This document represents a clean version of proposed ISA 220 (Revised). Agenda Item 4–A is a marked version to the first read of the draft Exposure Draft (ED) that was presented to the Board at the June 2018 IAASB meeting to this document. Agenda Item 4–C is a marked to extant version of proposed ISA 220 (Revised).

Text shaded in grey within this document represents either:

- Text that has been drawn from the September 2018 IAASB agenda materials relating to proposed ISQC 1 (Revised) or proposed ISQC 2; or
- Matters that will need to be aligned to the ongoing revisions in proposed ISQC 1 (Revised) and proposed ISQC 2, and will therefore be adjusted as these ISQC drafts progress.

Note: Paragraphs within the standard will be renumbered in the final ED

INTERNATIONAL STANDARD ON AUDITING 220 (REVISED)
QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS
READ OF EXPOSURE DRAFT (CLEAN VERSION)

(Effective for audits of financial statements for periods beginning on or after December 15, 20XX)

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. This ISA is to be read in conjunction with relevant ethical requirements. (Ref: Para. A0–A0A)

The Firm's System of Quality Management and Role of Engagement Teams

2. The system of quality management is the responsibility of the firm. Under ISQC 1 (Revised), the objective of the firm is to design, implement, and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:

   (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and

   (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.[1] (Ref: Para. A1, A2E–A2F) *[From ISQC 1 (Revised), para. 19]*

[1] ISQC 1 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements, paragraph 19*

2A. This ISA is premised on the basis that the firm is subject to the ISQCs or to national requirements that are at least as demanding. (Ref: Para. A1A–A1B)

3. The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this ISA, for:

(a) Implementing the firm's responses to quality risks that are applicable to the audit engagement, taking into account information obtained from, or provided by, the firm; (Ref: Para. A1C–A1F)

(b) Given the nature and circumstances of the audit engagement, determining whether to design and implement additional responses; and (Ref: Para. A2–A2A)

(c) Providing the firm with information from the audit engagement to support the design, implementation, and operation of the firm's system of quality management, including information that is required to be communicated in accordance with:

(i) Professional standards, law, regulation; or

(ii) The firm's policies or procedures. (Ref: Para. A2B)

4A. Quality management at the engagement level is also informed through complying with the requirements in other ISAs. (Ref: Para. A2D)

4B. Audits of financial statements are performed in the public interest. Accordingly, the engagement partner and the other members of the engagement team 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 in achieving the objectives of those standards and legal and regulatory requirements.

4C. In accordance with ISA 200,[2] the engagement partner and other members of the engagement team are required to plan and perform an audit with professional skepticism and to exercise professional judgment in doing so. Accordingly, the engagement partner and engagement team exercise professional judgment and professional skepticism in meeting the objective and requirements of this ISA. 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[3] supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The behaviors associated with professional skepticism may be demonstrated through the actions and communications of the engagement partner and other members of the engagement team. Such actions may include specific steps to deal with impediments to professional skepticism, including unconscious bias and resource constraints and providing appropriate on-the-job training. (Ref: Para.A3G–A3I)

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[2] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of An Audit In Accordance with International Standards on Auditing*, paragraphs 15–16

[3] ISA 200, paragraph 15

Effective Date *[To be coordinated with ISQC 1 (Revised) and ISQC 2 and discussed with the IAASB at its December 2018 meeting]*

5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 20XX.

Objective

6. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved, such that:

   (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and

   (b) The auditor's report issued is appropriate in the circumstances.

Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:

   (a) Engagement partner[4] – The partner, or other individual designated by 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.

   (b) Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon that is completed on or before the date of the engagement report. *[From ISQC 2, para. 15(a)]*

   (c) Engagement quality reviewer – A partner or other suitably qualified individual designated by the firm to be responsible for the performance of the engagement quality review. *[From ISQC 2, para. 15(b)]*

   (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an auditor's external expert engaged by the firm or a network firm,[5] and 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).[6] (Ref: Para. A2H – A2JA)

   (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A2K) *[From ISQC 1 (Revised), para. 20(h)]*

   (i) Network firm – A firm or entity that belongs to a network. (Ref: Para. A2L)

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4 "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.

5 ISA 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."

6 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.

(j) Network – A larger structure: (Ref: Para. A2L)

(i) That is aimed at cooperation, and

(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, the use of a common brand name, or a significant part of professional resources.

(k) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

(l) Personnel – Partners and staff.

(m) Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.

(n) Relevant ethical requirements – Principles of professional ethics and ethical requirements to which the engagement team is subject in undertaking an audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to an audit of financial statements, together with national requirements that are more restrictive. *[From ISQC 1 (Revised), para. 20(q)]*

(na) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address a quality risk:

(i) Policies are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.

(ii) Procedures are actions to implement policies. *[From ISQC 1 (Revised), para. 20(r)]*

(o) Staff – Professionals, other than partners, including any experts the firm employs.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

8. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment that emphasizes the firm's culture and expected behaviors. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A3C–A3I)

8A. In creating the environment described in paragraph 8, the engagement partner shall take clear, consistent and effective actions that reflect the firm's commitment to quality, including:

(a) Emphasizing that all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level.

(b) Communicating and reinforcing the importance of professional ethics, values, and attitudes to the members of the engagement team;

(c) Establishing and communicating the expected behavior of all engagement team members;

(d) Encouraging open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and

(e) Emphasizing the importance of each engagement team member exercising professional skepticism throughout the audit engagement.

8B. If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall: (Ref: Para. A3J)

(a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and

(b) Monitor the performance of the work of assignees and review such work in order to evaluate the conclusions reached.

Relevant Ethical Requirements, Including Independence Requirements *[Based on proposed revisions to ISQC 1 and may require further changes in the context of the IESBA's Restructured Code]*

9. The engagement partner shall have an understanding of the relevant ethical requirements, including independence requirements, that are applicable to the nature and circumstances of the audit engagement. (Ref: Para. A4–A4D, A7*):*

9A. The engagement partner shall determine that other members of the engagement team have been made aware of relevant ethical requirements that are applicable to the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that deal with (Ref: Para. A4–A4DC*)*:

(a) The identification and evaluation of threats to compliance with relevant ethical requirements;

(b) Circumstances that may cause a breach of independence and their responsibilities when they become aware of actual or suspected breaches of independence; and

(c) Their responsibilities when they become aware of an instance of actual or suspected non-compliance with laws and regulations.[7]

9AA. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall obtain relevant information from the firm, the engagement team, or other sources, in order to evaluate such threats and deal with them. (A4DA–A4DAA)

9B. The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A4DD)

[7] ISA 250, *Considerations of Laws and Regulations in an Audit of Financial Statements*

10. If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A4E)

10A. Prior to dating the auditor's report, the engagement partner shall determine whether relevant ethical requirements, including independence requirements, have been fulfilled. (Ref: Para. A4F)

Acceptance and Continuance of Client Relationships and Audit Engagements

12. The engagement partner shall be satisfied that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A7A–A8B, A9)

13. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs and complying with the requirements of this ISA. (Ref: Para. A8D–A8G)

13A. 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. A8H)

Engagement Resources

14. The engagement partner shall determine that given the nature and circumstances of the audit engagement (and any changes that may arise during its course), sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm on a timely basis. (Ref: Para. A9A–A10F, A11A–A11B, A12)

14A. The engagement partner shall be satisfied that members of the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A11–A11B)

14B. If, as a result of complying with the requirement in paragraphs 14 and 14A, the engagement partner determines that resources assigned, or made available by the firm, are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate person(s) in the firm about the need to allocate or assign additional or alternative resources to the audit engagement. (Ref: Para. A11C–A11D)

14C. The engagement partner shall take responsibility for using the resources assigned, or made available, to the engagement team appropriately, taking into account the nature and circumstances of the audit engagement

Engagement Performance

Direction, Supervision and Review

15. The engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and be satisfied that such direction, supervision and review is (Ref: Para A12A–A17B, A19C–A19E):

    (a) Planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;

    (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement; and

    (c) Determined on the basis that the work performed by less experienced team members is directed, supervised, and reviewed by more experienced engagement team members.

17. On or before the date of the auditor's report, the engagement partner shall, through 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–A19B)

17A. In complying with the requirements of paragraph 17, the engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to:

    (a) Significant matters;[8]

    (b) Other areas involving significant judgments, especially those relating to difficult or contentious matters identified during the course of the audit engagement; and

    (c) Other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.

17B. Prior to dating the auditor's report, and in order to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the final draft of the financial statements and of the auditor's report, including, if applicable, the description of the key audit matters[9] and related audit documentation.

17C. Prior to their issuance, the engagement partner shall review the final draft of any formal written communications to management, those charged with governance, or regulatory authorities.

Consultation

18. The engagement partner shall: (Ref: Para. A19G–A22A)

    (a) Take responsibility for the engagement team undertaking consultation on:

        (i) Difficult or contentious matters;

        (ii) Matters where the firm's policies or procedures require consultation; and

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8 ISA 230, *Audit Documentation*, paragraph 8

9 ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

(iii) Other matters that in the engagement partner's professional judgment, require consultation;

(b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;

(c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and

(d) Determine that conclusions resulting from such consultations have been implemented.

Engagement Quality Review

19. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A23–A25A)

(a) Determine that an engagement quality reviewer has been appointed;

(b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so;

(c) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and

(d) Not date the auditor's report until the completion of the engagement quality review.

Differences of Opinion

22. If differences of opinion arise, within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing duties within the firm's system of quality management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving them. (Ref: Para. A32A–A32B)

22A. The engagement partner shall:

(a) Take responsibility for differences of opinion being dealt with and resolved in accordance with the firm's policies or procedures;

(b) Be satisfied that conclusions reached are documented and implemented; and

(c) Not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

23. The engagement partner shall: (Ref: Para. A33–A35)

(a) Be satisfied that the engagement team has been made aware of results of the monitoring and remediation process of the firm and, if applicable, the network or other network firms;

(b) Determine the relevance and effect of such information on the audit, and take appropriate action; and

(c) Remain alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

Taking Overall Responsibility for Managing and Achieving Quality

23A. Prior to dating the auditor's report, the engagement partner shall be satisfied about having taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. A35A–A35B)

(a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and

(b) The firm's policies or procedures, and the nature and circumstances of the audit engagement, and any changes thereto, have been taken into account in complying with the requirements of this ISA.

Documentation

24. The auditor shall include in the audit documentation:[10] (Ref: Para. A35C–A36)

(a) Issues identified, relevant discussions with firm personnel, and conclusions reached with respect to:

(i) Fulfillment of relevant ethical requirements, including independence requirements.

(ii) The acceptance and continuance of client relationships and audit engagements.

(b) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement and how such conclusions were implemented.

(c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed prior to dating the auditor's report.

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Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

A0. This ISA applies to all audits of financial statements, including audits of group financial statements. ISA 600,[11] deals with special considerations that apply to group audits, in particular those that involve component auditors.

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[10] ISA 230, *Audit Documentation*, paragraphs 8-11, and A6

[11] ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

A0A. ISA 200 requires the auditor to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.[12] Paragraphs 9–10A and A4-A7 include requirements and guidance that deal with fulfilling relevant ethical requirements that are applicable to the nature and circumstances of the audit engagement, including those pertaining to independence.

The Firm's System of Quality Management and Role of Engagement Teams *[Based on changes proposed to ISQC 1, to align with further changes to ISQC 1]* (Ref: Para. 2 – 4A)

A1. ISQC 1 (Revised) deals with a firm's responsibilities for its system of quality management. A system of quality management is designed, implemented, and operated by a firm in accordance with ISQC 1 (Revised) and is organized into the following components:

- Governance and leadership;
- The firm's risk assessment process;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Resources;
- Engagement performance;
- Information and communication; and
- The monitoring and remediation process.

A1A. National requirements that deal with the firm's responsibilities to establish and maintain a system of quality management are at least as demanding as ISQC 1 (Revised) when they deal with all the components referred to in paragraph A1 and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1 (Revised).

A1B. Engagement quality reviews may be one of the firm's responses to address quality risks. ISQC 1 (Revised) deals with the firm's responsibility to establish policies or procedures regarding engagement quality reviews. ISQC 2 deals with the eligibility criteria for an engagement quality reviewer and the responsibilities of an engagement quality reviewer relating to an engagement quality review. *[From ISQC 2, para. 3]* National requirements that deal with eligibility criteria for an engagement quality reviewer and the responsibilities of the engagement quality reviewer are at least as demanding as ISQC 2 when they address all of the requirements in ISQC 2.

Implementing the Firm's Responses to Quality Risks That Are Applicable to the Audit Engagement (Ref: Para. 3(a))

A1C. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with ISQC 1 (Revised), the firm is responsible for communicating to the engagement team about its responsibilities for implementing firm level responses to quality risks that are applicable at the engagement level. *[From ISQC 1 (Revised), para. 43(b)]* For example, such firm level responses may include policies or procedures to undertake consultations with designated personnel in certain

[12] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of An Audit In Accordance with International Standards on Auditing*, paragraph 14.

situations involving complex technical or ethical matters, or to involve firm-designated experts in specific audit engagements to deal with particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing credit loss allowances in all audits of financial institutions).

A1D. Firm level responses may include policies or procedures established by a network, or by a cluster of firms within a network (network requirements or services are described further in ISQC 1 (Revised) within the "Network Requirements or Services" section). *[From ISQC 1 (Revised), para. 60]* The requirements of this ISA are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to use network resources or the work of network resources on the audit engagement (currently referred to as "network requirements or services" in ISQC 1 (Revised)).

Other Firm Level Responses That May be Relevant to the Engagement Team (Ref: Para. 3(a))

A1E. Some firm level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ISA. For example, when determining whether the members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement, the engagement partner may be able to depend on the firm's policies or procedures dealing with personnel recruitment and professional training. Other examples of firm-level responses that the engagement partner may be able to depend on when complying with the requirements of this ISA include:

- Information systems that monitor independence;
- Information systems that deal with acceptance and continuance of client relationships and audit engagements; and
- Audit methodologies and related implementation tools and guidance.

A1F. Matters that the engagement partner may take into account when determining whether to depend on the firm's policies or procedures in complying with the requirements of this ISA include:

- The engagement partner's knowledge or understanding of, or practical experience with, such policies or procedures;
- Information obtained from the firm, engagement team, or other parties, about the effectiveness of such policies or procedures (e.g., information provided by the firm's monitoring and remediation processes that indicate that the firm's policies or procedures are operating effectively or that do not provide any indications of deficiencies).

Designing and Implementing Additional Responses at the Engagement Level (Ref: Para. 3(b))

A2. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement partner exercises professional judgment in determining whether to design and implement additional responses at the engagement level in order to meet the objective of this ISA.[13] The engagement partner's determination of whether additional engagement level responses are required (and if so, what those responses are) is influenced by the requirements of this ISA, and the

[13] ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

engagement partner's understanding of the nature and circumstances of the audit engagement and any changes thereto. For example, unanticipated circumstances may arise during the course of the audit engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available by the firm.

A2A. The relative balance of the engagement partner's efforts to comply with the requirements of this ISA (i.e., between implementing the firm's responses and designing and implementing additional engagement-specific responses) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement, and there may be little or no need for anything additional to be done at the engagement level to tailor the audit program (e.g., industry specific audit programs). Alternatively, the engagement partner's actions in complying with the engagement performance requirements of this ISA may be more focused on designing and implementing tailored responses at the engagement level to deal with the specific nature and circumstances of the engagement (i.e., rather than only implementing firm level responses that might be more general and not specifically tailored to the engagement).

Providing the Firm with Information from the Audit Engagement (Ref: Para. 3(c))

A2B. The requirements of this ISA, or the firm's policies or procedures, may require the engagement team to provide the firm with specific information from the audit engagement that is relevant to the design, implementation, and operation of the firm's system of quality management. During the audit engagement, the engagement partner may become aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are deficient in the context of the specific engagement. Providing such information to the firm may be relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit program provided by the firm does not deal with recently promulgated local regulatory requirements, timely communication of such information to the appropriate individuals within the firm enables the firm to take steps to update and reissue the audit program to deal with such requirements.

Other Firm Level Responses That May be Relevant to the Engagement Team (Ref: Para. 4A)

A2C. *Reference not used.*

A2D. As explained in paragraph 4A, quality at the engagement level is also informed through complying with the requirements in other ISAs. For example, the understanding of the entity and its environment required to be obtained under ISA 315 (Revised)[14] provides information that may be relevant to complying with the requirements of this ISA. For example, such information may be relevant to the determination of:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to deal with complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;

[14] ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

- The nature, timing and extent of review of the work performed by members of the team based on the number and significance of the assessed risks of material misstatement (including, in the case of group audits, work done by component auditors at different components where the risks differ); or
- The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher.

Considerations Specific to Smaller Firms (Ref: Para. 2–3)

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 engagement partner at the engagement level (i.e., given the nature and circumstances of the firm and the engagements it performs, there may be less need for firm level responses to many of the firm's quality risks). Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence would be monitored at the individual engagement level by the engagement partner.

A2F. If an audit is carried out entirely by the engagement partner, some requirements in this ISA may not be relevant because they are conditional on the involvement of other members of the engagement team. For example, the requirements relating to direction, supervision, and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

Definitions

Engagement Team (Ref: Para. 7(d))

A2G. Reference not used.

A2H. Engagement teams may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations, and may be organized in groups by activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures[15] on the audit engagement is considered to be a member of the engagement team. External experts and internal auditors providing direct assistance are not members of the engagement team. ISA 620[16] and ISA 610[17] 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 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.

A2I. Engagement teams may include individuals from service delivery centers who perform audit procedures. For example, the firm may determine that specific tasks that are repetitive or

[15] ISA 500, Audit Evidence, paragraph A10

[16] See ISA 620, paragraph 12–13

[17] See ISA 610, paragraphs 21–25

specialized in nature can be performed by a group of appropriately skilled personnel and the engagement team may therefore include such individuals. Service delivery centers may be established at the firm level, at the network level, or by another firm or group of firms from within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.

A2J. Engagement teams may include individuals from network firms or other firms to perform audit procedures, for example, procedures such as attending a physical inventory count or inspecting physical fixed assets at a remote location, or to perform work on financial information related to a component for a group audit.

A2JA. If the audit engagement is subject to an engagement quality review, that engagement quality reviewer, and individuals who assist the engagement quality reviewer in performing the engagement quality review, are not members of the engagement team.

Firm (Ref: Para. 7(e)) (*Application guidance moved and revised, previously attached to the requirements addressing relevant ethical requirements)*

A2K. The definition of "firm" in relevant ethical requirements may differ from the definition 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.

In complying with the requirements in this ISA, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

"Network" and "Network Firm" (Ref: Para. 7(i)–7(j)) (*Application guidance moved and revised, previously attached to the requirements addressing relevant ethical requirements)*

A2L. The definitions of "network" or "network firm" in relevant ethical requirements may differ from those set out in this ISA. The IESBA Code also provides guidance in relation to the terms "network" and "network firm." Networks and the firms within the network may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ISA in relation to networks apply to any structures that do not form part of the firm, but that exist within the network.

Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 8–8B)

Taking Overall Responsibility for Managing and Achieving Quality

A3–A3B. *References not used.*

A3C. The engagement partner's responsibility for managing and achieving audit quality is supported by a firm culture that promotes the conduct of quality audit engagements. Clear, consistent and effective actions, including communication, emphasize the firm's commitment to quality. The engagement partner is required to communicate to the members of the engagement team the importance of professional ethics, values and attitudes and their expected behaviors. This communication may be accomplished through direct communication to the members of the engagement team and reinforced through personal conduct and actions of the engagement partner, (e.g., leading by example). A commitment to quality is further shaped and reinforced by

the engagement team members as they demonstrate expected behaviors when performing the audit engagement.

A3D. The nature and extent of the actions of the engagement partner to reflect the firm's commitment to quality may depend on a variety factors including the size, structure, geographical dispersion and complexity of the firm, and the nature and circumstances of the audit engagement. With a smaller engagement team, with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient to reflect the firm's commitment to quality, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

Sufficient and Appropriate Involvement

A3DA. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways including:

- Taking responsibility for the nature, timing and extent of the direction and supervision of members of the engagement team, and the review of the work performed in complying with the requirements of this ISA;
- Varying the nature, timing and extent of such direction, supervision, and review, in the context of the nature and circumstances of the audit engagement.

Communication

A3E. Communication is the means through which the engagement partner and the members of the engagement team share relevant information on a timely basis in order to comply with the requirements of this ISA, thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team, or with:

(a) Personnel performing duties within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management;

(b) Others involved in the audit (e.g., an auditor's external expert or component auditor); and

(c) Parties that are external to the firm (for example, management, those charged with governance, or regulatory authorities).

A3F. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the most appropriate means of effective communication with the engagement team members. For example, in-person and more frequent interactions are likely to be a more effective way to direct and supervise less experienced team members.

Professional Skepticism

A3G. As explained in paragraph 4C, professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, the overall effectiveness of the engagement team in achieving quality at the engagement level. In some circumstances the engagement partner may need to deal with impediments to the exercise of professional skepticism at the engagement level such as:

- Tight deadlines or budget constraints may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review it;
- Lack of cooperation or undue pressures imposed by management may negatively affect the engagement team's ability to resolve complex or contentious issues;
- Insufficient emphasis on the importance of quality may undermine the exercise of professional skepticism by the engagement team.
- Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework may constrain the ability of the engagement team to make appropriate judgments and an informed challenge of management's assertions; and
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.

A3H. Unconscious or conscious auditor biases may affect the engagement team's professional judgments, including for example, the selection of an audit approach, performance of audit procedures, or evaluation of audit evidence. Examples of unconscious auditor biases that may affect the exercise of professional skepticism, and therefore the professional judgments made by the engagement partner in complying with the requirements of this ISA, include, for example:

- Availability bias, which involves considering information that is easily retrievable from memory as being more likely, more relevant, and more important for a judgment.
- Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences.
- Overconfidence bias, which involves overestimating one's own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions.
- Anchoring bias, which involves making assessments by starting from an initial numerical value and then adjusting insufficiently away from that initial value in forming a final judgment.

When an auditor exercises conscious bias in making judgments, the auditor may be in violation of relevant ethical requirements (for example, exercising conscious bias may violate the fundamental principles of integrity and objectivity in the IESBA Code).

A3I. Possible actions that the engagement partner may take to deal with impediments to the exercise of professional skepticism at the engagement level include:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the audit engagement;
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgment) and emphasizing the importance of seeking advice from more experienced

members of the engagement team in planning and performing audit procedures (see paragraph A3H);

- Changing the composition of the engagement team assigned, for example involving more experienced staff in order to obtain greater skills or knowledge or specific expertise;
- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with;
- Involving members of the engagement team with specialized skills and knowledge, or an auditor's expert to deal with complex or subjective areas of the audit;
- Modifying the nature, timing and extent of direction and supervision of engagement team members, and review of their work, for complex or subjective areas of the audit, including involving more experienced members of the team, more in-person oversight on a more frequent basis and more in-depth reviews of certain working papers;
- Setting expectations for:
    - Less experienced members of the engagement team to seek advice frequently and on a timely basis from more experienced team members or the engagement partner;
    - More experienced team members to be available to less experienced members of the engagement team throughout the audit and to respond positively and on a timely basis to their insights, requests for advice, or assistance;
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought.

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: Para. 8B)

A3J. The engagement partner is ultimately responsible and therefore accountable for managing and achieving quality on the audit engagement. However, it will generally not be possible or practical for all of the requirements in this ISA to be dealt with solely by the engagement partner (for example, due to the nature and size of the entity, or the complexity of the audit and the need for specialized skills or expertise). In managing quality at the engagement level, the engagement partner may therefore assign responsibility for procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team who assist the engagement partner in complying with the requirements of this ISA.

Relevant Ethical Requirements, Including Independence Requirements (Ref: Para. 9–10A)

Relevant Ethical Requirements

A4. The IESBA Code establishes the fundamental principles that that govern the conduct of a professional accountant, which include:

(a) Integrity;

(b) Objectivity;

(c) Professional competence and due care;

(d) Confidentiality; and

(e) Professional behavior.

The IESBA Code also establishes the approach that a professional accountant is required to apply to assist in complying with the fundamental principles, addresses specific topics relevant to complying with the fundamental principles and includes requirements for independence. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality of information. *[From ISQC 1 (Revised), para. A55]*

A4A. Based on the nature and circumstances of the audit engagement, certain relevant ethical requirements, or aspects of law or regulation, may be of significance to the audit engagement, for example:

- Long association of members of the engagement team with the entity or the audit engagement; or
- Law or regulation dealing with money laundering, corruption, or bribery.

Firms Policies or Procedures to Deal With Relevant Ethical Requirements

A4B. Reference not used.

A4C. Information and communication, and resources provided by the firm may assist the engagement partner and other members of the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement in accordance with paragraphs 9 to 10A. For example:

- Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.
- Providing training for personnel on relevant ethical requirements.
- Establishing manuals and guides, (i.e., intellectual resources), containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.
- Establishing human resources to manage and monitor compliance with relevant ethical requirements, including independence, (e.g., ISQC1 (Revised) requires that the firm obtain, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or to provide consultation on matters related to relevant ethical requirements.
- Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner, such as:
  - Communicating information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
  - Communicating circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an

acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.

- Prompt communication of any breaches of the relevant ethical requirements, including the independence requirements.

- Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence. *[From ISQC 1 (Revised), para. A56]*

A4D. Open and robust communication between the engagement partner and the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and
- Keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements (Ref: Para. 9A–9AA)

A4DA. In accordance with ISQC 1 (Revised) the firm's responses to address the quality risks in relation to relevant ethical requirements, including the independence requirements, include policies or procedures that enable the firm and its personnel to identify and evaluate threats to compliance with the relevant ethical requirements and address them appropriately. *[From ISQC 1 (Revised), para. 37(b)]*

A4DB. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be dealt with. For example, the IESBA Code explains 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.

A4DC. When matters come to the engagement partner's attention that indicate a threat to compliance with relevant ethical requirements, appropriate actions may include:

- Following the firm's policies or procedures, including communicating to the appropriate personnel within the firm.
- Eliminating the circumstances, including interests or relationships, that create the threat.
- Applying safeguards to reduce the threats to an acceptable level.
- Withdrawing from the audit engagement where withdrawal is possible under applicable law or regulation.

Actual or Suspected Breaches of Relevant Ethical Requirements (Ref: Para. 9B)

A4DD. In accordance with ISQC 1 (Revised) the firm's responses to address the quality risks in relation to relevant ethical requirements, including those pertaining to independence, include policies or procedures that address identification, communication, evaluation and reporting of breaches and actions to address the causes and consequences of the breaches. *[From ISQC 1 (Revised), para. 37(c)]*

Taking Appropriate Action (Ref: Para. 10)

A4E. Appropriate actions may include, for example:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements or noncompliance with related firm policies or procedures, including communicating to or consulting with the appropriate personnel within the firm so that appropriate action can be taken, including as applicable, disciplinary action(s);
- Communicating with those charged with governance;
- Communicating with regulatory authorities. In some circumstances, communication with regulatory authorities may be required by law or regulation;
- Seeking legal advice;
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor's Report (Ref: Para. 10A)

A4F. ISA 700 (Revised) requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.[18] Performing the procedures required by paragraphs 9–10A of this ISA provides the basis for these statements in the auditor's report.

Considerations Specific to Public Sector Entities

A5–A6. *References not used.*

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 9. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit 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. 12–13A)

A7A. ISQC 1 (Revised) requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements. *[From ISQC 1 (Revised), para. 38]*

[18] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 28(c)

A8. 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 and ethical values of the principal owners, key management and those charged with governance of the entity;
- Whether the firm has adequate and appropriate resources to perform the audit engagement;
- Whether the firm has obtained the acknowledgement of management and those charged with governance of their responsibilities in relation to the audit engagement;
- Whether the engagement team has the competence to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm and the engagement team can comply with professional standards and applicable legal and regulatory requirements;
- Whether significant matters that have arisen during the current or previous audit engagement have implications for continuing the relationship.

A8A. Under ISQC 1 (Revised), for acceptance and continuance decisions, the firm is required to make appropriate judgments about whether it will have access to information, or the persons from whom the firm determines it is necessary to obtain information, necessary to be able to perform the engagement.*[From ISQC 1 (Revised), para. 38(b)(ii)]* The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.

A8B. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner 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 engagement partner being satisfied that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A8C. *Reference not used.*

A8D. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ISA and making informed decisions about appropriate courses of action. For example:

- Information about the size, complexity, and nature of the entity, including whether it is a group audit, and the industry in which it operates;
- The entity's timetable for reporting, such as at interim and final stages;
- In relation to group audits, the nature of the control relationships between the parent and its components;
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement which may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised, and reviewed.

A8E. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs, as well as this ISA, for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by ISA 210;[3]
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA 315 (Revised) and ISA 240;[19]
- Understanding the group, its components, and their environments, in the case of an audit of group financial statements in accordance with ISA 600, and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with ISA 620; and
- The entity's governance structure in accordance with ISA 260[20] and ISA 265.[21]

A8F. *[Note to IAASB: paragraph A8F is a conforming amendment approved with the issuance of ISA 250 (Revised)]* Law, regulation, or relevant ethical requirements[22] may require the auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the audit engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code requires that the predecessor auditor, on request by a proposed successor auditor, provide all such facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.[23]

A8G. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement in complying with the requirement in paragraph 13.

A8H. If the engagement partner has concerns regarding the appropriateness of the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements, the engagement partner is required to communicate the information to the firm so that the firm and the engagement partner can take the necessary action. The engagement partner may seek to obtain a better understanding of the conclusions by discussing the basis for those conclusions with those involved in the acceptance and continuance process (if the engagement partner was not personally involved). In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement,

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19 ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

20 ISA 260, *Communication with Those Charged with Governance*

21 ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

22 See, for example, Section 320 of the IESBA Code.

23 See, for example, Section 360 of the IESBA Code.

and if so, what additional steps are necessary at the engagement level (e.g., the assignment of more staff, or staff with particular expertise). If the engagement partner has further concerns and is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

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

A9. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless the requirements and considerations for the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12–13A and A7A–A8E may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: Para. 14–14C)

A9A. Under ISQC 1 (Revised), the resources assigned, allocated, or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources

Under ISQC 1 (Revised), the firm's quality objectives are required to address appropriately obtaining, developing, using, maintaining and allocating resources, including financial resources, human resources, technological resources, and intellectual resources in a timely manner to support the design, implementation and operation of the system of quality management. *[From ISQC 1 (Revised), para. 40]* Based on the nature and circumstances of the audit engagement, and as stated in paragraph A1E above, the engagement partner may be able to depend on the firm's policies or procedures that address the quality risks related to such quality objectives when complying with the requirements in paragraph 14–14C of this ISA.

A9B. A relevant consideration for the engagement partner, in complying with the requirements in paragraph 14 and 14A, is whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles, such as professional competence and due care.

Human Resources

A9C. Human resources assigned or made available by the firm include members of the engagement team and, where applicable, external experts. In addition, as provided for by ISA 610 (Revised 2013) individuals from within the entity's internal audit function may provide direct assistance.

A10. An engagement team includes any individuals with expertise in a specialized area of accounting or auditing who perform audit procedures on the audit engagement. For example, individuals with expertise in taxation or in using automated tools to analyze complex data or to perform statistical analysis may be included on the engagement team to perform audit procedures related to complex data or involving statistical analysis.

Technological Resources

A10A. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technology may allow the auditor to more effectively and efficiently manage the audit. Technology may also allow the auditor to evaluate large amounts of data more easily in order to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional skepticism. Inappropriate use of such technological resources may however increase the risk of overreliance on the information produced for decision purposes.

A10B. The firm's policies or procedures may set forth required considerations or responsibilities for the engagement team when using firm approved technology to perform audit procedures and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.

A10C. The firm's policies or procedures may specifically prohibit the use of certain technological resources (for example, software that has not yet been specifically approved for use by the firm). In some circumstances the firm's policies or procedures may not specifically deal with the use of a specific technological resource (for example, a spreadsheet developed by the engagement team or obtained from outside the engagement team or the firm). In these cases, the engagement partner may apply professional judgment in considering whether the use of the resource on the audit engagement is appropriate in the context of the engagement, and if so, how the technological resource is to be used.

Intellectual Resources

A10D. Intellectual resources include, for example firm, network firm, or network audit methodologies, implementation tools, auditing guides, model programs, templates, checklists, or forms.

A10E. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, laws and regulations, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the audit engagement, for example, industry-specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 14)

A10F. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team by the firm, the engagement partner may be able to depend on the firm's related policies or procedures as described in paragraph A1E. Matters that the engagement partner may take into account when making such a determination are described in paragraph A1F. For example, the engagement partner may be able to depend on the firm's technological development and maintenance programs when using firm approved technology to perform audit procedures based on information provided by the firm's monitoring and remediation process.

Competence and Capabilities of the Engagement Team (Ref: Para. 14A)

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 entity being audited operates.
- Ability to exercise professional skepticism and apply professional judgment.
- Understanding of the firm's policies or procedures.

Project Management

A11A. In situations where there are many engagement team members, for example on larger, or more complex, audit engagements, the engagement partner 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 engagement team with fewer engagement team members, project management may be achieved through less formal means.

A11B. Project management techniques and tools may support the engagement partner and the other members of the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team's ability to apply professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism;
- Facilitating timely performance of audit work to more effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan,[24] including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources;
- Assisting the engagement partner in taking responsibility for the direction and supervision of engagement team members and the review of their work (see paragraph 15); or
- Coordinating arrangements with auditors of components and auditor experts;

Insufficient or Inappropriate Resources (Ref: Para. 14B)

A11C. ISQC 1 (Revised) requires that the firm's quality objectives include that the firm's strategic decisions and actions, including financial and operational priorities reflect the firm's commitment to quality and do not undermine the firm's role in consistently performing quality engagements

[24] ISA 300, paragraph 9

in the public interest. However, in certain circumstances the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team.[25] *[From ISQC 1 (Revised), para. 26(c)]* In such circumstances these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for becoming satisfied that the resources made available by the firm are sufficient and appropriate to perform the audit engagement.

A11D. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this ISA and the nature and circumstances of the audit engagement. If the engagement partner determines that the resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the audit engagement and additional or alternative resources have not been made available, the engagement partner is required to take appropriate action. In such cases, appropriate actions may include:

- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
- Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities (Ref: Para. 14–14C)

A12. In the public sector, specialized skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills 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.

Engagement Performance

Direction, Supervision and Review (Ref: Para. 15)

A12A. Under ISQC 1 (Revised), the firm is required to establish polices or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including the direction and supervision of the engagement team by more experienced engagement team members and the review by more experienced engagement team members of the work performed by less experienced team members. *[From ISQC 1 (Revised), para. 43(a)]*

A12B. Direction and supervision of the engagement team and the review of the work of the engagement team are firm level responses that are implemented at the engagement level of which the nature, timing and extent may be further tailored by the engagement partner in managing quality of the audit engagement. Accordingly, the approach to direction, supervision and review will take into account the nature and circumstances of the audit engagement and will generally include a combination of addressing the firm's policies or procedures and engagement-specific responses. The approach will vary from one audit engagement to the next.

A12C. The approach to the direction and supervision of the members of the engagement team and the review of the work performed provides support for the engagement partner in addressing the

[25] See also paragraph A4DB.

requirements in this ISA, as well as the conclusion that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 23A.

A12D. Ongoing discussion and communication among members of the engagement team allows less experienced team members to raise questions with more experienced team members (including the engagement partner) on a timely basis and enables effective direction, supervision and review in accordance with paragraph 15(c).

Direction

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

- The responsibility for all engagement team members for contributing to the management and achievement of quality at the engagement level through their personal conduct, communication, and actions.
- The importance of maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional skepticism in gathering and evaluating audit evidence (see paragraph A3l).
- Their responsibilities to fulfill relevant ethical requirements
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- Respective roles and responsibilities of the engagement team members in performing audit procedures and the roles of more experienced team members in directing, supervising and reviewing the work of less experienced team members.
- The objectives of the work to be performed and detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
- Threats to the achievement of audit quality, and the engagement team's expected response in this regard. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

Supervision

A14. *Reference not used.*

A15. Supervision includes matters such as:

- Tracking the progress of the audit engagement, which includes:
  - Monitoring the progress against the plan;
  - Monitoring whether the objective of work performed has been achieved;
  - Monitoring the ongoing adequacy of assigned resources.

- Taking appropriate action to address issues arising during the audit engagement, including for example, reassigning planned audit procedures to more experienced members of the engagement team when issues are more complex than initially anticipated.
- 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.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A16. *Reference not used.*

A17. Review of work performed provides support for the conclusion that the requirements of this ISA have been addressed.

A17A. Review of work performed consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, 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 audit procedures have been achieved.

A17B. The firm's policies or procedures may contain specific requirements regarding:

- The nature, timing and extent of review of audit documentation;
- Different types of review that may be appropriate in different situations (for example, detailed review of each individual workpaper or a high-level review of selected workpapers);
- Which members of the engagement team are required to perform the different types of review.

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

A18. The firm's policies or procedures may specify the nature, timing and extent of the engagement partner's review. As required by ISA 230, the partner documents the extent and timing of the review.[26]

A18A. Timely review by the engagement partner at appropriate stages during the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation but may do so.

A19. *Reference not used.*

A19A. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the audit engagement such as matters related to determining materiality;
- The composition of the engagement team, including:
  - Personnel using expertise in a specialized area of accounting or auditing;
  - The use of personnel from service delivery centers;
- The decision to involve an auditor's expert, including the decision to involve an external expert;
- The engagement team's consideration of risks identified through the acceptance and continuance process and proposed responses to those risks;
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team;
- The engagement team's consideration of related party relationships and transactions and disclosures;
- Results of the procedures performed by the engagement team on significant areas of the audit engagement, for example, conclusions in respect of certain estimates, accounting policies, or going concern considerations;
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom;
- In group audit situations:
  - The engagement team's proposed overall group audit strategy and group audit plan, including the identification of significant components;

[26] ISA 230, paragraph 9(c)

- Decisions about the involvement of component auditors, including how to direct and supervise their work. For example, if a component auditor is located in a jurisdiction or a firm with significant audit inspection findings, then judgments about their involvement in the audit engagement and the direction, supervision and review of their work are likely to be more significant; and
- The engagement team's evaluation of work performed by component auditors and the conclusions drawn therefrom.

- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the audit engagement; or
- The engagement team's proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

A19B. The engagement partner uses professional judgment in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement;
- Which engagement team member performed the work;
- Matters relating to recent inspection findings;
- The requirements of the firm's policies or procedures.

Nature, Timing and Extent (Ref: Para. 15)

A19C. In accordance with paragraph 15(a), the nature, timing and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm's policies or procedures. For example, the firm may require that work planned to be performed at an interim date be directed, supervised, and reviewed contemporaneously with the performance of the procedures rather than at the end of the period so that any necessary corrective action can be taken on a timely basis.

A19D. In accordance with paragraph 15, the engagement partner is responsible for the nature, timing and extent of direction and supervision of the engagement team and the review of the work performed. The engagement partner may tailor the approach to direction, supervision and review depending on, for example:

- The engagement team member's previous experience with the entity and the area to be audited. For example if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.
- The complexity of the entity, including whether there are significant events that have occurred at the entity or in the industry in which the entity operates since the previous audit engagement or during the current audit engagement.

- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of direction and supervision of engagement team members, and a more detailed review of their work.
- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced team members may require more detailed instructions and more frequent, or in person, interactions as the work is performed.
- The manner in which the engagement partner and manager reviews of work performed are expected to take place. For example, in some circumstances remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
- The structure of the engagement team, and location of engagement team members, including component auditors or where audit delivery centers are used. For example, direction and supervision of individuals located at remote audit delivery centers and the review of their work may need to be more formalized and structured than when members of the engagement team are all situated in the same location.

A19E. In accordance with paragraph 15(b), the engagement partner is required to be satisfied that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced member of the engagement team becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Consultation (Ref: Para. 18)

A19F. *Reference not used.*

A19G. ISQC 1 (Revised) requires the firm to establish policies or procedures addressing consultation, including the engagement team's responsibilities for consultation, how the conclusions should be agreed and implemented, and the matters on which to consult. Consultation may be appropriate or required, for example for: *[From ISQC 1 (Revised), para. 43(c)]*

- Issues that are complex, unfamiliar, difficult, or contentious (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
- Significant risks;
- Significant unusual transactions or entries, including those at or near the period-ends;
- Limitations imposed by management; and
- Non-compliance with law or regulation.

A20. *Reference not used.*

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.

A22A. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.[27]

Engagement Quality Review [Placeholder for additional changes to be considered based on further revisions to ISQCs]

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

A23. ISA 700 (Revised) 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.[28] If applicable to the audit engagement, ISQC 1 (Revised) requires that the engagement quality review be completed prior to dating the auditor's report. *[To coordinate with ISQC 1 (Revised)]*

A24. Completion of the engagement quality review means the completion by the engagement quality reviewer of the requirements in ISQC 2.

A25. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.

A25A. Frequent, ongoing communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.

A26–A32. *References not used.*

Differences of Opinion (Ref: Para. 22)

A32A. ISQC 1 (Revised) sets out requirements for the firm to establish policies or procedures to address differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing duties within the firm's system of quality management, including those who provide consultation. *[From ISQC 1 (Revised), para. 43(d)]*

A32B. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions include, for example:

- Considering applicable provisions in relevant ethical requirements and whether they provide direction or guidance for the engagement partner in such circumstances;
- Seeking legal advice; or

[27] ISA 701, paragraphs 9 and A15

[28] ISA 700 (Revised), paragraph 49

- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Monitoring and Remediation (Ref: Para. 23)

A33. Under ISQC 1 (Revised), the firm is required to establish quality objectives and responses that address the firm's monitoring and remediation process that support the evaluation of the design, implementation and operation of the components of the system of quality management and whether the quality objectives have been achieved. In addition, the firm is required to communicate, on a timely basis, to firm personnel, information in relation to the firm's monitoring and remediation process to the extent that it is relevant to their responsibilities Information provided by the firm may be relevant to the audit engagement when, for example, it deals with findings identified on another audit engagement done by the engagement partner or engagement team, findings from the local firm office, previous inspection results of this particular engagement or a component auditor.

A34. In considering relevant information communicated by the firm and how it may affect the audit engagement, the engagement partner may consider and communicate the remedial actions designed and implemented by the firm to deal with the deficiencies and to the extent the information or remedial actions are relevant to the nature and circumstances of the engagement. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor's expert should be used;
- The nature, timing and extent of direction, supervision, and review needs to be enhanced in an area of the audit where deficiencies have been identified.

By contrast, if the deficiency does not affect the quality of the audit (for example, if the deficiency relates to a technological resource that the engagement team did not use) then no further action may be needed.

A35. A deficiency in the firm's system of quality management 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.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 23A)

A35A. Under ISQC 1 (Revised), the firm is required to establish objectives relating to the engagement partner's overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement.

A35B. If the engagement's partner's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement partner will not be able to become satisfied about having taken overall responsibility for managing and achieving quality on the audit engagement. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:

- Reevaluate the planned approach to the nature and extent of review and modify the planned approach to increase the involvement of the engagement partner;

- Consult with firm personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 24(c))

A35C. In accordance with ISA 230,[29] audit documentation provides evidence that the audit complies with the ISAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. Documentation of the performance of the requirements of this ISA may be accomplished in different ways. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
- Minutes from meetings of the engagement team may provide evidence of the clarity, consistency, and effectiveness of the engagement partner's actions in respect of culture and expected behaviors that reflect the firm's commitment to quality;
- Notes or agendas from discussions between the engagement partner and engagement team members, and where applicable the engagement quality reviewer, and related time records, may provide evidence of the engagement partner's involvement throughout the audit; and
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the work papers were reviewed.

A35D. The exercise of professional skepticism, and the documentation of the auditor's consideration thereof, may be important when dealing with circumstances that may pose risks to achieving quality on the audit engagement. For example, if the engagement partner obtains information that would have caused the firm to decline the audit engagement (see paragraph 13A), the documentation may include explanations of how the engagement team dealt with the circumstance.

A36. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of 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.

[29] ISA 230, paragraph A7