Agenda Item 4

Quality Management (Engagement Level) ISA 220—Issues and Discussion

Objective of the IAASB Discussion

The objectives of this Agenda Item are:

- To obtain the IAASB's input based on a second read of the Exposure Draft (ED) of Proposed ISA 220 (Revised), set out in **Agenda Item 4–A**; and
- To obtain specific comments from IAASB members about any remaining matters to be addressed in finalizing the ED of proposed ISA 220 (Revised), other than on material related to proposed ISQC 1 (Revised)[1] and proposed ISQC 2.[2]

A. Introduction

1. This paper should be read in conjunction with **Agenda Item 4–A**, which is a version of proposed ISA 220 (Revised)[3] that is marked for changes made to the version presented by the Task Force and discussed with the Board during the June 2018 IAASB meeting. Appendix B summarizes recent Task Force Activities, Including Outreach and Coordination with other IAASB Task Forces and Working Groups and the IESBA. Minutes of the IAASB's June 2018 discussion on this topic can be found in Appendix C to this paper.

2. In developing **Agenda Item 4–A**, the Task Force considered the feedback provided by Board members during the June 2018 IAASB meeting and written comments provided offline to the Task Force.

3. The Task Force continues to work together with both the Quality Control Task Force (QCTF) (responsible for revisions to ISQC 1) and the ISQC 2 Task Force (responsible for the development of ISQC 2) to align the revisions to the related standards as closely as possible. Within **Agenda Item 4–A**, paragraphs or language highlighted in grey are indicative of those areas that will continue to be aligned and conformed to the drafts of proposed ISQC 1 (Revised) and proposed ISQC 2.

Purpose of the September 2018 IAASB Discussion of Proposed ISA 220 (Revised)

4. At the September 2018 IAASB discussion of ISA 220, the ISA 220 Task Force expects to obtain Board member views on changes made to the draft exposure draft since the June 2018 IAASB meeting, as well as specific comments for any remaining observations or concerns (together with detailed suggestions for addressing them). The ISA 220 Task Force appreciates the robust Board discussions at both the December 2017 and June 2018 IAASB meetings, as well as the number of detailed Board member comments received offline.

---

[1] Proposed International Standards on Quality Control (ISQC) 1 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

[2] Proposed ISQC 2, *Engagement Quality Reviews*

[3] International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

5. The Task Force believe that the changes made to the draft ED to be discussed at the September 2018 meeting are responsive to the Board's input, observations or substantial concerns. The Task Force therefore hopes to finalize much of the content of proposed ISA 220 (Revised) at the September 2018 in a "close-off" manner. The Board is requested to provide all comments on the requirements and application material, so that ISA 220 discussion at the December 2018 IAASB meeting will be focused primarily on the alignment of proposed ISA 220 (Revised) with ISQCs 1 and 2 (i.e., the grey paragraphs). This plan is subject to the Task Force also dealing appropriately with the comments raised at the September 2018 IAASB meeting. Accordingly, Board members will be asked at the conclusion of the ISA 220 discussion whether they have any remaining concerns or issues that they expect the Task Force to respond to before the December 2018 IAASB meeting, and if so, Board members will be expected to provide specific details as to what should be addressed and how (see Question 14 below). Board members are also strongly encouraged to provide their written comments, including comments of an editorial nature, to the Task Force in advance of the September 2018 IAASB meeting.

6. To this end, the ISA 220 Task Force has prepared the following agenda material to support the IAASB's discussions:

Agenda item 4–A	ED of Proposed ISA 220 (Revised) - Marked to June 2018 IAASB papers
Agenda Item 4–B	ED of Proposed ISA 220 (Revised) - Clean
Agenda Item 4–C	ED of Proposed ISA 220 (Revised) - Marked to Extant ISA 220
Agenda Item 4–D	Draft Conforming Amendments - Marked to Extant

7. The remainder of this paper is organized as follows:

Section B	How Proposed ISA 220 (Revised) Addresses Key Matters of Public Interest and Enhances Audit Quality
Section C	Proposed Revisions to ISA 220
Section D	Data Analytics
Section E	Conforming Amendments
Section F	Way Forward
Appendix A	Scalability of Proposed ISA 220 (Revised) for Firms of Different Sizes, and for Engagements Where Nature and Circumstances Differ
Appendix B	Task Force's Activities, including Outreach and Coordination with Other IAASB Task Forces and Working Groups and the IESBA
Appendix C	Draft IAASB Meeting Minutes (June 2018)

B. How Proposed ISA 220 (Revised) Addresses Key Matters of Public Interest and Enhances Audit Quality

KEY PUBLIC INTEREST ISSUES[4]	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 4-A]
Performing audits of financial statements in the public interest; exercising professional judgment and professional skepticism	Audits of financial statements (i.e., audit engagements) are performed in the public interest. The engagement partner (EP) and the other members of the engagement team (ET) have a responsibility to act in a manner that recognizes their roles in serving the public interest when performing audit engagements.	4B, A11C
	The performance of quality audit engagements involves planning and performing such engagements, and reporting on them, in accordance with professional standards and applicable legal and regulatory requirements, including applying professional judgment and exercising professional skepticism. Recognize that professional judgment is applied in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement.	4B, 4C, 17A(c), 18(a)(iii), A2, A3H, A10C, A11, A11D, A19A, A19B

[4] The issues identified in this table are adapted from and expand upon the issues identified in the project proposal addressing the revisions of the IAASB's quality control standards (ISQC 1 and ISA 220) and group audits (ISA 600). The project proposal can be found at the following link http://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal-Approved_0.pdf

KEY PUBLIC INTEREST ISSUES[4]	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 4-A]
	The EP's actions and communications to the ET overall supports the exercise of professional skepticism and demonstrates the behaviors associated with professional skepticism. In addition, proposed ISA 220 (Revised) highlights the importance of the ET exercising professional judgment and professional skepticism on the audit, as well as providing examples of the impediments to professional skepticism, and actions ETs can take to deal with such impediments.	4B, 4C, 8A, A3G, A3H, A3I
	Highlight the existence of unconscious or conscious auditor biases that may act as an impediment to the exercise of professional skepticism.	4C, A3G, A3H, A3I, A13
	Tight financial reporting deadlines, time, budget, or resource constraints, may act as an impediment to the exercise of professional skepticism. Therefore, the EP makes resourcing decisions, taking into account whether the resources assigned, or made available by the firm, are sufficient given the nature and circumstances of the audit engagement.	14, 14A, 14B, A3G, A11B, A13
	Consideration of whether ET has the competence, capabilities, including sufficient time, to perform the engagement in order to be in a position to exercise professional skepticism.	14A, A1E, A8, A11, A19D

KEY PUBLIC INTEREST ISSUES[4]	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 4-A]
	When directing, supervising, or reviewing the work performed, pairing more experienced team members with less experienced team members allows for less experienced team members to benefit from on-the-job training focused on identifying potential areas of risk and in learning the actions that demonstrate the exercise of professional skepticism.	4C, 15(c), A2, A2D, A3F, A3I, A12D, A13, A15, A19D, A19E
Clarifying the EP's role and responsibilities	Enhancing the requirements and application material in relation to engagement leadership, in particular: (a) Requiring the EP to take overall responsibility for managing and achieving quality on the audit engagement through being sufficiently and appropriately involved throughout the audit engagement. (b) Clarifying "sufficient and appropriate" involvement of the EP. (c) Clarifying what is appropriate in relation to the requirements for the EP to take responsibility for direction, supervision, performance and review on each audit engagement. (d) Requiring the EP to determine whether the EP's involvement throughout the audit engagement provides the basis for the EP to take overall responsibility for the audit (stand back).	EP's responsibility for overall quality, including a stand back evaluation, in addition to responsibility for direction, supervision and review: 8, 8A, 8B, 15, 23A Enhanced application material for leadership: • Commitment to quality, setting the right tone, creating the right environment: A3C – A3D • Sufficient and appropriate involvement: A3DA • Enhanced "all-way" communication: A3E – A3F • Professional skepticism necessary for appropriate judgments: A3G – A3I Enhanced application material for tailoring the nature, timing and extent of direction, supervision and review:

KEY PUBLIC INTEREST ISSUES[4]	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 4-A]
		• What it means to direct, supervise and review: A12A – A17B • Taking into account, and tailoring, direction, supervision and review based on the nature and circumstances of the audit engagement: A19C – A19E
	Focusing on the involvement of the EP, including those situations where the EP is not located where the majority of the audit work is performed.	EP's involvement in the audit: 8, 23A(a), A3DA, A12C, A13, A35A, A35B Considerations where the ET is dispersed: A2H, A3D, A19D
	Enhancing the requirements and application material in relation to the two-way communication necessary between ET members, and others involved in or relevant to the audit engagement.	ETs' responsibility to communicate information up to the firm: 3(c), A2B, A3E, A4E EP's responsibility to communicate information up to the firm: 13A, 14B, 23(c), A3E, A3I, A4DC, A4E, A8H EP's responsibility to communicate with the ET: 4C, 8A(b), 8A(c), A3C, A3E, A3F, A4D, A13, A34 ETs' responsibility to communicate with each other: 8A(d), A3E, A4D, A12D ETs' responsibility to communicate (and cooperate) with the engagement quality control reviewer: 19(b), A25A

KEY PUBLIC INTEREST ISSUES[4]	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 4-A]
		EP's responsibility to communicate information to management/those charged with governance: A3I, A4E ET's responsibility to communicate with other auditors: A3E *(communication between the group ET and component auditors will be further addressed within the Group Audits project)*
Interaction with or dependence on firm or network firm quality management processes and procedures	Clarifying what is required at the engagement level in relation to dependence on applicable firm or network-level quality management processes and procedures.	A1E, A1F, A9A, A10F
Addressing audit delivery models and component auditors	Clarifying how the requirements for managing quality at the engagement level address evolving service delivery centers that may result in ETs with different structures and involve other individuals performing audit procedures. Similarly, for group audits, clarifying that direction, supervision and review requirements are relevant to component auditors performing audit procedures. *(Note that this aspect will be further addressed within the Group Audits project)*	Revised definition of ET: 7(d), A2H, A2J EP's leadership responsibilities for these resources: A3D Direction, supervision and review of these resources: A19D

KEY PUBLIC INTEREST ISSUES[4]	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 4-A]
Other matters	Clarifying the required understanding for accepting or continuing an engagement, including further consideration of situations where necessary access to (a) the financial information; or (b) other auditors who will be involved in the audit, is restricted or precluded. For situations where restrictions to information or management do exist, clarifying the auditor's considerations about what appropriate actions could be.	Revised requirements focusing on the firm's policies or procedures: 12, 13 Difficulties imposed by management: A3G, A3H EP's determination of the appropriateness of the firm's acceptance and continuance conclusions: A8A – A8C Audits where the audit firm is appointed pursuant to law or regulation or by a regulatory or other authority: A8G, A9
	Considering the interaction of firm quality management with managing quality at the engagement level, for example in relation to monitoring and engagement quality control reviews.	Interaction between the firm's system and the role of ETs: 2, 3, A1C, A1D, A2A – A2F Areas where the ET will use information provided by the firm and how it should be supplemented: 13, 13A, 23, A4C, A8, A8B, A8D – A8E, A8G, A9, A33, A34
	Strengthening the communication requirements to promote effective two-way dialogue, in particular with other auditors.	See above response under "Clarifying the EP's role and responsibilities."

Performing Audits of Financial Statements in the Public Interest; Exercising Professional Judgment and Professional Skepticism

8. In response to comments at the June 2018 Board meeting, including from the Public Interest Oversight Board observer, the Task Force has proposed additions to the introductory material to explicitly deal with public interest, professional judgment and professional skepticism, in particular to explain that:

- Audits of financial statements (i.e., audit engagements) are performed in the public interest.
- The EP and the other members of the ET have a responsibility to act in a manner that recognizes their roles in serving the public interest when performing audit engagements
- The performance of quality audit engagements involves planning and performing such engagements, and reporting on them, in accordance with professional standards and applicable legal and regulatory requirements, including applying professional judgment and exercising professional skepticism (see paragraph 4B of **Agenda Item 4–A)**.

These additions are aligned with the changes to proposed ISQC 1 (Revised) relating to public interest.

9. The Task Force made changes to paragraph 4C and the material dealing with professional judgment and professional skepticism to explicitly recognize:

- Professional judgment is applied in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement.
- Professional skepticism supports the quality of judgments made by the ET and, through these judgments, supports the overall effectiveness of the ET in achieving quality at the engagement level.
- The EP, and other members of the ET's, responsibility to act and communicate in a manner that demonstrates the behaviors associated with the exercise of professional skepticism, including specific steps to deal with impediments to professional skepticism (e.g., unconscious bias and resource constraints) and provide appropriate on-the-job-training.

10. The Task Force discussed whether to relocate the material on professional judgment and professional skepticism (primarily paragraphs A3G–A3I, which support the requirement in paragraph 8 for the EP's leadership responsibilities to ISA 200,[5] and concluded that this material should remain in draft proposed ISA 220 (Revised) as:

- Many Board members expressed support for the material and the placement of in proposed ISA 220 (Revised),
- The Task Force's view is that this material is necessary to support the application of the requirements in ISA 200 on professional judgment[6] and professional skepticism[7] in the context of managing and achieving quality at the engagement level and in complying with the requirements of proposed ISA 220 (revised).

[5] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of An Audit In Accordance with International Standards on Auditing*

[6] ISA 200, paragraphs 16

[7] ISA 200, paragraphs 15

Matters for IAASB Consideration

1) The IAASB is asked for its views on the material dealing with public interest, professional judgment, and professional skepticism in **Agenda Item 4–A**:

   (a) Paragraphs 4B–4C.

   (b) Paragraphs A3G–A3I.

Scalability for Firms of Different Sizes, and for Engagements Where Nature and Circumstances Differ

11. During the June 2018 IAASB discussion, the Board supported the direction of the Task Force's proposals that demonstrate how proposed ISA 220 (Revised) would be applied based on a variety of situations. The Task Force continues to note the importance of being clear about how proposed ISA 220 (Revised) can be applied in a scalable way, in particular to take account of:

    - The differing nature and circumstances of a particular audit engagement, including, for example, the size of the ET, geographic dispersion of the ET members, or
    - The size of the firm.

12. Taking into account feedback from Board members, the TF has included revised application material that explicitly recognizes additional considerations related to the scalability of proposed ISA 220 (Revised). Appendix A to this paper includes the relevant references to the revised material located within **Agenda Item 4–A**, as well as to other material previously presented and where the Task Force believes scalability has been incorporated.

13. Specific outreach with the International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee is planned in advance of the September 2018 IAASB meeting.

Matters for IAASB Consideration

2) The IAASB is asked:

   (a) For its views on how the scalability of the requirements and application material has been dealt with in proposed ISA 220 (Revised).

   (b) Whether there are further examples to include in the standard to demonstrate how the ISA is sufficiently scalability for firms of different sizes, and for engagements with differing nature and circumstances. (The IAASB is requested to provide specific suggestions if possible.)

C. Proposed Revisions to ISA 220

Firm Policies or Procedures

14. During the June 2018 IAASB discussion, several Board members questioned some of the proposed requirements in proposed ISA 220 (Revised) related to the EP and ET's responsibility to comply with the firm's policies or procedures. Board members variously noted that in some cases, a firm's policies and procedures may go beyond what is required by the ISAs and were therefore concerned that in such circumstances, noncompliance with firm's policies or procedures would result in noncompliance with proposed ISA 220 (Revised). Such noncompliance would in turn result in an inability to conclude

that the audit had been performed in accordance with the ISAs. Such members also noted that these requirements may therefore serve as a disincentive to firms to establish robust quality management policies and procedures, which would not be consistent with the objectives of the projects to revise ISQC 1 and ISA 220.

15. The Task Force notes such concerns and acknowledges that any proposed revisions to the requirements in ISA 220 should not imply that compliance with a firm's policies or procedures is more important than compliance with professional standards, law, or regulation. The Task force also recognizes that:

- Some introductory material, as well as requirements and application material related to compliance with the firm's policies or procedures exist in extant ISA 220 (see for example, paragraphs 3, 11(b), 16, 22, 25(a), A3, A11, A16, in extant ISA 220);
- There is interconnection between a firm's policies and procedures and what needs to be done at the engagement level:
    - Understanding and complying, at the engagement level, with applicable firm policies and procedures is critical to establishing and maintaining the relationship between quality management at the firm level and quality management at the engagement level (e.g., the firm is responsible for designing, implementing and operating acceptance and continuance policies or procedures, but at the engagement level, the EP has to be satisfied that the applicable policies and procedures were followed and that the firm's conclusions reached in this regard are appropriate).
    - In some cases, the firm's policies or procedures are considered integral to the fulfillment of the ISA requirements (i.e., it may not be possible to comply with proposed ISA 220 (Revised) without the support of the firm's policies or procedures). For example, the ISAs do not provide detailed requirements on how to direct, supervise, and review the work of members of the ET, therefore the firm's policies or procedures would be a necessary step in assisting the EP in complying with the related requirements in proposed ISA 220 (Revised) (see paragraphs 15–17C of **Agenda Item 4–A** that address such matters).

16. Taking into account the matters described in paragraphs 14 and 15, the Task Force considered each proposed requirement where the EP or ET would be required to comply with the firm's policies or procedures and made the following amendments in relation to the references to firm policies or procedures:

- Relevant Ethical Requirements – Retained in paragraph 9A of **Agenda Item 4–A**, removed from paragraphs 10 and 10A(b) of **Agenda Item 4–A**.
- Acceptance and Continuance of Client Relationships and Audit Engagements – Retained in paragraph 12 of **Agenda Item 4–A**.
- Engagement Resources – Removed from paragraph 14C of **Agenda Item 4–A**.
- Direction, Supervision, and Review – Retained in paragraph 15(a), removed from paragraph 17A(c) of **Agenda Item 4–A**.
- Consultation – Retained in paragraph 18(a)(ii) of **Agenda Item 4–A**.
- Differences of Opinion – Retained in paragraphs 22 and 22A(a) of **Agenda Item 4–A**.

- Taking Overall Responsibility for Managing Achieving Quality – Amended in paragraph 23A(b) of **Agenda Item 4–A**.

Depending on the Firm's Policies or Procedures

17. During the June 2018 IAASB discussion, some Board members asked the Task Force to further clarify the extent to which the EP may "rely" on the firm's system of quality management when complying with the requirements of proposed ISA 220 (Revised). The Task Force wants to avoid the impression that the EP may "blindly rely" on the firm's responses to quality risks, but also understands the importance of highlighting how such responses are relevant in the context of complying with the requirements of ISA 220. The Task Force has proposed application material that explains that in certain circumstances, the EP may "depend on the firm's policies or procedures" in complying with the requirements of proposed ISA 220 (Revised). The ability to do so is based on the EP's determination of whether those policies or procedures are "fit-for-purpose", which may be based on the EP's knowledge or observation of such policies and procedures and their effectiveness. To assist the EP in making this determination, the Task Force has also proposed application material that provides examples of 'matters' that the EP may take into account when determining whether it is appropriate to depend on the firm's policies or procedures (see paragraph A1E–A1F in **Agenda Item 4–A**. The Task Force believes this approach both recognizes that the EP may depend on the firm's system of quality management to leverage the work necessary at the engagement level, but retains the extant "caution" not to blindly rely on what the firm may have done. The Task Force's view is that this is a more proactive and risk-based approach than extant ISA 220.

18. The Task Force has included application material in the following sections, and in the specific context of those sections, in addressing the Board's feedback:

    - The Firm's System of Quality Management and Role of Engagement Teams – A1E–A1F of **Agenda Item 4–A**.
    - Engagement Resources – A9A, A10F of **Agenda Item 4–A**.

Matter for IAASB Consideration

3) The IAASB is asked for its views on:

    (a) The overall approach to dealing with firm policies and procedures in the requirements of proposed ISA 220 (Revised).

    (b) Proposed application material that acknowledges the EP may depend on the firm's policies or procedures or other relevant firm level responses, when complying with the requirements of proposed ISA 220 (Revised).

    (Detailed comments on specific requirements can be provided during the section-by-section discussion of proposed changes to ISA 220 below).

Introduction (**Agenda Item 4–A**, paragraphs 1 – 4C, and A0 – A2F)

19. Other than the changes described in sections B and in the Firm Policies or Procedures section above, the following changes have been made to the introductory paragraphs and related application material in response to Board comments:

- In paragraph 4A, clarified that it is both "managing and achieving quality" that will be impacted through complying with other ISAs. This strengthens the link to the EP's responsibility to take overall responsibility for managing and achieving quality on the audit engagement (see paragraph 8 in **Agenda Item 4–A**);
- Included an additional paragraph of application material to highlight the importance of fulfilment of relevant ethical requirements and to reference to the related requirements and guidance contained within the standard, thereby making a better link to paragraph 1 and enhancing the prominence of fulfilling relevant ethical requirements;
- Restructured application material to the paragraphs relating to "The Firm's System of Quality Management and Role of Engagement Teams" to enhance the description of the interrelationship between firm level quality management and management of quality at the engagement level (including adding headings to each of the paragraphs to better link to paragraphs 3 and 4A; and
- Deleted language which inadvertently may have implied that smaller firms have increased quality risks due to the lack of formality of their policies or procedures.

Objective (**Agenda Item 4–A**, paragraph 6)

20. The Task Force considered a Board member's comment that the concept of "reasonable assurance" is not appropriate in the objective of proposed ISA 220 (Revised) as the process of quality risk identification and assessment, and implementation of responses thereto ('risk assessment process'), that is integral to the concept of reasonable assurance in proposed ISQC 1 (Revised), is not also required by proposed ISA 220 (Revised), and that therefore there would not be a basis to support the auditor's conclusion as to whether the objective was achieved.

21. The Task Force notes that the objective of extant ISA 220 incorporates the concept of reasonable assurance,[8] and therefore the highlighted issue arguably exists with respect to the extant standard as well. The issue was not highlighted as part of the ISA Implementation Monitoring project and the Task Force is not aware that this issue has given rise to implementation issues or problems in practice. The Task Force further notes that an explicit risk assessment process for managing quality at the engagement level was preliminarily explored with the IAASB at its June 2017 and December 2016 meeting. The IAASB however expressed significant concerns about the proposed approach, noting the potential confusion that might be created through the introduction of another discrete risk assessment process at the engagement level.[9] The Board also noted that its Invitation to Comment (ITC)[10] did not specifically recommend that a separate quality risk assessment process be embedded into proposed ISA 220 (Revised) and that respondents to the ITC did not call for one. Rather respondents were supportive of embedding the principles of quality management at the engagement level into ISA 220, and this is consistent with the approved project proposal for the revisions to ISA 220. In response to the Board's comments, the Task Force conducted further discussions and concluded that quality management at the engagement level is most effectively accomplished by embedding the quality risk assessment process into each core element of ISA 220 implicitly (i.e., the risk assessment process is implicit). In considering and responding to the requirements in each

[8] ISA 220, paragraph 6

[9] See paragraphs 46−53 of Agenda Item 8–A of the December 2016 IAASB meeting materials.

[10] Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits

section of revised ISA 220, the view of the Task Force is that the EP's response will need to be framed by the EP's consideration of "what can go wrong" in the context of the nature and circumstances of the engagement, and also taking into account firm level responses that are implemented at the engagement level, or otherwise relevant to the engagement-level response. In managing quality at the engagement level and in complying with the requirements in proposed ISA 220 (Revised), the EP will achieve reasonable assurance through:

- Implementing the firm's responses that address the firm-identified quality risks (i.e., those designed at the firm level) but which are intended to be executed at engagement level. (e.g., the firm has a requirement for the EP to review selected audit documentation)
- Designing and implementing additional responses that address what could go wrong for that specific engagement, i.e., based on consideration of engagement facts and circumstances. (e.g., in addition to reviewing the audit documentation prescribed by the firm, the EP decides what other audit documentation to review in managing and achieving quality)

Accordingly, the Task Force remains of the view that the risk assessment process is implicit in proposed ISA 220 (Revised) and that the objective remains appropriate.

22. The Task Force discussed other comments received by the Board including that the objective of the standard should reference "public interest", however, the Task Force remains of the view that the objective of ISA 220 should remain aligned as far as possible with that of ISQC1 (Revised), where no similar change has been made. See however Section B above for how the Task Force has addressed calls to more explicitly incorporate consideration of public interest in proposed ISA 220 (Revised).

23. Some limited amendments have been made to the objective, including to respond to other Board comments and to further align the objective with the objective of proposed ISQC 1 (Revised) (e.g., including specific reference to not only fulfilling responsibilities in accordance with professional standards and requirements of law or regulation, but also conducting audit engagements in accordance with such standards and requirements).

Definitions (**Agenda Item 4–A**, paragraph 7 and A2H–A2L)

24. At the June 2018 IAASB meeting the Board was supportive of the proposed definitions and supporting application material. Therefore the Task Force has made only limited changes to these definitions, largely to further align with proposed ISQC 1 (Revised) and proposed ISQC 2. The definition for "listed entity" was deleted from the standard as it was only used in extant ISA 220 in the context of the engagement quality control reviewer, and the related content has now been relocated to proposed ISQC 2.

25. As it relates to the definition of ET, one board member noted that it was not clear what was meant by "audit procedures." The Task Force is of the view that the term "audit procedures" is not new, and used throughout the ISAs, including being used extensively in ISA 200 without further explanation. The Task Force considered whether to re-instate a specific reference to ISA 500, paragraphs A14 – A25, which describe the types of audit procedures for obtaining audit evidence, but concluded it was unnecessary, and may have unintended consequences of narrowing the concept. The Task Force notes the EP will need to exercise professional judgment about whether a procedure performed on an audit engagement is an audit procedure, and accordingly whether the individual performing the procedure is a member of the ET.

26. As the definitions of EP and ET are also used in ISQC 1 and the IESBA Code, the Task Force acknowledges the need for close ongoing coordination with the QCTF and IESBA regarding these proposed changes. The Task Force obtained preliminary feedback from IESBA staff in developing the agenda materials and intends to coordinate with the IAASB-IESBA Coordination Liaison to discuss further the revised definitions of EP and ET ahead of the September 2018 IAASB meeting and will provide an oral update on the feedback received to the Board. The Task Force will consider the need for any further revisions and if so, will incorporate those into the December 2018 agenda materials.

27. The Task Force made further enhancements to the application material supporting the definition of ET to clarify that:

- ISA 620[11] and ISA 610[12] include requirements for the auditor to comply with when using the work of an external expert or when using the work of internal auditors in a direct assistance capacity. The auditor performs audit procedures to comply with these requirements and these audit procedures form the basis for the auditor's determination as to whether work performed by external experts or internal auditors providing direct assistance can be used as audit evidence (see paragraph A2H of **Agenda Item 4–A**); and
- An engagement quality reviewer, or individuals who assist the engagement quality reviewer in the engagement quality review, are not members of the ET (see paragraph A2JA of **Agenda Item 4–A)**.

Matter for IAASB Consideration

Introduction, Objective and Definitions (**Agenda Item 4–A**, paragraphs 1–7 and A0–A2L)

4) Does the IAASB agree with the proposed changes to the introductory paragraphs, objective, and definitions and related application material (paragraphs 1-7 and A0-A2L)?

Leadership Responsibilities for Managing and Achieving Quality on Audits (**Agenda Item 4–A**, paragraphs 8–8B and A3C–A3J)

28. At the June 2018 IAASB meeting the Board was generally supportive of the Task Force's proposals, and as such the Task Force has not made substantial changes to the requirements regarding the EP's overall responsibility for the audit (paragraphs 8 and 8A of **Agenda Item 4–A)**. In paragraph 8, the Task Force agreed with a Board members' comments to relocate the "management of quality" to the beginning of the requirement to clarify that responsibility for creating an environment that emphasizes the firm's cultural values and behaviors forms part of managing and achieving quality.

29. In relation to paragraph 8B, the Task Force considered a Board member's comment about "assign" or "delegate" being the right term to use in respect of directing other members of the ET to be responsible for the performance of an aspect of the work, but not for transferring overall accountability or responsibility of the EP for the quality of the audit engagement. The task force researched the dictionary definitions and remains of the view that the word "assign" is more appropriate than "delegate" in this context. The Task Force believes that the word "assign" correctly conveys the transfer of responsibility and authority, but not accountability to the assignee. Therefore, the Task

[11] ISA 620, *Using the Work of an Auditor's Expert*

[12] ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

Force has retained "assign" but has included application material to clarify that assignment of procedures, tasks or other actions, does not release the EP from ultimate accountability and overall responsibility for managing and achieving quality on the audit engagement, see paragraph A3J in **Agenda Item 4–A**.

30. Upon review of application material paragraphs A3A–A3B in **Agenda Item 4–A**, the Task Force determined that certain content was duplicative of the application material paragraphs supporting the introductory paragraphs of the standard. As such, the Task Force deleted the duplicative material, and relocated the remaining material to A2–A2A in **Agenda Item 4–A**.

31. The Task Force has also included application material to further clarify the meaning of "sufficient and appropriate involvement" of the EP. In particular, the application material explains that being sufficiently and appropriately involved throughout the audit engagement may be demonstrated in different ways and includes taking responsibility for the nature, timing and extent of the direction and supervision of other members of the ET, and the review of the work performed in complying with the requirements of the ISA, see paragraph A3DA of **Agenda Item 4–A**.

32. Finally, as explained above in Section B, the Task Force is of the view that retaining the application material related to professional skepticism in paragraphs A3G–A3I in **Agenda Item 4–A** is important and foundational guidance to support the performance of a quality audit engagement. The Task Force has made some minor changes, including replacing the terms "unintentional" and "intentional" with "unconscious" and "conscious" as the former terms may have specific meaning in jurisdictional law or regulation and the latter terms are normally well understood and more familiar.

Matter for IAASB Consideration

Leadership Responsibilities for Managing and Achieving Quality on Audits (**Agenda Item 4–A**, paragraphs 8–8B and A3C–A3J)

5) Does the IAASB agree with the proposed changes made to paragraphs 8–8B and the related application material at A3C–A3J in **Agenda Item 4–A**?

Relevant Ethical Requirements, Including Independence Requirements (**Agenda Item 4–A**, paragraphs 9–10A, and A4–A7)

33. In response to the Board's challenges regarding the robustness of the requirements relative to those in the extant standard, the Task Force has enhanced the requirements and application material to be more explicit about responsibility of the EP and other members of the ET to understand and fulfill their responsibilities in respect of the identification and evaluation of threats to compliance with relevant ethical requirements (see paragraphs 9A, and 9AA in **Agenda Item 4–A**). The Task Force also aligned the phrases used to the language used in proposed ISQC 1 (Revised), which requires firms to establish policies or procedures to enable the firm and its personnel to identify and evaluate threats to compliance with relevant ethical requirements and address them appropriately.

34. In addition, the Task Force also considered the Board's feedback that questioned whether the extant language of requiring the EP to be "satisfied" is too passive and whether the requirements should be made more action-oriented. The Task Force agreed and has proposed changes within this section from "shall be satisfied" to "shall determine" (see paragraphs 9A and 10A in **Agenda Item 4–A**). The Task Force has also clarified that the EP and ET responsibilities in respect of relevant ethical requirements are in the context of the nature and circumstances of the audit engagement.

35. In response to a Board member's comment, the Task Force included additional application material that points out that the requirement for the EP, prior to dating the auditor's report, to determine whether relevant ethical requirements have been fulfilled (see paragraph 10A in **Agenda Item 4–A**) is the basis for complying with the requirement in ISA 700 (Revised)[13] to include such a statement in the auditor's report, (see paragraph A4F **Agenda Item 4–A**).

36. At the June 2018 IAASB meeting, the Board questioned how certain commercial considerations (e.g., low audit fees) should be explicitly acknowledged as possible threats to quality at the engagement level, and, in particular as it relates to relevant ethical requirements (i.e., threats to noncompliance with relevant ethical requirements). The Task Force considered the Board's views and has proposed additional application material, that provides an example that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards (see paragraph A4DB in **Agenda Item 4–A**).

37. In addition, the Task Force continues to be of the view that commercial considerations related to, for example, low audit fees and the impact on the audit is best addressed through the EP's decisions about obtaining sufficient and appropriate resources in order to perform a quality audit. The Task Force has strengthened the language in this regard related to the fact that the firm's financial and operating priorities do not do not override the EP's responsibility for achieving quality at the engagement level, see paragraph A11C in **Agenda Item 4–A**.

Matter for IAASB Consideration

Relevant Ethical Requirements, Including Independence Requirements (**Agenda Item 4–A**, paragraphs 9–10A, and A4–A7, A11C)

6) Does the IAASB agree with the proposed changes made to paragraphs 9–10A and A4–A7 and A11C of **Agenda Item 4–A**?

Acceptance and Continuance of Client Relationships and Audit Engagements (**Agenda Item 4–A**, paragraphs 12–13A and A7A–A9)

38. The Task Force has proposed reordering paragraphs 13 and 13A of **Agenda Item 4–A** in response to Board comments that the acceptance and continuance decision should be "reassessed" after the EP takes into account the information that was used in making those decisions. New information could trigger a change in the nature or timing of the engagement and therefore, the EP's responses. No other changes have been proposed to the requirements in this section, and only limited changes have been made to the application guidance (primarily to align with revisions to proposed ISQC 1 (Revised)).

[13] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Matter for IAASB Consideration

Acceptance and Continuance of Client Relationships and Audit Engagements (**Agenda Item 4–A**, paragraphs 12–13A and A7A–A9)

7) Does the IAASB agree with the proposed changes made to paragraphs 12–13A and the related application material at A7A–A9 in **Agenda Item 4–A**?

Engagement Resources (**Agenda Item 4–A**, paragraph 14–14C, and A9A–A12)

39. The Board generally supported the proposed changes to this section in June 2018. The Task Force is proposing various additional changes to respond to Board feedback, including written comments received offline, as follows in **Agenda Item 4–A**:

- The Task Force, in close coordination with the QCTF, considered whether the phrase "technical competence and capabilities" in paragraph 14A is sufficiently broad and whether using the term "technical" inadvertently narrows the concept. The Task Force concluded that in the context of quality management at the engagement level, the language used in this standard should encompass all of the attributes that would lead to a competent and capable ET member, and has therefore re-instated the broader phrase that is in extant ISA 220 with the additional clarification of having enough time (i.e., "competence and capabilities, including sufficient time"). This phrase is consistent with that now used in ISQC 1 (Revised).
- In paragraph 14B, and in response to comments made at the June 2018 IAASB meeting, the Task Force has proposed elevating language from the application material in A11D that requires the EP to communicate with the appropriate person(s) within the firm about the need for additional resources if the EP determines that the resources assigned, or made available by the firm, are insufficient.

40. The Task Force has proposed the following changes to the application material:

- In relation to the EP's determination as to whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the ET as required by paragraph 14 and 14A, application material has been added that explains that when making this determination, the EP may be able to depend on the firm's related policies or procedures (see paragraph A10F in **Agenda Item 4–A**).
- Clarified in several examples that the procedures being referred to are audit procedures (see paragraphs A10 and A10F in **Agenda Item 4–A**).

See Data Analytics section D below. The IAASB's Data Analytics Working Group (DAWG) indicated general support for the requirements and related guidance that highlight considerations relative to use of automated tools and techniques. The Task Force will further consider detailed comments provided by the DAWG and additional changes will be incorporated into the December 2018 papers. The Task Force anticipates that these changes will be clarifications and possibly additional examples, and not substantive changes.

Matter for IAASB Consideration

Engagement Resources (**Agenda Item 4–A**, paragraph 14–14C, and A9A–A12)

8) Does the IAASB agree with the proposed changes made to paragraphs 14–14C and the related application material at A9A–A12 in **Agenda Item 4–A**?

Engagement Performance

Direction, Supervision, and Review (**Agenda Item 4–A**, paragraphs 15–17C, and A12A–A19E)

41. In June 2018 Board members generally supported the proposed requirements and related application material in this section. Minor changes have been made to the requirements and application material in this section in **Agenda Item 4–A**, including:

- To further clarify that the EP's review shall occur at appropriate points in time, see paragraph 17A;
- Acknowledging that the EP uses professional judgment in determining which audit documentation to review beyond documentation required to be reviewed, see paragraph 17A(c); and
- Restructured certain matters in paragraph A19A in order to make the material more concise.

Matter for IAASB Consideration

Engagement Performance – Direction, Supervision, and Review (**Agenda Item 4–A**, paragraphs 15–17C, and A12A–A19E)

9) Does the IAASB agree with the proposed changes made to paragraphs 15–17C and the related application material at A12A–A19E in **Agenda Item 4–A**?

Consultation (**Agenda Item 4–A**, paragraph 18 and A19G–A22A), Engagement Quality Review (**Agenda Item 4–A**, paragraph 19 and A23–A25A), Differences of Opinion (**Agenda Item 4–A**, paragraphs 22–22A and A32A–A32B), Monitoring and Remediation (**Agenda Item 4–A**, paragraph 23 and A33–A35)

42. The Task Force notes the following:

- Consultation – In response to a Board member's comment, the Task Force has proposed additional application material that provides examples of matters that may necessitate consultation outside the ET see paragraph A19G in **Agenda Item 4–A**. The application material also notes that need for consultation on a difficult or contentious matter may be an indicator that the matter is a key audit matter (which is consistent with ISA 701[14]), see paragraph A22A.
- Engagement Quality Review – The Task Force has worked with the ISQC 2 Staff to reflect changes being proposed in the ISQC 2 project. Similar to coordination with ISQC 1, there is a need for ongoing coordination between ISQC 2 and ISA 220 to achieve the necessary alignment between the two standards. In addition, the Task Force has proposed elevating application material previously located within paragraph A25A related to the EP's responsibility

[14] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

to cooperate with the engagement quality reviewer and to inform other members of the ET of their responsibility to do so, to the requirements, see paragraph 19(b) in **Agenda Item 4–A**.

- Differences of Opinion – The Task Force has proposed limited changes in this section to respond to written comments provided offline from Board members subsequent to the June 2018 IAASB meeting.
- Monitoring and Remediation – Several Board members questioned how the EP would practically be able to make a determination that the ET has a "sufficient understanding" of the monitoring and remediation process of the firm as well as how that would be documented. The Task Force has deleted the reference to a "sufficient" understanding and is of the view that the documentation requirements in accordance with ISA 230[15] would be applicable in this instance. Additionally, application material has been proposed that describes the extent of information that may be relevant to complying with this requirement, see paragraph A33.

Matter for IAASB Consideration

Consultation, Engagement Quality Review, Differences of Opinion, Monitoring and Remediation (**Agenda Item 4–A** paragraphs 18–23 and A19G–A35)

10) Does the IAASB agree with the proposed changes made to paragraphs 18–23 and A21–A35 in **Agenda Item 4–A**?

Taking Overall Responsibility for Managing and Achieving Quality (**Agenda Item 4–A** paragraph 23A and A35A–35B)

43. The Task Force has proposed minor changes to align the requirement in paragraph 23A in **Agenda Item 4–A,** with the objective (paragraph 6 **Agenda Item 4–A**) and the EP's leadership responsibilities (paragraph 8 **Agenda Item 4–A**).

44. The Task Force added application material to highlight that the firm is responsible for communicating to the ET with respect to firm responses to quality risks that are required to be implemented at the engagement level (see paragraph A35A). The Task Force deleted paragraph A35B based on Board feedback that the application material did not appear relevant to the requirement. The Task Force also removed the reference to "insufficient and inappropriate" in paragraph which relates to the EP's involvement, as the Board questioned what could constitute inappropriate involvement by the EP, and instead revised the language to mirror the requirement, see paragraph A35B.

Matter for IAASB Consideration

Taking Overall Responsibility for Achieving Quality (**Agenda Item 4–A** paragraph 23A and A35A–35B)

11) Does the Board agree with the proposed changes made to paragraphs 23A and A35A–A35B in **Agenda Item 4–A**

[15] ISA 230, *Audit Documentation*

Documentation (**Agenda Item 4–A** paragraph 24 and A35C–A36)

45. The Task Force has proposed limited changes to the documentation requirement. Clarifying changes to the application material are based primarily on a number of written Board comments, see paragraph A35C in **Agenda Item 4–A**.

Matter for IAASB Consideration

Documentation (**Agenda Item 4–A** paragraph 24 and A35C–A36)

12) Does the Board agree with the proposed changes made to paragraph 24 and A35C–A36 in **Agenda Item 4–A**?

D. Data Analytics

46. The Task Force obtained feedback on the draft of proposed ISA 220 (Revised) from the members of the DAWG. The DAWG expressed strong overall support for the direction that proposed ISA 220 (Revised) has taken in regard to addressing use of data analytics, but provided some detailed comments, specifically in relation to requesting some clarifications and incorporating additional examples of automated tools in the Engagement Resources section. The Task Force made limited changes in response to this feedback, but did not have the necessary time to deal with all the comments. The Task Force will however discuss the input further and continue to coordinate with the DAWG as the December 2018 papers are prepared.

E. Conforming and Consequential Amendments

47. The Task Force notes that the vast majority of conforming amendments necessary as a result of proposed ISA 220 (Revised) are relatively minor and comprise primarily updated references and some wording alignment (see **Agenda Item 4–D**.) The conforming amendments to ISA 300[16] are a little more substantive, especially given that some of the content from ISA 300 has been used as the basis for some of the new requirements and guidance in ISA 220. The Task Force acknowledges that there is likely some degree of overlap now between ISA 300 and ISA 220, but the project proposal for ISA 220 (Revised) does not contemplate a comprehensive overhaul of ISA 300. The Task Force notes that if a more substantive revision of ISA 300 were to be made, it is likely that there are other matters that can, and should be addressed, but those would be beyond the scope of this project. The Task Force has therefore approached the conforming amendments to ISA 300 from the perspective of proposing only those amendments that are necessary to align the two standards and explain their interaction.

Matter for IAASB Consideration

13) Does the IAASB support the proposed conforming and consequential amendments, in particular the approach to the conforming amendments proposed for ISA 300?

F. Way Forward

48. The Task Force intends to conduct outreach with the following groups in Q3 and Q4 of 2018:

[16] ISA 300, *Planning an Audit of Financial Statements*

- IFAC SMP Committee;
- Forum of Firms;
- The International Forum of Independent Audit Regulators Standards Coordination Working Group; and
- International Organization of Securities Commissions.

49. Further as noted elsewhere in this paper, the Task Force will continue to coordinate with the task forces working on ISQC 1 and ISQC 2, as well as with the IESBA.

50. As discussed in paragraph 5 above, the Task Force intends to present the Exposure Draft of proposed ISA 220 (Revised) for IAASB approval in December 2018.

Matter for IAASB Consideration

14) Are there any other matters the IAASB wish to raise for further consideration by the Task Force that they expect the Task Force to respond to prior to the December 2018 IAASB meeting and finalization of proposed ISA 220 (Revised) as an ED? If so, please be specific as to any such issues, and provide detailed suggestions as to how they should be addressed.

Appendix A

Scalability for Firms of Different Sizes, and for Engagements Where Nature and Circumstances Differ

Note: This Appendix includes the relevant references to the material located within proposed ISA 220 (Revised) at **Agenda Item 4–A**, where the Task Force believes scalability has been incorporated. This includes material added or revised based on feedback provided by the board in the June 2018 meeting, as well as material that was previously presented to the Board.

Reference to Relevant Paragraphs Within Agenda Item 4–A	Consideration
• The Firm's System of Quality Management and Role of Engagement Teams – Paragraphs A1E and A1F. • Acceptance and Continuance of Client Relationships and Audit Engagements – Paragraph A8B. • Engagement Resources – Paragraphs A9A and A10F.	• In larger firms, responsibility for elements of the system of quality management are dispersed throughout the firm, the EP may not have direct involvement or detailed knowledge of those elements. In such cases, the EP may use information provided by the firm and personal knowledge, supplemented with additional inquiries or other procedures to have the necessary basis to depend on the firm's policies and procedures, In a smaller firm, the EP may have more direct involvement in the firm processes which may provide the basis for depending on the firm's policies or procedures in certain circumstances. • For example, if the EP is directly involved throughout the firm's acceptance and continuance process the EP will therefore be aware of the information obtained, or used by the firm, in reaching the related conclusions. Such involvement may also therefore provide a basis for the EP being satisfied that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.
• The Firm's System of Quality Management and Role of Engagement Teams – Paragraph A2E.	• In a smaller firm, the design and implementation of many responses to the firm's quality risks may be most effectively dealt with by the firm's EPs at the engagement level.

• The Firm's System of Quality Management and Role of Engagement Teams – Paragraph A2E.	• However the firm's responses to quality risks, including policies or procedures, may be less formal in a smaller firm (e.g., in a very small firm with a relatively small number of audit engagements, firm leadership may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence would be monitored at the engagement level by the EP.)
• The Firm's System of Quality Management and Role of Engagement Teams – Paragraph A2F.	• Some requirements of proposed ISA 220 (Revised) may not be relevant if the audit is carried out entirely by the EP because they are conditional on the involvement of other members of the ET (e.g., requirements related to direction, supervision, and review).
• Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraph A3D.	• For a smaller ET that consists of only a few ET members, the EP's actions influence the desired culture through direct interaction and conduct, which may be sufficient to reflect the firm's commitment to quality. For a larger ET that is dispersed over many locations, more formal communications may be necessary.
• Engagement Performance – Paragraph 15-17	• The requirements relating to nature, timing and extent of direction and supervision of the members of the ET and the review of the work performed are required to be responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement (i.e., the direction, supervision and review is to be specifically tailored or scaled for each engagement, depending on its size and complexity).
• Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraphs 8B and A3J.	• For larger engagements, the EP may assign certain procedures, tasks or other actions to other members of the ET to assist the EP in complying with the requirements of proposed ISA 220 (Revised).
• Engagement Resources – Paragraph A11A	• In situations where there are many ET members, for example on larger, or more

	complex, audit engagements, the EP may involve an individual who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for a smaller ET with fewer ET members, project management may be achieved through less formal means.
• Scope of this ISA – Paragraph A0A. • The Firm's System of Quality Management and Role of Engagement Teams – Paragraphs 3(b), 4C, A1C, A2, and A2E. • Relevant Ethical Requirements, Including Independence Requirements – Paragraphs 9, 9A, 10, A4A, and A4C. • Acceptance and Continuance of Client Relationships and Audit Engagements – Paragraph A8G. • Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraphs 8, A3D, A3DA, and A3F. • Engagement Resources – Paragraphs 14, 14B, A9A, A10E, and A11D. • Direction, Supervision and Review – Paragraphs 15(b), A12B, A19B, and A19E. • Monitoring and Remediation – Paragraph A34. • Taking Overall Responsibility for Managing and Achieving Quality – Paragraph 23A.	• Explicit acknowledgement of a tailored approach to quality management at the engagement level that is responsive to the nature and circumstances of the audit engagement.

Appendix B

Task Force Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups and the IESBA

1. The following sets out the activities of the Task Force, including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the ISA 220 project since June 2018.

Task Force Activities since the last IAASB Discussions

2. Since the June 2018 IAASB meeting, the Task Force has met once in person, and held two teleconferences in order to develop the material in the agenda papers provided to the Board.

Outreach

3. Since the June 2018 IAASB meeting, the Chair of the Task Force presented an overview of the proposed changes to ISA 220 (Revised) to the Small and Medium Sized Practices Committee (June 2018) to obtain their initial views. Additionally, there have been various discussions related to ISA 220 in other broader outreach efforts conducted by the IAASB Chair or Deputy Chair.

Coordination with Other IAASB Task Forces and Working Groups and the IESBA

4. Since the last IAASB discussion at the December 2017 IAASB meeting:

   - The members of the Task Force and the QCTF and staff of the respective projects, held one teleconference to discuss matters of mutual interest related to quality management at the firm level and quality management at the engagement level. The staff of the respective projects also had various discussions and shared drafts of the materials with one another.
   - The Task Force obtained initial feedback on the draft of proposed ISA 220 (Revised) from the members of the DAWG. The Task Force will discuss the input further and continue to coordinate with the DAWG as the December 2018 papers are prepared.
   - Staff has had various discussions with IESBA staff, has shared a draft of proposed ISA 220 (Revised) and has incorporated changes in response to IESBA comments. As noted above, ongoing coordination with the IESBA is required, in particular in relation to the proposed revisions to the definitions of EP and ET.

5. Further coordination has also been facilitated through the overlap of task force members and staff as well as frequent staff liaison.

Appendix C

June 2018 Draft Meeting Minutes – Quality Management – Engagement Level (ISA 220)[17]

Ms. Zietsman provided an update on the project and presented a first read of the draft Exposure Draft of ISA 220 (Revised).[18] She noted that the Task Force would continue to align the language in the standard with proposed ISQC 1 (Revised) and proposed ISQC 2.[19]

INTRODUCTION, OBJECTIVE, AND DEFINITIONS

In relation to the introductory paragraphs, Board members variously requested the ISA 220 Task Force to further consider:

- Clarifying how "designing and implementing additional responses" that is referred to in the introductory paragraphs is achieved through complying with the requirements of the ISA;
- Whether to amend the objective to indicate that the auditor's responsibilities should be "appropriately" fulfilled with the view that such addition would enhance the measurability of the objective;
- Whether the introduction should make it clearer that the firm's system of quality management is the responsibility of the firm
- Whether the material on professional skepticism and professional judgment should be relocated to ISA 200; and
- Whether there is a need to clarify that the definition of engagement team does not include the engagement quality control reviewer and others within the firm who perform consultations.

LEADERSHIP RESPONSIBILITIES FOR ACHIEVING QUALITY ON AUDITS

Board members continued to support the strengthening of the engagement partner's overall responsibility for the audit engagement proposed by the ISA 220 Task Force. The Board asked that further consideration be given to:

- Whether further context is needed to explain how proposed ISA 220 (Revised) aligns with proposed ISQC 1 (Revised);
- Whether the term 'delegates' should be used rather than 'assigns' as it may be seen that 'assignment' may imply a transfer of responsibility and accountability, which is not appropriate because the engagement partner needs to be fully accountable, whereas 'delegation' may imply transfer of responsibility and authority, but not accountability; and
- Including the concept of "tone at the middle" in the application material.

RELEVANT ETHICAL REQUIREMENTS, INCLUDING INDEPENDENCE

Board members supported the alignment in this section with proposed ISQC 1 (Revised), but noted the following for the ISA 220 Task Force's further consideration:

---

17 These draft minutes are still subject to IAASB review and may therefore change.

18 Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

19 Proposed ISQC 2, *Engagement Quality Control Reviews*

- Whether the extant requirements relating to obtaining relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to compliance with relevant ethical requirements need to be included;
- How the engagement partner's 'sufficient understanding' of relevant ethical requirements would be documented;
- To what extent the engagement partner can rely on the firm's system of quality management in addressing the requirements in this section; and
- Including linkage to the requirement in ISA 700 (Revised)[20] to include a statement regarding the fulfillment of relevant ethical requirements in the auditor's report.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND AUDIT ENGAGEMENTS

The Task Force was asked to consider:

- Reordering the requirements in paragraphs 13 and 13A to acknowledge that the information related to the conclusions reached in relation to acceptance and continuance is obtained before the assessment of whether those conclusions are appropriate; and
- Whether the material included in paragraph A9 for considerations specific to public sector auditors is accurate given that public sector auditors may have some acceptance and continuance procedures.

ENGAGEMENT RESOURCES

The IAASB continued to support the direction of proposed changes to this section, specifically noting that the application material related to project management is very helpful, and suggested the following for consideration by the ISA 220 Task Force:

- Whether there is an appropriate focus on the fact that resource needs may evolve during the course of the engagement, i.e., not just focusing on the assignment of resources at the beginning of the engagement.;
- Whether the application material related to the engagement partner's actions when insufficient resources are available to the engagement should be elevated to a requirement; and
- Various comments regarding the application material, including consideration of areas where it can be streamlined and whether the material related to commercial considerations (e.g., low audit fees) can be made more explicit.

ENGAGEMENT PERFORMANCE

Board members suggested the following for consideration by the ISA 220 Task Force:

- Consider separating the requirements on direction, supervision, and review from the engagement performance section in order to make it clear that they apply to each of the areas in proposed ISA 220 (Revised);
- Reconsider the use of 'review' in the requirement in paragraph 17B in this section, as 'review' may be incorrectly understood as a "review" in accordance with ISRE 2400 (Revised);[21] and

[20] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

[21] ISRE 2400 (Revised), *Engagement to Review Historical Financial Statements*

- Consider how best to indicate that the engagement partner should review the matters listed in paragraph 17A as a minimum.

Taking Overall Responsibility for Achieving Quality

Board members variously commented and expressed support for the stand-back requirement in paragraph 23A. The Task Force was asked to consider whether the stand-back provision could be more closely linked to the obligation to implement responses at the engagement level.

Documentation

As it relates to documentation, the ISA 220 Task Force was asked to consider:

- Whether a concurring review that is not an engagement quality control review would be required to be documented under proposed ISA 220 (Revised);
- Whether documentation requirements specifically related to instances where proposed ISQC 1 (Revised) requires a response be implemented at the engagement level are necessary; and
- Whether there should be specific documentation requirements related to the engagement quality control review or differences of opinion.

Other Sections of Proposed ISA 220 (Revised)

In relation to the other sections of proposed ISA 220 (Revised) (Consultation, Engagement Quality Control Review, Differences of Opinion, and Monitoring and Remediation), the ISA 220 Task Force was asked to consider:

- In the section on the engagement quality control review, elevating the application material that states the engagement team should cooperate with the engagement quality control reviewer to a requirement; and
- In the section on monitoring and remediation, how the engagement partner could determine that the engagement team has a sufficient understanding of the firm's process for monitoring and remediation.

When an Individual Other than the Engagement Partner Signs the Auditor's Report

The Board also discussed the circumstance when there is an individual other than the engagement partner who signs the auditor's report, either instead of, or in addition to, the engagement partner. The Board concluded that this needed to be further explored before any further actions are discussed or taken.

IAASB CAG Chair's Remarks

Mr. Dalkin noted that there is variation in how public sector auditors are structured and the application material should accommodate this. He also asked the ISA 220 Task Force to consider whether the references to the engagement partner's review of key audit matters in paragraph 17B could be simplified.

PIOB Remarks

Prof. Van Hulle commented that proposed ISA 220 (Revised) should emphasize the importance of serving the public interest in several areas in particular, the scope, objective, and the "Leadership Responsibilities

for Achieving Quality on Audits" section. He also suggested that the application material related to the scope of the revised standard should specifically reference the relevant ethical requirements.

NEXT STEPS

The ISA 220 Task Force will present a revised draft of proposed ISA 220 (Revised) for discussion at the September 2018 IAASB meeting.