Agenda Item 5-G

Proposed Disposition of the Present Tense and Other Statements in ISA 220 (Redrafted)

I. Those That Have Been Elevated to a Requirement

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
10.1	The engagement partner remains alert for evidence of non-compliance with ethical requirements.	8(b)	Applicable in all cases.
10.2	Inquiry and observation regarding ethical matters amongst the engagement partner and other members of the engagement team occur as necessary throughout the audit engagement.	8(a)	Applicable in all cases.
10.3	If matters come to the engagement partner's attention through the firm's systems or otherwise that indicate that members of the engagement team have not complied with ethical requirements, the partner, in consultation with others in the firm, determines the appropriate action.	9	Applicable in all cases.
11	The engagement partner and, where appropriate, other members of the engagement team, document issues identified and how they were resolved.	25(a)	Applicable in all cases.
16.2	Where issues arise out of any of these considerations, the engagement team conducts the appropriate consultations set out in paragraphs 30-33, and documents how issues were resolved.	25(c)	Applicable in all cases.
25.1	Review responsibilities are determined on the basis that more experienced team members, including the engagement partner, review work performed by less experienced team members.	15	Applicable in all cases.
28	A new engagement partner taking over an audit during the engagement reviews the work performed to the date of the change. The review procedures are sufficient to satisfy the new engagement partner that the work performed to the date of the review has been	17	Applicable in all cases in which there has been a change in engagement partner.

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
	planned and performed in accordance with professional standards and regulatory and legal requirements.		
33	The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted. The documentation is sufficiently complete and detailed to enable an understanding of: (a) The issue on which consultation was sought; and (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.	18(c)	Applicable in all cases in which consultations are undertaken.
36	For other audit engagements where an engagement quality control review is performed, the engagement partner follows the requirements set out in subparagraphs (a)-(c).	19	Applicable in all cases in which engagement quality control review is required.
39.1	An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial information and the auditor's report, and, in particular, consideration of whether the auditor's report is appropriate.	22	Applicable in all cases in which engagement quality control review is required.
39.2	It also involves a review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions they reached.	21	Applicable in all cases in which engagement quality control review is required.
39.4	The review does not reduce the responsibilities of the engagement partner.	22	Applicable in all cases in which engagement quality control review is required.
40	An engagement quality control review for audits of financial statements of listed entities includes considering the following:	A18	Some points applicable in all cases in which engagement quality control

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
	• The engagement team's evaluation of the firm's independence in relation to the specific audit engagement.	22	review is required. Other points are guidance on the application of an existing requirement to specific circumstances.
	• Significant risks identified during the engagement (in accordance with ISA 315, "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement"), and the responses to those risks (in accordance with ISA 330, "Auditor's Procedures in Response to Assessed Risks"), including the engagement team's assessment of, and response to, the risk of fraud.	A18	
	• Judgments made, particularly with respect to materiality and significant risks.	A18	
	• 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.	22	
	• The significance and disposition of corrected and uncorrected misstatements identified during the audit.	A18	
	• The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.	A18	
	• Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.	22	
	• The appropriateness of the auditor's report to be issued.	20	

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
	Engagement quality control reviews for audits of historical financial information other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.	19	
41	ISQC 1 requires the firm to establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. The engagement partner considers the results of the monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms. The engagement partner considers: (a) Whether deficiencies noted in that information may affect the audit engagement; and (b) Whether the measures the firm took to rectify the situation are sufficient in the context of that audit.	24	Applicable in all cases.

II. Those That Have Been Treated as Application and Other Explanatory Material and Redrafted

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
7	The engagement partner sets an example regarding audit quality to the other members of the engagement team through all stages of the audit engagement. Ordinarily, this example is provided through the actions of the engagement partner and through appropriate messages to the engagement team. Such actions and messages emphasize: (a) The importance of:	A1	Paraphrases an existing requirement. Application guidance in nature.

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
	(i) Performing work that complies with professional standards and regulatory and legal requirements; (ii) Complying with the firm's quality control policies and procedures as applicable; and (iii) Issuing auditor's reports that are appropriate in the circumstances; and (b) The fact that quality is essential in performing audit engagements.		
13	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, the engagement partner consults 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. Such discussion and conclusions are documented.	A3	Not applicable in all cases. Application guidance in nature.
15	The engagement partner may or may not initiate the decision-making process for acceptance or continuance regarding the audit engagement. Regardless of whether the engagement partner initiated that process, the partner determines whether the most recent decision remains appropriate.	N/A	The Task Force believes that this paragraph does not provide any additional useful guidance, therefore propose the deletion of it.
16.1	Acceptance and continuance of client relationships and specific audit engagements include considering: • 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 time and resources; and • Whether the firm and the engagement team can comply with ethical requirements.	A5	Guidance on the application of an existing requirement to specific circumstances.

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
20	The appropriate capabilities and competence expected of the engagement team as a whole include the following: • An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation. • An understanding of professional standards and regulatory and legal requirements. • Appropriate technical knowledge, including knowledge of relevant information technology. • Knowledge of relevant industries in which the client operates. • Ability to apply professional judgment. • An understanding of the firm's quality control policies and procedures.	A7	Guidance on the application of an existing requirement.
22	The engagement partner directs the audit engagement by informing the members of the engagement team of: (a) Their responsibilities; (b) The nature of the entity's business; (c) Risk-related issues; (d) Problems that may arise; and (e) The detailed approach to the performance of the engagement. The engagement team's responsibilities include maintaining an objective state of mind and an appropriate level of professional skepticism, and performing the work delegated to them in accordance with the ethical principle of due care. Members of the engagement team are encouraged to raise questions with more experienced team members. Appropriate communication occurs within the engagement team.	A9	Application guidance in nature. Application guidance in nature.
23	It is important that all members of the engagement team	A10	Application guidance in

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
	understand the objectives of the work they are to perform. Appropriate team-working and training are necessary to assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.		nature.
24	Supervision includes the following: • Tracking the progress of the audit engagement. • Considering the capabilities and competence of individual members of the engagement team, 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 issues 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.	A11	Guidance on the application of an existing requirement.
25.2	Reviewers consider whether: (a) The work has been performed in accordance with professional standards and regulatory and legal requirements; (b) Significant matters have been raised for further consideration; (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented; (d) There is a need to revise the nature, timing and extent of work performed; (e) The work performed supports the conclusions	A12	Guidance on the application of an existing requirement to specific circumstances.

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
	reached and is appropriately documented; (f) The evidence obtained is sufficient and appropriate to support the auditor's report; and (g) The objectives of the engagement procedures have been achieved.		
27	The engagement partner conducts timely reviews at appropriate stages during the engagement. This allows significant matters to be resolved on a timely basis to the engagement partner's satisfaction before the auditor's report is issued. The reviews cover 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. However, the partner documents the extent and timing of the reviews. Issues arising from the reviews are resolved to the satisfaction of the engagement partner.	A14	Application guidance in nature. Paraphrases matters covered in [proposed] ISA 230 (Redrafted), Audit Documentation.
29	Where more than one partner is involved in the conduct of an audit engagement, it is important that the responsibilities of the respective partners are clearly defined and understood by the engagement team.	A9	Application guidance in nature.
31	Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters. Where appropriate, the engagement team consults individuals with appropriate knowledge, seniority and experience within the firm or, where applicable, outside the firm. Conclusions resulting from consultations are appropriately documented and implemented.	A14	Guidance on the application of an existing requirement to specific circumstances. Repeats requirements in paragraph 18(d) and 25(d), therefore deleted.
35	As necessary, the engagement partner informs members of the engagement team that they may bring matters involving differences of opinion to the attention of the engagement partner or others within the firm as	A1(a)(iv)	Guidance on the application of an existing requirement to specific circumstances.

Para.	Statements in extant ISA 220	New paragraph (Agenda Item 5-E)	Rationale and Comment (as necessary)
	appropriate without fear of reprisals.		
37	Where, at the start of the engagement, an engagement quality control review is not considered necessary, the engagement partner is alert for changes in circumstances that would require such a review.	A19	Guidance on the application of an existing requirement to specific circumstances.
39.3	The extent of the review depends on the complexity of the audit engagement and the risk that the auditor's report might not be appropriate in the circumstances.	A16	Guidance on the application of an existing requirement to specific circumstances.

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