

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 5–6, 2019

Agenda Item H-3

Proposed ISA 220 (Revised)¹ Report Back

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Provide a report back on comments of the IAASB CAG Representatives on this project as discussed at the September 2018 meeting.
 - (b) Receive a presentation on the key revisions to the standard as approved by the IAASB.

Project Status – What Have We Done Since We Last Met?

2. Since the September 2018 IAASB CAG meeting, the [Exposure Draft \(ED\) of Proposed International Standard on Auditing \(ISA\) 220 \(Revised\), Quality Control for an Audit of Financial Statements](#) (ED–220) was approved by the IAASB in December 2018 for public exposure. The standard was released for public comment in early February, 2019 for comment by July 1, 2019.
3. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Feedback - What Did We Hear Last Time We Met?

4. Extracts from the draft minutes of the September 2018 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. Where applicable, references have been updated to align with ED–220. Furthermore, references to proposed ISQC 1 (Revised) in the September 2018 minutes have been changed to proposed ISQM 1 in the table below, as the IAASB has resolved to change the name of this standard subsequent to the last discussions with the CAG.

Representatives' Comments	Task Force/IAASB Response
ADDRESSING KEY MATTERS OF PUBLIC INTEREST	
Mr. Dalkin expressed support for the manner in which the key matters of public interest have been addressed in the proposed standard.	Support noted.

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

Representatives' Comments	Task Force/IAASB Response
Mr. Fortin reiterated comments made earlier during the ISQM 1 session related to the public interest language that has been added to both ISQM 1 as well as proposed ISA 220 (Revised), noting that there are some non-statutory audits of financial statements that are not performed in the public interest, but rather are performed for other reasons.	Point taken into account in conjunction with how this matter is addressed in ISQM 1. Paragraph 6 of ED-220 now indicates that “The public interest is served by the consistent performance of quality audit engagements.”
SCALABILITY	
Ms. McGeachy expressed strong support for the direction of the revisions to proposed ISA 220 (Revised), in particular the relationship between quality at the firm level and at the engagement level.	Support noted.
Mr. Dalkin commented that the large number of projects currently underway at the IAASB will affect both smaller firms and larger firms.	Point noted. Ms. Zietsman and Prof. Schilder agreed and noted that the results of the IAASB's recent Strategy survey also revealed that respondents have indicated that practitioners of all sizes will need to know how to handle these revised standards.
Ms. Vanich commented on the similarities between ISA 220 and the PCAOB's related auditing standard, AS 1201, ² noting that the two standards are broadly aligned.	Point noted. Ms. Zietsman confirmed that the ISA 220 Task Force has looked at AS 1201 in order to challenge the robustness of proposed ISA 220 (Revised).
OTHER PROPOSED CHANGES TO ISA 220	
Mr. Dalkin questioned how reliance on the firm's policies or procedures would work in a non-traditional firm, a network firm, another third party or member firm.	Point noted. Ms. Zietsman emphasized that the ISA 220 Task Force has moved from the extant language that entitled the engagement team to “rely” on the firm's system of quality control to now emphasize that the engagement partner and engagement

² Auditing Standard 1201, *Supervision of the Audit Engagement*

Representatives' Comments	Task Force/IAASB Response
	<p>team may be able to depend on the firm's policies or procedures. She further noted that the ISA 220 Task Force would consider including an example of how this dependence may practically work in a non-traditional firm.</p> <p>After discussing the matter, the ISA 220 Task Force did not include a specific non-traditional firm example, but concluded that a question should be asked in the covering Explanatory Memorandum on applicability of the proposals to the public sector.³</p>
<p>Ms. Robert expressed support for the direction of the revisions to ISA 220. She noted support for the coordination of the revisions with ISQM 1 but noted that more could be done to link the two standards.</p>	<p>Support noted.</p> <p>Ms. Zietsman noted that proposed ISA 220 (Revised) needed to be able to deal with other frameworks for firm-level quality management as not all jurisdictions have adopted ISQC 1. She added that the ISA 220 Task Force will consider making it more apparent what elements of ISQM 1 are included in proposed ISA 220 (Revised).</p> <p>Paragraphs A3–A4 of ED-220 were revised to highlight how proposed ISQM1 relates to proposed ISA 220.</p>
<p>Ms. Ovuka supported the additional application material related to technological resources. She noted that technology may change both the type of audit procedures that the auditor performs and the type of audit evidence being received.</p>	<p>Support noted.</p> <p>The Task Force notes that considerations regarding the sufficiency and appropriateness of audit evidence are beyond the scope of proposed ISA 220 (Revised), however this matter is one to be considered in conjunction with the IAASB's upcoming project on Audit Evidence.</p>
<p>Mr. Hansen supported the strengthened link between quality management at the firm level and quality management at the engagement level compared to extant ISA 220. He encouraged the ISA 220 Task</p>	<p>Support noted.</p> <p>Ms. Zietsman noted that the revisions made to ISA 220 are intended to reflect the respective and</p>

³ See page 12 of www.ifac.org/system/files/publications/files/IAASB-Covering-Explanatory-Memorandum.pdf

Representatives' Comments	Task Force/IAASB Response
Force to consider whether there is an opportunity to strengthen the responsibility for quality between the firm and the engagement partner to recognize that both have a role to play in achieving quality.	collective responsibilities of the firm and the engagement partner, by emphasizing that the responsibility for quality starts with the firm and the firm's system of quality management and then cascades down to the engagement team.
Ms. Vanich noted that under the PCAOB's AS 1201 ⁴ the engagement partner is responsible for supervision, and that if there was a finding in relation to the firm's methodology for example, the engagement partner would not be cited because the engagement partner used the methodology.	Point noted.
<p>Mr. Ruthman questioned whether the definition of policies or procedures in proposed ISQM 1 is consistent with proposed ISA 220 (Revised).</p> <p>He also cautioned that, because audit files can be seen by all members of the engagement team, the requirement in paragraph 24 to document discussions with firm personnel in relation to relevant ethical requirements, including how they were resolved, may not be appropriate as it may contain highly confidential information.</p> <p>Lastly, Mr. Ruthman questioned whether the proposed application material related to differences of opinion should be left for the firm's policies or procedures to address and not proposed ISA 220 (Revised)</p>	<p>Points noted.</p> <p>Ms. Zietsman responded by noting that proposed ISA 220 (Revised) includes the definition of "response" from proposed ISQM 1 (Revised) and that definition includes policies or procedures, but that the ISA 220 Task Force would consider whether these definitions are aligned.</p> <p>The Task Force noted that firms can put mechanisms in place to restrict access to some aspects of the engagement documentation to certain members of the team. Additionally, the Task Force noted that all team members would be subject to the confidentiality requirements of relevant ethical requirements.</p> <p>Ms. Zietsman further noted that some Board members were concerned about the engagement partner's recourse in situations where they are not comfortable as to how a difference of opinion has been resolved and that the application material attempts to address this issue.</p>
Mr. Hirai noted that the "tone at the middle" is very important in performing a quality engagement. He	Point accepted.

⁴ PCOAB Auditing Standard 1201, *Supervision of the Audit Engagement*
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Representatives' Comments	Task Force/IAASB Response
noted that the engagement partner should remind middle management on the engagement team of their responsibility to achieve quality and comply with the standard.	Paragraph 13 of ED-220 was included to address the roles of those to whom supervisory responsibilities are assigned.
Mr. N. James questioned whether the requirements in the relevant ethical requirements section would be seen as too passive in terms of what the engagement partner is required to do and whether the requirements should be strengthened.	Point noted. Ms. Zietsman noted that the ISA 220 Task Force has moved from extant language that was considered too passive. Paragraph 14 of the Explanatory Memorandum to ED-220 explains the Board's approach to the use of verbs in the requirements of ED-220 (i.e., "be satisfied" versus "determine").
Mr. N. James also noted that paragraph 10A requires the engagement partner to make a determination regarding fulfillment of the relevant ethical requirements prior to dating the auditor's report, but questioned whether that is in fact too late to make that assessment.	Point not accepted. The ISA 220 Task Force discussed the point and noted that paragraph 10A (now paragraph 10 of ED-220) is a precondition before the auditor may date the auditor's report (i.e., the basis for the statements made in the report about independence). As such, the determination must occur just before dating the report. This does not however mean that threats to compliance with relevant ethical requirements are not addressed before this date.
As it relates to paragraph 8B, Mr. N. James questioned whether there is additional language needed that would specify that the assignment of procedures, tasks or actions should be to an individual with the appropriate experience and competence.	Point taken into account. The Task Force believes that paragraphs 13 and A30 of ED-220 , together with the leadership requirements in paragraphs 11–12 and the requirement on the competence and capabilities of the engagement team (paragraph 24) collectively address the point.

Appendix A

Project History

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

The IAASB's ISA 220 Task Force comprises:

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