69
17	On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18–A20).	Further consideration to be given whether revisions are needed, with supporting application material, to clarify what the objective of this review is and how this can be achieved.	61 – 69

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
<i>Consultation</i>			
18	<p>The engagement partner shall:</p> <p>(a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;</p> <p>(b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;</p> <p>(c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and</p> <p>(d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para. A21–A22)</p>	Still to be considered by WG	N/A
<i>Engagement Quality Control Reviews</i>			
19	<p>For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:</p> <p>(a) Determine that an engagement quality control reviewer has been appointed;</p>	Changes to ISQC 1 need to be developed before progressing changes– see related matters in Agenda Item 7-A.	N/A

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	<p>(b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and</p> <p>(c) Not date the auditor’s report until the completion of the engagement quality control review. (Ref: Para. A23–A25)</p>		
20	<p>The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor’s report. This evaluation shall involve:</p> <p>(a) Discussion of significant matters with the engagement partner;</p> <p>(b) Review of the financial statements and the proposed auditor’s report;</p> <p>(c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and</p> <p>(d) Evaluation of the conclusions reached in formulating the auditor’s report and consideration of whether the proposed auditor’s report is appropriate. (Ref: Para. A26–A27, A29–A31)</p>	Changes to ISQC 1 need to be developed before progressing changes– see related matters in Agenda Item 7-A.	N/A

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
21	<p>For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <p>(a) The engagement team’s evaluation of the firm’s independence in relation to the audit engagement;</p> <p>(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</p> <p>(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A28–A31)</p>	<p>Changes to ISQC 1 need to be developed before progressing changes– see related matters in Agenda Item 7-A.</p>	N/A
<i>Differences of Opinion</i>			
22	<p>If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm’s policies and procedures for dealing with and resolving differences of opinion.</p>	<p>Still to be considered by the WG</p>	N/A

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
<b>Monitoring</b>			
23	An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Ref: Para A32–A34)	Changes to ISQC 1 need to be developed before progressing changes – see further considerations in Agenda Item 8-A.	70
<b>Documentation</b>			
24	The auditor shall include in the audit documentation: (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved. (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions. (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.	<ul style="list-style-type: none"> <li>• New requirements for specific documentation requirements for engagement partner to document (similar items to new requirement proposed after paragraph 16)</li> </ul>	N/A

ISA 220 Para ref.	ISA 220 Current Requirements	Possible Changes and Enhancements	Reference to paragraphs within Issues Paper 8-A
	(d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Ref: Para. A35)		
25	<p>The engagement quality control reviewer shall document, for the audit engagement reviewed, that:</p> <ul style="list-style-type: none"> <li>(a) The procedures required by the firm's policies on engagement quality control review have been performed;</li> <li>(b) The engagement quality control review has been completed on or before the date of the auditor's report; and</li> <li>(c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.</li> </ul>	As above– see related matters in Agenda Item 7-A	N/A

*[Note: no specific changes to the application material – presented for reference only]*

## **ISA 220 Application and Other Explanatory Material**

System of Quality Control and Role of Engagement Teams (Ref: Para. 2)

A1. ISQC 1, or national requirements that are at least as demanding, deals with the firm's responsibilities to establish and maintain its system of quality control for audit engagements. The system of quality control includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

National requirements that deal with the firm's responsibilities to establish and maintain a system of quality control are at least as demanding as ISQC 1 when they address all the elements referred to in this paragraph and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1.

*Reliance on the Firm's System of Quality Control* (Ref: Para. 4)

A2. Unless information provided by the firm or other parties suggest otherwise, the engagement team may rely on the firm's system of quality control in relation to, for example:

- Competence of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to applicable legal and regulatory requirements through the monitoring process.

Leadership Responsibilities for Quality on Audits (Ref: Para. 8)

- A3. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize:
- (a) The importance to audit quality of:
    - (i) Performing work that complies with professional standards and applicable legal and regulatory requirements;
    - (ii) Complying with the firm's quality control policies and procedures as applicable;
    - (iii) Issuing auditor's reports that are appropriate in the circumstances; and
    - (iv) The engagement team's ability to raise concerns without fear of reprisals; and
  - (b) The fact that quality is essential in performing audit engagements.

Relevant Ethical Requirements

*Compliance with Relevant Ethical Requirements* (Ref: Para. 9)

- A4. The IESBA Code establishes the fundamental principles of professional ethics, which include:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behavior.

Definition of "Firm," "Network" and "Network Firm" (Ref: Para. 9–11)

- A5. The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those set out in this ISA. For example, the IESBA Code defines the "firm" as:
- (a) A sole practitioner, partnership or corporation of professional accountants;
  - (b) An entity that controls such parties through ownership, management or other means; and
  - (c) An entity controlled by such parties through ownership, management or other means.

The IESBA Code also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 9–11, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

*Threats to Independence* (Ref: Para. 11(c))

- A6. The engagement partner may identify a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level. In that case, as required by paragraph 11(c), the engagement partner reports to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation.

*Considerations Specific to Public Sector Entities*

- A7. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 11. This may include, where the public sector auditor’s mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

*Acceptance and Continuance of Client Relationships and Audit Engagements* (Ref: Para. 12)

- A8. ISQC 1 requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.<sup>8</sup> Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity of the principal owners, key management and those charged with governance of the entity;
- Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm and the engagement team can comply with relevant ethical requirements; and
- Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

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<sup>8</sup> ISQC 1, paragraph 27(a)

*Considerations Specific to Public Sector Entities (Ref: Para. 12–13)*

A9. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12, 13 and A8 may not be relevant. Nonetheless, information gathered as a result of the process described may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

**Assignment of Engagement Teams (Ref: Para. 14)**

A10. An engagement team includes a person using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement. However, a person with such expertise is not a member of the engagement team if that person's involvement with the engagement is only consultation. Consultations are addressed in paragraphs 18, A21 and A22.

A11. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

*Considerations Specific to Public Sector Entities*

A12. In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with law, regulation or other authority and preventing and detecting fraud and corruption.

## Engagement Performance

### *Direction, Supervision and Performance* (Ref: Para. 15(a))

A13. Direction of the engagement team involves informing the members of the engagement team of matters such as:

- Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional skepticism as required by ISA 200.<sup>9</sup>
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- The objectives of the work to be performed.
- The nature of the entity's business.
- Risk-related issues.
- Problems that may arise.
- The detailed approach to the performance of the engagement.

Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team.

A14. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

A15. Supervision includes matters such as:

- Tracking the progress of the audit engagement.
- Considering the competence and capabilities of individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the audit engagement.
- Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.

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<sup>9</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 15

## Reviews

### Review Responsibilities (Ref: Para. 16)

A16. Under ISQC 1, the firm's review responsibility policies and procedures are determined on the basis that work of less experienced team members is reviewed by more experienced team members.<sup>10</sup>

A17. A review consists of consideration whether, for example:

- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the auditor's report; and
- The objectives of the engagement procedures have been achieved.

### The Engagement Partner's Review of Work Performed (Ref: Para. 17)

A18. Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report:

- Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement;
- Significant risks; and
- Other areas the engagement partner considers important.

The engagement partner need not review all audit documentation, but may do so. However, as required by ISA 230, the partner documents the extent and timing of the reviews.<sup>11</sup>

A19. An engagement partner taking over an audit during the engagement may apply the review procedures as described in paragraph A18 to review the work performed to the date of a change in order to assume the responsibilities of an engagement partner.

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<sup>10</sup> ISQC 1, paragraph 33

<sup>11</sup> ISA 230, paragraph 9(c)

*Considerations Relevant Where a Member of the Engagement Team with Expertise in a Specialized Area of Accounting or Auditing Is Used* (Ref: Para. 15–17)

A20. Where a member of the engagement team with expertise in a specialized area of accounting or auditing is used, direction, supervision and review of that engagement team member's work may include matters such as:

- Agreeing with that member the nature, scope and objectives of that member's work; and the respective roles of, and the nature, timing and extent of communication between that member and other members of the engagement team.
- Evaluating the adequacy of that member's work including the relevance and reasonableness of that member's findings or conclusions and their consistency with other audit evidence.

*Consultation* (Ref: Para. 18)

A21. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.

A22. It may be appropriate for the engagement team to consult outside the firm, for example, where the firm lacks appropriate internal resources. They may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organizations that provide relevant quality control services.

*Engagement Quality Control Review*

Completion of the Engagement Quality Control Review before Dating of the Auditor's Report (Ref: Para. 19(c))

A23. ISA 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements.<sup>12</sup> In cases of an audit of financial statements of listed entities or when an engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

A24. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.

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<sup>12</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph 41

A25. Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in paragraphs 20–21, and where applicable, compliance with paragraph 22. Documentation of the engagement quality control review may be completed after the date of the auditor’s report as part of the assembly of the final audit file. ISA 230 establishes requirements and provides guidance in this regard.<sup>13</sup>

Nature, Timing and Extent of Engagement Quality Control Review (Ref: Para. 20)

A26. Remaining alert for changes in circumstances allows the engagement partner to identify situations in which an engagement quality control review is necessary, even though at the start of the engagement, such a review was not required.

A27. The extent of the engagement quality control review may depend, among other things, on the complexity of the audit engagement, whether the entity is a listed entity, and the risk that the auditor’s report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement and its performance.

Engagement Quality Control Review of Listed Entities (Ref: Para. 21)

A28. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include:

- Significant risks identified during the engagement in accordance with ISA 315 (Revised),<sup>14</sup> and the responses to those risks in accordance with ISA 330,<sup>15</sup> including the engagement team’s assessment of, and response to, the risk of fraud in accordance with ISA 240.<sup>16</sup>
- Judgments made, particularly with respect to materiality and significant risks.
- The significance and disposition of corrected and uncorrected misstatements identified during the audit.
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.

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<sup>13</sup> ISA 230, paragraphs 14-16

<sup>14</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>15</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

<sup>16</sup> ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Considerations Specific to Smaller Entities (Ref: Para. 20–21)

A29. In addition to the audits of financial statements of listed entities, an engagement quality control review is required for audit engagements that meet the criteria established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review.

Considerations Specific to Public Sector Entities (Ref: Para. 20–21)

A30. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General), may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

A31. Listed entities as referred to in paragraphs 21 and A28 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.

Monitoring (Ref: Para. 23)

A32. ISQC 1 requires the firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.<sup>17</sup>

A33. In considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that audit.

A34. A deficiency in the firm's system of quality control does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate.

**Documentation**

*Documentation of Consultations* (Ref: Para. 24(d))

A35. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

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<sup>17</sup> ISQC 1, paragraph 48

- The issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.