

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 10–11, 2020

Agenda Item D

Proposed ISA 220 (Revised)¹ Cover and Report Back

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Inform Representatives on the ISA 220 Task Force's ("Task Force") activities since the September 2019 CAG meeting.
 - (b) Obtain Representatives' views on the issues paper on the draft proposed ISA 220 (Revised).
 - (c) Report back to the CAG on comments of the CAG Representatives on this project at the September 2019 CAG meeting.

Project Status and Timeline

2. The Task Force and the IAASB are working towards approval of the final standard, and its related conforming and consequential amendments, in June 2020.
3. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

IAASB Interaction with the IAASB CAG with Respect to Draft ISA 220 (Revised)

4. The substantive issues being raised for the purposes of the March 2020 IAASB meeting are included in this paper and **Agenda Items D.1–D.3**. Accordingly, this serves as the final discussion of ISA 220 (Revised) prior to its anticipated approval by the IAASB in June 2020.
5. Representatives and Observers may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of ISA 220 (Revised).

Activities of the IAASB and the ISA 220 Task Force and IAASB-IESBA Coordination

6. Since the September 2019 IAASB CAG meeting, the IAASB has further considered the matters discussed with the CAG and other matters raised by respondents to ED-220 (which were discussed at the December 2019 IAASB meeting). Those matters are highlighted in **Agenda Item D.1**.
7. At the March 2020 IAASB meeting, the IAASB will discuss the full proposed standard. **Agenda Item 2-B** of the IAASB agenda papers presents a clean version of the proposed full standard (provided to

¹ International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements*

the CAG as **Agenda Item D.3**).

8. Since the September 2019 IAASB CAG meeting, the Task Force has met twice in person and three times by teleconference and has coordinated with:
 - (a) Other IAASB Task Forces.
 - (b) IESBA Representatives, specifically on:
 - The definition of the engagement team;
 - Requirements and application material on relevant ethical requirements; and
 - Alignment of the description of biases that may affect the exercise of professional skepticism.
9. Final coordination between proposed ISA 220 (Revised) and proposed ISQM 1, ISQM 2, and draft proposed ISA 600 (Revised) will take place in the second quarter of 2020. Accordingly, there may be inconsistencies between the drafts at this time.

CAG Discussion Overview

10. For the purposes of the CAG discussion, the ISA 220 Task Force Chair will present a high-level summary of issues raised by respondents to ED-220 and coordination activities.
11. **Agenda Item D.2**, which accompanies this cover note, is the ISA 220 Issues Paper that will be presented at the March 2020 IAASB meeting
12. In navigating **Agenda Item D.2**, which is an IAASB Board paper, Representatives are requested to note the following:
 - The questions in **Agenda Item D.2** are those that will be posed to the IAASB, and therefore, Representatives are not being asked to respond to these questions. The questions that are being asked of CAG Representatives are outlined below.
 - **Agenda Item D.2** includes references to other Agenda Items that will be presented at the March 2020 IAASB meeting (e.g., the draft illustrative example). These Agenda Items have not been provided to Representatives for the purposes of the CAG discussion, but if CAG members would like to access these papers, they will be available at: <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-0>.
13. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on proposed ISA 220, including links to the relevant IAASB CAG agenda papers and minutes of meetings.
14. **Appendix B** to this paper includes extracts from the draft minutes of September 2019 IAASB CAG meeting, as well as an indication of how the Task Force or IAASB has responded to the Representatives' comments.

Matters for IAASB CAG Consideration

1. Representatives are asked for their views on the definition of an engagement team and associated application material (See paragraphs 12(d), A16–A18 and A23–A25 of **Agenda Item D.3**).
2. Representatives are asked for their views on how scalability has been addressed for entities whose nature and circumstances are more complex.
3. Representatives are asked whether there are any other matters that should be considered by the Board before finalizing ISA 220 (Revised).

Materials Presented – IAASB CAG Papers

Agenda Item D.1	Proposed ISA 220 – Presentation (PowerPoint)
Agenda Item D.2	Proposed ISA 220 (Revised) – IAASB Issues and Recommendations (IAASB Agenda Item 2)
Agenda Item D.3	Proposed ISA 220 (Revised) – Clean Draft of Proposed Standard

Appendix A

Project History

Link to IAASB Project Page: [ISA 220 Project Page](#)

The IAASB's ISA 220 Task Force comprises:

- Lyn Provost, Chair
- Josephine Jackson, IAASB Member
- Len Jui, IAASB Member (supported by Susan Jones, IAASB Technical Advisor)
- Melissa Bonsall, IAASB Technical Advisor

Summary

	IAASB CAG Meeting	IAASB Meeting
Project Commencement (Enhancing Audit Quality – encompassing Professional Skepticism, Quality Control and Group Audits)	March 2015 September 2015 September 2016	December 2014 March 2015 June 2015 September 2015 December 2015 June 2016 September 2016
Project proposal approval (combined project proposal addressing Quality Control and Group Audits)	November 2016 Teleconference	December 2016
Discussion of issues and recommendations for proposed changes to ISA 220	September 2017 (update only) March 2018 (update only)	December 2016 June 2017 August 2017 December 2017

Draft Exposure Draft of Proposed ISA 220 (Revised)	September 2018	June 2018 (first read) September 2018 (second read) December 2018 (approval of ED)
Development of Final Standard	March 2019 (update only) September 2019 March 2020	September 2019 December 2019 March 2020

IAASB CAG Discussions: Detailed References

Information gathering: Responding to Calls to Enhance Audit Quality	<p><u>March 2015</u></p> <p>See IAASB CAG meeting materials and meeting minutes (Agenda Item B and C). http://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u></p> <p>See IAASB CAG meeting materials and meeting minutes (Agenda Item F). http://www.iaasb.org/cag/meetings/new-york-usa-0</p>
Information gathering: Overview of Responses to the ITC, Group Audits and Engagement Quality Control Reviews	<p><u>September 2016</u></p> <p>See IAASB CAG meeting materials and meeting minutes (Agenda Item G). http://www.iaasb.org/cag/meetings/new-york-usa</p>
Project proposal	<p><u>November 2016</u></p> <p>See IAASB CAG meeting materials and meeting minutes (Agenda Item B). http://www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
ISA 220 issues discussion, including engagement quality reviews	<p><u>September 2017 (update only)</u></p> <p>See IAASB CAG meeting materials (Agenda Item G). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> <p><u>March 2018 (update only)</u></p> <p><u>September 2018</u></p> <p>See IAASB CAG meeting materials (Agenda Item G). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p>

ISA 220 (Revised) development of final standard	<u>September 2019</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item G) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-2
---	--

Appendix B

Report-Back on Matters Discussed at the September 2019 CAG Meeting

Extracts from the draft minutes of the September 2019 IAASB CAG meeting, as well as an indication of how the Task Force or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force/IAASB Response ²
OVERALL COMMENTS	
Mmes. Zietsman and Manabat agreed that the engagement partner remains accountable for quality on the audit overall. Ms. Zietsman also indicated that she did not support the view of some respondents that the engagement partner could share responsibility for the audit. However, she noted that on larger engagements, supervisory roles are necessary.	Ms. Provost noted these comments. Proposed ISA 220 (Revised) in Agenda Item D.3 retains the engagement partner's overall responsibility for audit quality and clearly distinguishes between requirements that are the engagement partner's sole responsibility to fulfill, and those for which certain procedures, tasks or actions may be assigned to other engagement team members to assist the engagement partner (as described further under Scalability below).
Mmes. Meng and Zietsman and Mr. Hansen did not find the analysis in Appendix 6 to Agenda Item G.1 to be helpful because it may have unintended consequences and could be confusing. Ms. Zietsman noted that the references to 'assistance from other audit team members' could be read as implying that the engagement partner's responsibility for achieving audit quality is alleviated. She and Mr. Hansen agreed that the engagement partner retains overall responsibility for quality on the audit, and must be involved in cases when procedures, tasks or actions are assigned to other engagement team members to assist the partner in fulfilling the requirements in ED-220. In addition, there are certain actions the partner needs to take without assistance from engagement team members.	Ms. Provost noted Representatives' concerns with Appendix 6 and that the appendix was not intended to imply that the engagement partner did not remain responsible when certain procedures, tasks or actions were assigned to other engagement team members. The Task Force has emphasized the engagement partner's overall responsibility for quality in the changes proposed on the assignment of tasks (formerly Appendix 6).

² Where applicable, references have been updated to align with **Agenda Item D.3**.

Representatives' Comments	Task Force/IAASB Response ²
Mr. Yurdakul asked which partner is to be held responsible if there is more than one partner on the engagement team as this matter is not addressed in ED-220. He questioned if it would be the senior partner.	Point noted. In paragraph 12(a) of Agenda Item D.3 , the engagement partner is defined and in paragraph 13 it has been made clear that the engagement partner has overall responsibility for achieving quality on the engagement, including in cases when there is more than one “partner” on the engagement team. The Task Force has developed a draft illustrative example to show that the requirements are achievable in audits of entities whose nature and circumstances are more complex.
Ms. Zietsman expressed support for the proposed changes to paragraph 13.	Support noted.
ENGAGEMENT TEAM DEFINITION	
Mr. Thompson and Ms. McGeachy questioned how the definition works practically in group audits and would link with ISA 600, ³ particularly the direction and supervision of the work of component auditors.	Point noted. The ISA 220 Task Force has worked closely with the ISA 600 Task Force to clarify expectations regarding the direction and supervision of component auditors and the review of their work.
Mr. Thompson noted that the definition in ED-220 may lead to an unintended consequence that all group audits would be done within a network. He questioned whether that outcome would enhance audit quality. Ms. Zietsman indicated that it was not practically possible for many audits to be done by a single network only because of mandatory rotation rules in different jurisdictions.	The Task Force agreed with Ms. Zietsman and does not believe that it is likely that audits will be conducted by a single network. This is because rotation rules differ between jurisdictions, and so it would be difficult for large audits to be conducted solely by a single firm.
Ms. McGeachy questioned how the definition takes account of engagement teams with members operating in different jurisdictions that have different independence requirements, and how such differences would be resolved.	Proposed ISA 220 (Revised) now contains additional guidance that addresses the relevant ethical requirements, including independence (see paragraphs A23–A25 of Agenda Item D.3). In addition, as a result of the coordination with

³ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Representatives' Comments	Task Force/IAASB Response ²
	IESBA, IESBA is presenting a project proposal at its March 2020 meeting addressing the independence requirements of component auditors.
<p>Ms. Zietsman noted that the definition in ED-220 is consistent with the PCAOB's work related to supervision of the work of other auditors. She stressed the importance of retaining the fundamental premise that the engagement partner has overall responsibility for quality on the audit.</p> <p>She also indicated that it is possible to reconcile different ethical requirements for different engagement team members; noting that the IESBA Code of Ethics for Professional Accountants (IESBA Code) allows for variations for different members.</p>	Support noted.
<p>Ms. Zietsman noted that the ISAs are intended to be principles-based standards. Mr. Thompson noted that large engagement teams cannot be managed by a single person. Messrs. Dalkin and Thompson noted that delegation of work to other engagement team members does not mean that the engagement partner is no longer responsible for complying with the requirement.</p>	<p>Ms. Provost agreed with Ms. Zietsman and noted that there is a balance required between the procedures, tasks and actions related to the requirements the engagement partner must fulfil personally and those that could be assigned. She stressed, however, that the fundamental principle that the engagement partner cannot delegate responsibility for managing and achieving quality on the audit.</p> <p>As described under Scalability, the IAASB supported the task force proposals for clarifying the requirements for which the engagement partner retains sole responsibility, and those where assignment of procedures, tasks or actions to other engagement team members is permitted.</p>
<p>Ms. Zietsman did not support including the alternative in Appendix 7, i.e. to move the engagement team definition to ISA 600. She noted that the revisions to the engagement team definition proposed in ED-220 were intended to address evolving structures of engagement teams that include shared service</p>	Point accepted. The IAASB agreed that the definition should be retained in proposed ISA 220 (Revised).

Representatives' Comments	Task Force/IAASB Response ²
<p>centers and any others performing audit procedures, and not just component auditors. She highlighted that ISA 600 deals with group audits, rather than all other auditors involved in the audit, so it would be difficult to fit these evolving audit delivery models into ISA 600. She also noted that coordination with IESBA was important but that the IAASB should not depart from the original intent of the revision to the definition.</p>	
SCALABILITY	
<p>Messrs. Dalkin and Hansen noted the importance of appropriate delegation, i.e., putting the right people in right places to perform the work, to scalability of the audit process.</p>	<p>Point accepted. Ms. Provost noted the Representatives' comments on the need to achieve a balance between delegation and retaining overall responsibility by the engagement partner.</p> <p>As noted above, the Task Force has clarified, the requirements for which the engagement partner has sole responsibility to fulfill, and those for which certain procedures, tasks or actions may be assigned to other engagement team members to assist the engagement partner.</p>
<p>Mr. Dalkin noted the importance of retaining a principles-based approach. While he noted that respondents to ED-220 did not identify length and complexity as a concern, he cautioned that a prescriptive approach could lead to increased length and complexity.</p>	<p>Point accepted. Ms. Provost agreed with the need to strike a balance between principle and practice in finalizing the proposed standard.</p>
OTHER MATTERS	
<p>Mr. Thompson questioned what changes would be required to extant ISA 600 during the period when ISA 600 is exposed for public comment and ISA 220 (Revised) is approved.</p>	<p>Point noted. Ms. Provost indicated that the Chair of the ISA 600 Task Force is also a member of the ISA 220 Task Force.</p> <p>She also noted that conforming changes would be required to extant ISA 600 and that the ISA 220 Task Force was also considering developing implementation guidance on the practical considerations.</p>

Representatives' Comments	Task Force/IAASB Response ²
Mr. Hansen questioned whether the engagement quality reviewer was part of the revisions to ISA 220.	Ms. Provost responded that the requirements for engagement quality reviews were being addressed in proposed ISQM 2, ⁴ and that there were certain matters of coordination between the ISA 220 and ISQM 2 Task Forces. See Agenda Item G .
PIOB COMMENTS	
Ms. Pettersson noted that the engagement partner's overall responsibility for quality on the engagement is important, but timeliness of the engagement partner's involvement throughout the audit is equally important.	Point accepted. Proposed ISA 220 (Revised) highlights the importance of the timing of the engagement partner's involvement (see paragraphs 30 and A77 of Agenda Item D.3).

⁴ Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*