

Basis for Conclusions
Prepared by the Staff of the IAASB
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International Standard on Auditing (ISA) 220
(Revised)

Quality Management for an Audit of Financial Statements

IAASB

**International Auditing
and Assurance
Standards Board**

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BASIS FOR CONCLUSIONS: ISA 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

The Staff of the International Auditing and Assurance Standards Board (IAASB) has prepared this Basis for Conclusions. It relates to, but does not form part of, ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, or the conforming and consequential amendments to other ISAs.

ISA 220 (Revised) was approved with affirmative votes of 17 out of 18 IAASB members, and the conforming and consequential amendments to other ISAs were approved with the affirmative votes of 18 out of 18 IAASB members.¹

Section A – Introduction

Background

1. The project to address quality management at the engagement level originated from the [ISA Implementation Monitoring project](#) that identified specific issues with the quality management standards. In relation to ISA 220, the issues were focused on how the standard dealt with professional skepticism and the role of engagement quality reviews. The [Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits](#) (the ITC) noted that ISA 220 could be revised to cater for a more proactive, scalable and robust approach to audit quality at the engagement level. The input from the ITC informed the development of the project proposal.
2. In December 2016, the IAASB approved a combined project proposal² to address the revision of ISQC 1, ISA 220 and ISA 600.³ The project proposal combined the topics of quality control and group audits due to the interaction of the issues affecting these standards, while the timing of the projects took into account the degree of interactions between the various projects of the IAASB.
3. The project objectives were to:
 - (a) Propose revisions to:
 - (i) ISQC 1 to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards by more explicitly incorporating a quality management approach, fostering the ability of the standard to be applied to a wide range of circumstances, and enhancing the requirements and application material.
 - (ii) ISA 220 to strengthen aspects of quality management for individual engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.
 - (iii) ISA 600 to strengthen the auditor's approach to planning and performance of a group audit and clarify the interaction of ISA 600 to the other ISAs.

¹ For a full record of the voting on ISA 220 (Revised), including the rationale of the IAASB members who voted against the standard and who abstained from the vote, see [this link](#).

² [Enhancing Audit Quality: Project Proposal for the Revision of the IAASB's International Standards Relating to Quality Control and Group Audits](#) (the Project Proposal)

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

As the projects proceeded, consideration was to be given as to how best to structure the resulting revised standards, including possibly introducing new standards to deal with certain aspects if appropriate.

- (b) Propose consequential amendments to other standards that may be necessary as a result of revisions to ISQC 1, ISA 220 and ISA 600.
- (c) Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement the revisions or new standard(s). Non-authoritative guidance and support tools may include IAPNs, Staff publications, project updates, or illustrations / examples to provide assistance on how ISQC 1, ISA 220, ISA 600 and any new standards could be applied, in particular to address concerns regarding the ability of the standards to be applied to a wide range of circumstances.

Exposure Draft

- 4. At its December 2018 meeting, the IAASB approved three quality management exposure drafts for public comment: [ED-ISQM 1](#),⁴ [ED-ISQM 2](#)⁵ and [ED-220](#).⁶ The exposure drafts were issued in early February 2019 and closed for comment on July 1, 2019. In total, 92 comment letters were received on ED-220.
- 5. In addition to the quality management exposure drafts, an [overall explanatory memorandum](#) provided background to the three exposure drafts and an explanation of the significant issues pervasive to the three exposure drafts, including a discussion of scalability and the interrelationship of the three proposed standards. It also set out the IAASB’s proposals regarding the effective date and the related implementation period for the three proposed standards, as well as the IAASB’s planned implementation support activities.
- 6. During the exposure period, the IAASB undertook various outreach activities to help stakeholders understand the proposals, including webinars, videos, and roundtables with groups that do not traditionally respond to IAASB pronouncements and presentations.

Public Interest Issues

- 7. The table below shows the public interest issues identified by the IAASB in the project proposal in relation to ISA 220 (Revised) and the subsequent decisions made in the development of the standard. The decisions took into account the comments received in response to ED-220. Paragraph references in this table are to ISA 220 (Revised).

Public Interest Issues	IAASB Decisions
	The IAASB responded by:
<i>Fostering an appropriately independent and challenging skeptical mindset of the auditor—professional skepticism is a fundamental concept and core to audit quality.</i>	<ul style="list-style-type: none"> • Including new introductory material and application material on the importance of the use of professional skepticism and professional judgment in performing audit engagements (see

⁴ Proposed ISQM 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements* (ED-ISQM 1)

⁵ Proposed ISQM 2, *Engagement Quality Reviews* (ED-ISQM 2)

⁶ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* (ED-ISA 220)

BASIS FOR CONCLUSIONS: ISA 220, INCLUDING RELATED
CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER INTERNATIONAL STANDARDS

<p>These projects will further consider how the standards can articulate the requirements for auditors, especially engagement partners, to appropriately demonstrate the application of professional skepticism in carrying out the audit and also how the standards can address the firm’s contribution to fostering the appropriate environment for effective application of professional skepticism.</p>	<p>paragraphs 7 and A33–A36 of ISA 220 (Revised)). The IAASB also included guidance on impediments to the exercise of professional skepticism and unconscious biases that may affect judgments (see paragraphs A33–A36 of ISA 220 (Revised)). In response to comments, the IAASB also expanded the list of unconscious biases to align with the biases used in the IESBA Code.⁷</p> <ul style="list-style-type: none"> • Including a stand-back provision that requires the engagement partner to determine whether the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement (see paragraphs 40 and A113–A116 of ISA 220 (Revised)).
<p><i>Enhancing documentation of the auditor’s judgments</i>—these projects will consider how auditors can more appropriately demonstrate their decision-making process, essential interactions and communications, to support the auditors’ judgments and audit opinion overall.</p>	<ul style="list-style-type: none"> • Providing guidance on how the engagement partner’s involvement in the audit could be evidenced and emphasizing the documentation of the auditor’s consideration of judgmental matters such as circumstances that may pose risks to achieving quality on the audit engagement (see paragraphs A118–A119 of ISA 220 (Revised)). • Better explaining the audit documentation that needs to be reviewed by the engagement partner (see paragraphs 31 and A92 of ISA 220 (Revised)).
<p><i>Keeping the ISAs fit for purpose</i>—as the standards are revised, consideration will be given to how the standards can, and continue to, be robust and adaptable to a wide range of circumstances in an evolving and increasingly complex environment.</p>	<ul style="list-style-type: none"> • Recognizing, via an amended definition of an engagement team, that engagement teams now include individuals such as individuals working in a service delivery center, i.e. not only “partners and staff” (see paragraph 12(d) of ISA 220 (Revised) and Section E below). • Requiring that all members of the engagement team—however they are employed or engaged—be subject to direction, supervision and review (see paragraphs 29-30 of ISA 220 (Revised)). Application material provides guidance on how to apply ISA 220’s definitions and requirements in a variety of circumstances, including with regard to component auditors from a network firm or other firm, service delivery centers, and

⁷ The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

	<p>how the firm’s policies or procedures relate to engagement team members from another firm (see paragraphs A15–A27 of ISA 220 (Revised)).</p> <ul style="list-style-type: none"> • Highlighting the growing role of technology in audits of financial statements. The requirements in the Resources section have been enhanced and cover not only the human resources involved in an audit engagement, but also the technological and intellectual resources (see paragraphs 25 and A59–A72 of ISA 220 (Revised) and Section G below).
<p><i>Encouraging proactive management of quality at the firm and engagement level</i>—consideration will be given to how the quality control standards, ISQC 1 and ISA 220, can encourage effective management of quality in the context of the firm and engagement that is fostered by proactive firm leadership and management, reinforced by a firm’s culture and strategy.</p>	<ul style="list-style-type: none"> • Noting that ISA 220 (Revised) is designed to operate as part of the firm’s system of quality management established in ISQM 1, and therefore takes into account the interaction of the firm’s system of quality management. • Replacing the introductory material in extant ISA 220 that ‘engagement teams are entitled to rely on the firm’s system of quality control, unless information provided by the firm or other parties suggests otherwise with application material that explains that, ordinarily, the engagement partner may “depend on the firm’s policies or procedures” in complying with the requirements of ISA 220 (Revised) (see paragraph A10 of ISA 220 (Revised)). This approach avoids the risk that the engagement team blindly relies on the firm’s system of quality management without taking into account whether the firm’s quality management policies or procedures are “fit-for-purpose” in the specific circumstances of the engagement (see also Section F below). • Including enhancements to take into account that firm policies or procedures may need to be actioned in a different manner when the engagement team includes members from another firm (see paragraphs A23–A25 of ISA 220 (Revised)). • Clarifying the engagement partner’s leadership role and overall responsibility for managing and achieving quality on the audit engagement (see paragraph 13 of ISA 220 (Revised)). In addition, including differential language for when a requirement is intended to be fulfilled by the

	engagement partner and when the engagement partner is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team (see paragraph 9 of ISA 220 (Revised) and Section C below).
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Section B – Scalability

Background

8. The IAASB intended that ED-220 be applied by firms of all sizes and circumstances and be scalable based on the nature and circumstances of the audit engagement. The Explanatory Memorandum of ED-220 listed paragraphs that highlight how the proposed ISA can be applied in the different circumstances. In addition, the IAASB is developing support materials to show how certain aspects of proposed ISA 220 (Revised) and ISQM 1 can be applied together in a scalable manner in smaller firms.

Summary of Comments Received on Exposure

9. Respondents generally supported the scalability of ED-220 with respect to audits of Less Complex Entities (LCEs). It was noted, for example, that ED-220 clarified that the engagement partner applies professional judgment in addressing the requirements in light of the nature and circumstances of the audit engagement. Therefore, ED-220 is adaptable to audits of different sizes and complexity. It was also noted that ED-220 appropriately took into account different structures of engagement resources or Audit Delivery Models (ADMs).
10. Respondents sought guidance on how to apply the requirements to large, more complex audit engagements. Specific comments related to the engagement partner's role and overall responsibility for managing quality on an audit engagement are discussed in Section C; direction, supervision and review in Section D, and the engagement team definition in Section E.

IAASB Decisions

11. The IAASB noted that many respondents supported the scalability of ED-220 for LCEs, but also agreed that more could be done to enhance scalability for audits of larger, more complex entities with some adjustments for audits of LCEs.
12. As noted in Section C, the IAASB reviewed each of the requirements in ED-220 and determined which ones must be performed by the engagement partner, and those requirements for which procedures, tasks or actions related to the requirement could be assigned to other members of the engagement team to assist the engagement partner in complying with the requirement.
13. The IAASB also noted that ISA 220 (Revised) should establish broad principles that would be applicable for group audits, but that the specific requirements and guidance on group audits needs to be addressed via the [project to revise ISA 600](#).
14. The IAASB also clarified that, in smaller firms, the firm's policies or procedures may designate an engagement partner, on behalf of the firm, to design many of the responses to the firm's quality risks,

as doing so may be a more effective approach to designing and implementing responses as part of the firm's system of quality management (see paragraph A13 of ISA 220 (Revised)).

15. To make clear that ISA 220 (Revised) is intended to be applied in a scalable manner, the IAASB included introductory material on scalability that explains the IAASB's intentions when an audit is carried out entirely by the engagement partner and when an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex (see paragraph 8 of ISA 220 (Revised)).

Section C – The Engagement Partner's Role and Overall Responsibility for Managing Quality on an Audit Engagement

Background

16. The ITC highlighted concerns expressed by regulators and audit oversight bodies about how an engagement team addresses requirements for retaining responsibility for the direction, supervision, performance and review of the work performed under different ADMs. It recognized the evolving nature of these arrangements and the potential need to clarify that the engagement partner retains responsibility for managing and achieving quality at the engagement level, regardless of who performs the work and where it is performed. Accordingly, ED-220 emphasized the importance of the engagement partner taking overall responsibility for managing and achieving audit quality.
17. In ED-220, the IAASB focused on the importance of the engagement partner being sufficiently and appropriately involved throughout the engagement. This is fundamental to providing the engagement leadership required to achieve high quality audits and, therefore, to meeting the objective of ISA 220. The engagement partner's overall responsibility to manage and achieve quality on the engagement is demonstrated through sufficient and appropriate involvement throughout the engagement, such that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the audit. This overall responsibility includes fulfilling leadership responsibilities, supporting engagement performance (including taking responsibility for the nature, timing and extent of direction, supervision and review of the work performed) and standing back to determine whether the engagement partner has taken overall responsibility for managing and achieving quality.

Summary of Comments Received on Exposure

18. There was overall support for the IAASB's focus on the engagement partner's role and the related proposals in ED-220. In particular respondents noted that the proposals were an improvement from extant ISA 220. However, respondents also noted that there should be more prominence given to the public interest and professional skepticism in managing the quality of audits, that further clarity is required over what procedures the engagement partner cannot assign to others and how the proposals would work for large and complex engagements.
19. Of particular concern to some respondents was the practicality of the requirements that are to be performed by the engagement partner, particularly paragraph 13 of ED-220 that covered circumstances when the engagement partner assigns procedures, tasks or actions to other members of the engagement team. Respondents agreed with the principle but noted that the IAASB needed to be clearer on how the engagement partner may assign certain procedures, tasks or actions related to specific requirements to other members of the engagement team to assist the engagement partner

in complying with the specific requirement. Respondents also called for clarity on which requirements needed to be performed by the engagement partner alone.

IAASB Decisions

20. The IAASB noted the overall support and decided to continue with the fundamental principle that the engagement partner is responsible for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement.
21. The IAASB also noted that many of the comments appeared to indicate that paragraph 13 of ED-220 was not well understood and that it may lead to inconsistent practice. In addition, the IAASB noted the comments about the engagement partner's ability to take overall responsibility for audit quality may be challenging in larger, more complex engagements. The IAASB also noted that, to be consistent with the fundamental principle, certain requirements must be performed by the engagement partner personally while for other requirements the design or performance of procedures, tasks or actions may be assigned to appropriately skilled or suitably experienced members of the engagement team.
22. Accordingly, the IAASB clarified the requirement about assigning procedures, tasks and actions (see paragraph 15 of ISA 220 (Revised)). The IAASB also believed that the language of the requirements should signal whether the engagement partner needs to perform the requirement alone. Accordingly, the IAASB amended certain requirements to use the phrase "the engagement partner shall take responsibility for..." for those requirements that the engagement partner is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For other requirements, the IAASB intends that the requirement or responsibility be fulfilled by the engagement partner while recognizing that in order for the engagement partner to do so, they may need to obtain information from the firm or other members of the engagement team (see paragraphs 9 and A22 of ISA 220 (Revised)).
23. The IAASB also provided guidance on how the engagement partner may demonstrate that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team by the engagement partner (see paragraph A37 of ISA 220 (Revised)).
24. The IAASB also considered whether the responsibilities of the engagement partner were appropriate in light of the responsibilities specified for the engagement quality reviewer in ISQM 2. The IAASB noted that the requirements for an engagement partner go much further because the ISAs are directed at "the auditor", the definition of which includes the engagement partner.

Section D – Direction, Supervision and Review

Background

25. The ITC recognized the potential need to clarify that the engagement partner retains responsibility for the direction, supervision, performance and review of the work performed, regardless of who performs the work and where it is performed.
26. In ED-220, the requirements and application material on direction, supervision and review were strengthened and included greater specificity on how the engagement partner needs to be involved. In addition, the revised requirements included linkages with other requirements in ED-220, such as

the requirements on engagement resources and with other ISAs such as ISA 230.⁸ The proposed standard also included new guidance on these requirements, including guidance on matters that may constitute a significant judgment, and which matters therefore need to be reviewed by the engagement partner.

Summary of Comments Received on Exposure

27. Many respondents supported the revised requirements on direction, supervision and review. Respondents variously commented that the requirements were more specific as to the meaning of direction, supervision and review and as to the audit documentation that the engagement partner is required to review. It was also noted that the enhanced requirements for the engagement partner to review audit documentation at appropriate points in time during the audit engagement will support the performance of a quality audit. Further, the application material on how an engagement partner can provide direction and supervision of engagement teams and review of their work will be helpful to the implementation of the requirements of ED-220.
28. Critical comments included the practical implications of applying the direction, supervision, and review requirements in the context of the proposed change to the engagement team definition (see Section E). Of particular concern was how the engagement partner in a group audit could conduct direction, supervision, and review over a large, dispersed team involving component auditors. Concerns also included whether ISA 220 should require engagement partners to set out their planned level of direction, supervision and review. There were also requests for clarification on whether the requirement for the engagement partner to review written communications applied to the communications issued as part of the statutory audit at the component level.

IAASB Decisions

29. The IAASB noted the support for the proposals and the interrelationship of the critical comments on direction, supervision and review with Sections B and C above with regard to the practicality of the proposals when dealing with large, complex audits. The IAASB Decisions in Sections B and C are also relevant to this section.
30. The IAASB, using the framework for assigning responsibilities described in paragraph 22 above, noted that the requirements for direction, supervision and review should be separated into those that the engagement partner takes responsibility for and those that the engagement partner must perform directly. This resulted in the engagement partner needing to “take responsibility for” the direction and supervision of the members of the engagement team and the review of their work – which can be accomplished through assigning relevant tasks or actions to other members of the engagement team, such as a partner responsible for a component audit. By contrast, the engagement partner is required to determine that the nature, timing and extent of direction, supervision and review is planned and performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements and is responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm (see paragraphs 29–30 and A80 of ISA 220 (Revised)).
31. In providing application material to support the definition of an engagement team, the IAASB included guidance on implementing the firm’s policies or procedures that are applicable to the audit engagement when some of the engagement team members are from another firm. Paragraph A23–

⁸ ISA 230, *Audit Documentation*

A24 of ISA 220 (Revised) provides an example regarding how this would affect direction, supervision and review.

32. The IAASB also agreed that:

- A conforming amendment should be made to ISA 300⁹ to require the auditor to include their planned level of direction, supervision and review in the audit plan (see paragraph 9(a) of the conforming amendments to ISA 300).
- Professional judgment is needed to determine which written communications should be reviewed (see paragraphs 34 and A98 of ISA 220 (Revised)).
- The application material should explain that changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of direction, supervision or review (see paragraph A96 of ISA 220 (Revised)).

Section E – The “Engagement Team” Definition

Background

33. In ED-220, the IAASB proposed changing the definition of the engagement team to recognize different and evolving engagement team structures to address the concerns identified in the ITC and the project proposal. Importantly, the proposed change in the definition recognized that, regardless of the location or employment status of such individuals, if they are performing audit procedures, then they need to be independent for purposes of the audit engagement (and when relevant, the group audit engagement) and their work needs to be appropriately directed, supervised and reviewed. The change in the definition also allows the engagement partner in a group audit to appropriately respond to the proposed requirements in ED-220 regarding determining that the engagement team (including component auditors, if any) has been made aware of relevant ethical requirements and matters related to the engagement team’s compliance with relevant ethical requirements, including independence.
34. The Explanatory Memorandum (EM) accompanying ED-220 asked respondents to comment on whether ED-220 deals adequately with the modern auditing environment, including the use of different ADMs and technology. In ED-220, the IAASB recognized that engagement teams may be organized in a variety of ways including being located together or across different geographic locations or organized by the activity they are performing. The IAASB also recognized that individuals who are involved in the audit engagement may not necessarily be engaged or employed directly by the firm. As a consequence, the IAASB proposed amendments to the definition of the engagement team to recognize different and evolving engagement team structures. The change recognized that if they are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed—regardless of the location or employment status of such individuals.

Summary of Comments Received on Exposure

35. Respondents expressed mixed views on the change in the definition of an engagement team.
36. Certain respondents were supportive, noting that the proposed revised definition serves the public interest—regardless of who performs the audit procedures or where the work is performed all individuals who perform audit procedures should be subject to the same independence requirements

⁹ ISA 300, *Planning an Audit of Financial Statements*

and direction, supervision and review by the engagement partner. Other respondents were also supportive, noting that the change appropriately recognizes an evolving auditing environment while maintaining an emphasis on the attributes of a high-quality audit.

37. Certain respondents did not agree that component auditors should be part of the engagement team. Other respondents raised practical concerns related to the definition in relation to the role of the engagement partner and other members of the engagement team (see also Section C) and direction, supervision and review (see also Section D). These issues are closely linked to the engagement team definition.
38. It was also noted that some issues related to the definition required clarification, including:
- The relationship with the IESBA Code (the IESBA Code does not currently address the independence requirements applicable to component auditors that are outside the group auditor's network).
 - Whether component auditors are subject to the same policies or procedures that apply to firm personnel.
 - The meaning of "performs audit procedures."

IAASB Decisions

39. The IAASB noted that respondents from many stakeholder groups expressed support for the proposed revised definition, as well as the calls for clarifications around practical challenges. The IAASB noted that some of the practical challenges identified by respondents could be overcome by the revisions to other aspects of ED-220 regarding the scalability of the standard (see Section B), the role of the engagement partner (see Section C), and direction, supervision and review (see Section D). The IAASB decided that the engagement team definition in ED-220 should be retained and supported the premise of ED-220 that, regardless of where individuals are located, or how they are related to the firm, if they are performing audit procedures then they are to be appropriately directed and supervised and their work reviewed in accordance with ISA 220 (Revised). The IAASB also noted that minor changes to the definition would improve readability while additional guidance would also help implement the revised definition in practice.

Liaison Activities

40. Recognizing that the definition of the engagement team touches on important relationships, the IAASB:
- Recognized the importance of close coordination with the IESBA. Regular meetings occurred throughout the post-comment period. In response to the IAASB's proposals regarding the definition of an engagement team, the IESBA has launched a [project](#) on the implications for the IESBA Code.
 - Maintained full coordination with the project to revise ISA 600, including through joint membership of the task forces. The ISA 600 Task Force will consider the need for further guidance on the practical challenges respondents identified in relation to group audits.

Changes in Response to Comments

41. The IAASB made the following changes in response to comments:

- The definition was simplified and streamlined to improve readability (see paragraph 12(d) of ISA 220 (Revised));
- Application material was provided on:
 - What it means to “perform audit procedures” and links were provided to ISA 500¹⁰ (see paragraph A16 of ISA 220 (Revised));
 - The possible sources of members of the engagement team (that is, from the firm, from a network firm, or from a firm that is not a network firm, or another service provider) (see paragraph A17 of ISA 220 (Revised)). Importantly, this paragraph included an example that makes clear that a component auditor is a member of the engagement team;
 - How the engagement partner can use other members of the engagement team in fulfilling the requirements of ISA 220 (Revised) (see paragraph A22 of ISA 220 (Revised)); and
 - How the firm’s policies or procedures may differ when members of the engagement team are from another firm, such as may occur in a group audit situation (see paragraphs A23–A25 of ISA 220 (Revised)) and that the engagement team members from the firm are responsible for implementation of the firm’s policies or procedures.

Section F – When the Engagement Partner May Depend on the Firm’s System of Quality Management

Background

42. Extant ISA 220 noted that engagement teams are entitled to rely on the firm’s system of quality control, unless information provided by the firm or other parties suggests otherwise. In ED-220, the IAASB proposed removing this material, and replacing it with application material that explains that in certain circumstances, the engagement partner may “depend on the firm’s policies or procedures” in complying with the requirements of ED-220. This approach was intended to avoid the risk that the engagement team blindly relies on the firm’s system of quality management without taking into account whether the firm’s quality management policies or procedures are “fit-for-purpose” in the specific circumstances of the engagement. To assist the engagement partner in making the determination as to whether, and the degree to which, the engagement team may depend on the firm’s policies or procedures, the IAASB also proposed application material that provides examples of matters that the engagement partner may take into account when determining whether it is appropriate to depend on the firm’s policies or procedures.

Summary of Comments Received on Exposure

43. Overall, there was support for the proposals. In particular, it was noted that the proposed change will assist the engagement partner when determining whether the firm’s policies or procedures are appropriate in the specific circumstances of the engagement. It was also noted that it would not be appropriate to “blindly rely” on the firm’s system of quality management and that the change will prompt the engagement partner to determine whether, and if so, the degree to which, the engagement team may depend on the firm’s policies or procedures.

¹⁰ ISA 500, *Audit Evidence*

44. There were also suggestions that the situations where an engagement team can rely on the firm's policies or procedures should be more clearly articulated in the standard, as well as the necessary steps preceding the reliance.
45. In relation to group audits, some respondents made observations on whether the group engagement team should have regard to the quality management processes of the component auditor. It was also noted the group auditor may not consider themselves responsible for quality management throughout the group audit due to the reliance on the network's requirements regarding quality management that include the component auditor's firm.

IAASB Decisions

46. The IAASB noted that it was not intended that reliance cannot be placed, but that factors need to be taken into account in determining whether, and if so, the degree to which, the engagement team may depend on the firm's system of quality management. The IAASB agreed with respondents who asked for clarity on what the engagement partner needs to do to depend on the firm's system of quality management.
47. Accordingly, the IAASB clarified that, ordinarily, the engagement partner may depend on the firm's policies or procedures, unless the engagement partner's understanding or experience indicates that the firm's policies or procedures would not be effective or when information provided by the firm or others indicates that the firm's policies or procedures are not operating effectively.
48. The IAASB noted that the improvements made to ISQM 1 in relation to networks and network firms, and service providers would address these concerns in the context of the firm's responsibilities to implement network requirements or use network services, and the firm's policies or procedures focused on resources from service providers. At the engagement level, this is closely related to the application of the definition of engagement team (see paragraphs 12(d) and A15–A25 of ISA 220 (Revised)) and the requirements for engagement resources (see paragraphs 25–28 and related application material in ISA 220 (Revised)). The IAASB also noted that ISA 220 (Revised) is an overarching standard and that the project to revise ISA 600 would deal with the special considerations for group audits.

Section G – Resources

Background

49. Extant ISA 220 contained requirements and guidance about the assignment of the engagement team but does not otherwise address the engagement level resources. In paragraph 78 of the ITC, it was noted that extant ISA 220 does not explicitly address the need for the engagement partner to be satisfied that sufficient time and resources are available to the engagement team such that it will be possible to perform the necessary work to obtain sufficient appropriate audit evidence before the reporting deadline.
50. Consistent with the approach taken in ED-ISQM 1, ED-220 addressed this gap through a new section on human, technological and intellectual resources. This new section noted that the engagement partner is responsible for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and for taking appropriate action when insufficient or inappropriate resources are provided by the firm, among other matters. New application material describes how human, technological, and intellectual resources may be used to support the performance of audit

engagements, how project management skills can assist in managing the quality of the audit engagement, and the appropriate actions if the engagement partner determines that the resources are insufficient or inappropriate.

Summary of Comments Received on Exposure

51. In regard to engagement resources, most respondents focused on how ED-220 addressed technology. Respondents noted that the nature and extent of guidance throughout ED-220 was appropriate, while other respondents believed that ED-220 did not go far enough in addressing “disruptive technologies” and that it was important for any material to be principles based. Respondents also noted the need for additional factors that an engagement partner may take into account in determining whether a particular technological resource is appropriate for use in the audit.

IAASB Decisions

52. The IAASB agreed with the need to remain principles based so the material on technological resources would not become outdated and that additional guidance might be better provided outside of ISA 220 (Revised). The IAASB noted that the balance between respondents supporting the material on technological resources and those asking for more guidance indicated that an appropriate balance had been achieved overall. However, in response to the specific requests, the IAASB included additional application material on:
- The use of technological tools by engagement team members from another firm (see paragraph A65 of ISA 220 (Revised)); and
 - Actions that need to be taken by the engagement team when using IT applications that are not firm-approved (see paragraphs A66–A67 of ISA 220 (Revised)).
53. The IAASB, through the work of the Audit Evidence Working Group and the Technology Working Group, may consider the need for implementation guidance (e.g., specific examples or FAQs) on the use of audit delivery models and technology, including whether their use is “performing audit procedures.”

The Assignment of Resources

54. The IAASB noted that some of the concerns about scalability (see Section B) also related to the wording of a requirement in the engagement resources section that referred to sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm. The IAASB noted that in a group audit, for example when component management has engaged an auditor for its statutory accounts and the group engagement team requests that auditor to also perform audit procedures on the component for the purposes of the audit of the group financial statements, the component auditor is not directly “assigned or made available...by the firm.”
55. The Task Forces responsible for the revisions of ISA 220, ISQM 1 and ISA 600 cooperated to develop a response (see also Section G of the ISQM 1 Basis for Conclusions). The IAASB concluded that ISA 220 (Revised) should recognize that although the firm may not directly assign component auditors to the engagement, the firm would have policies or procedures in place for those circumstances.
56. Accordingly, the IAASB:
- Referred to “the firm’s policies or procedures” in paragraph 25 of ISA 220 (Revised).

- Developed application material (paragraph A60 of ISA 220 (Revised)) to clarify that, while most resources are provided by the firm there are circumstances when the engagement partner may use resources that are obtained through other means (for example, the auditor of the statutory financial statements being used as a component auditor).

Other Matters

57. The IAASB also decided to provide additional guidance on insufficient or inappropriate resources. Paragraphs A75–A78 of ISA 220 (Revised) also deal with actions that the group auditor may take when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor and when the firm’s responses to quality risks are ineffective in the context of the specific engagement.

Section H – Other Matters

Section H-1 – Objective of the Standard

Background and Summary of Comments Received on Exposure

58. While there was no question in ED-220 on the objective itself, respondents supported the objective. Some regulator respondents suggested that the standard should clearly state that the objective is to ensure the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements. Other respondents thought that the extant wording was more concise and measurable, and suggested alternative wording to remove perceived circularity in the objective or noted that the focus should not be on compliance with individual requirements. It was also suggested that a clear differentiation of the various objectives of the three standards as well as an explanation of their interrelationship would add value.

IAASB Decisions

59. The IAASB noted the support from respondents for the proposed objective. In considering the comments from the Monitoring Group member and others about having a more aspirational objective, the IAASB explored whether such an objective was feasible, but continued to believe that the objective needs to be measurable. The IAASB also noted that the difference between “quality” and “high quality” may be difficult to define and may result in inconsistencies in practice. The IAASB did not believe that the objective was circular and concluded that no change was needed to the objective itself.
60. As noted in Section C of the ISQM 1 Basis for Conclusions, the IAASB moved an introductory paragraph dealing with the public interest to immediately follow the Objective of ISQM 1. The IAASB considered, but rejected, moving a similar paragraph in ISA 220 (Revised) (paragraph 6) to follow the objective of ISA 220 (Revised). In deciding not to make this change, the IAASB expressed concern that having essential material attached to the objective section of an ISA would give rise to greater confusion over the role and status of the objectives in the ISAs, and that the material would provide better context in the introduction to ISA 220 (Revised). The IAASB may consider, in due course, adding a paragraph about the public interest context of audits to ISA 200.¹¹

¹¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Section H-2 – Professional Skepticism

Background and Summary of Comments Received on Exposure

61. The IAASB included new introductory material on the importance of the use of professional skepticism and professional judgment in performing audit engagements. This introductory material was supported by application material that describes impediments to professional skepticism, auditor biases, and actions the engagement partner can take to deal with impediments to the exercise of professional skepticism.
62. Respondents generally supported how ED-220 addressed professional skepticism. Respondents requested additional examples, a cross-reference to the requirements and guidance on professional skepticism in ISA 200 or moving the professional skepticism material in proposed ISA 220 (Revised) to ISA 200.

IAASB Decisions

63. The IAASB noted that the role of ISA 200 in this respect is to establish the requirement to plan and perform an audit with professional skepticism.¹² The role of ISA 220 (Revised) is two-fold. First, it emphasizes the relationship between the exercise of professional skepticism and achieving audit quality. Second, in managing risks to audit quality, it emphasizes the importance of looking for circumstances that might impede the appropriate exercise of professional skepticism when performing the audit and taking action to mitigate such impediments.
64. The IAASB determined that the reference in paragraph 7 of ISA 220 (Revised) to ISA 200 was sufficient to provide the link to planning and performing audit engagements with professional skepticism and professional judgment.
65. The IAASB amended the application material in paragraphs A33–A36 of ISA 220 (Revised) to emphasize the importance to quality management of all engagement team members exercising professional skepticism and explain in greater detail how conditions inherent in some audits can create pressures on engagement team members that impede the appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence, as well as the need to take appropriate action to mitigate those impediments. The IAASB also aligned, to the extent applicable, the list of biases in ISA 220 (Revised) with the [IESBA's Role and Mindset project](#).

Section H-3 – Documentation

Background and Summary of Comments Received on Exposure

66. ED-220 asked respondents to comment on whether ED-220, together with the overarching documentation requirements in ISA 230, included sufficient requirements and guidance on documentation.
67. Overall, respondents were supportive of the documentation requirements; however, there were some calls for specific documentation requirements or guidance, including the following matters:
 - The engagement partner's reasoning on why a matter was not considered to be a significant matter or a significant judgment.

¹² ISA 200, paragraph 15

- The planning and evidence of direction, supervision and review and the stand-back provision.
- Elevating paragraph A103 to a requirement to consider whether matters that may pose risks to achieving audit quality, the exercise of professional skepticism and the auditor's conclusion thereon have been appropriately documented.
- Differences of opinion.

IAASB Decisions

68. The IAASB considered the need to provide additional documentation requirements in ED-220. In particular, the IAASB focused on the importance of supporting the overarching documentation requirements in ISA 230, the general support expressed for the requirements overall and the need to maintain scalability.
69. The IAASB concluded that the documentation requirements included in ISA 220 (Revised) were appropriate. The IAASB included application material that explains that the documentation of the engagement partner's taking of overall responsibility for managing and achieving quality (see paragraph A118 of ISA 220 (Revised)) may be accomplished in different ways. The IAASB also made a conforming amendment to ISA 300 regarding the documentation of the planned direction, supervision, and review (see Section D above).

Section H-4 – Conforming and Consequential Amendments

70. The IAASB also proposed conforming and consequential amendments to the ISAs with the exposure drafts of the quality management standards. The IAASB responded to the comments received and aligned the final conforming and consequential amendments to the ISAs with the final changes to the quality management standards.
71. In September 2020, the IAASB approved a project proposal to make conforming and consequential amendments to the other IAASB standards in response to the release of the new ISQMs. The Exposure Draft of the proposed amendments will be available in January 2021.

Section I – Effective Date

Background and Summary of Comments Received on Exposure

72. The three quality management exposure drafts were accompanied by a covering explanatory memorandum. The covering memorandum set out the IAASB's proposals regarding the effective date and the related implementation period for the three proposed standards, among other matters.
73. The IAASB's proposal for an 18-month implementation period was not generally supported by respondents from many stakeholder groups, particularly accounting firms, national auditing standard-setters and member bodies and other professional organizations. By contrast, regulators had mixed views and public sector organizations were mostly in favor of the proposed implementation period.
74. While respondents expressed varying views, some matters were clear. Comments in support of the proposal reflected matters raised by the Board in the covering memorandum – such as the need to balance the public interest of the proposals with giving firms and networks sufficient time to effectively implement the standards. Further, the concerns expressed by the IAASB in the covering memorandum about the need for adequate time for implementation were shared by respondents.

75. In addition to the above views, respondents also provided suggestions on alternative implementation periods. Of the suggested implementation periods provided, at least 24 months was the most common.

IAASB Decisions

76. Due to the COVID-19 pandemic, the project timelines of the quality management projects changed, and the final approval of the quality management standards was shifted to September 2020. Furthermore, the IAASB noted that the COVID-19 pandemic has a potential impact on implementation efforts as stakeholders have refocused their resources on dealing with the impact of COVID-19 and amending their policies and procedures in existing quality control measures.
77. The IAASB concluded that an 18-month implementation period was not responsive to the concerns expressed in the comment letters and would not allow adequate time for a proper implementation of the standards. The IAASB was concerned that too short an implementation period would fail to achieve the public interest benefits that were envisioned by revising the quality management standards.
78. The IAASB decided that the quality management standards should have an effective date of December 15, 2022, as this appropriately balances the urgency of the reforms and the risks incurred in a rushed implementation. The Board agreed that early adoption of the quality management standards be permitted.
79. In respect of ISA 220 (Revised), the IAASB concluded that it should be effective for audits of financial statements for periods beginning on or after December 15, 2022.

Section J – Implementation Support Activities

80. The IAASB committed to perform activities to support awareness, understanding and effective implementation of ISA 220 (Revised). Further information on the implementation activities related to ISA 220 (Revised) is available here: [Implementation Plans for the Quality Management Standards](#).

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