

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual Zoom Meeting

Meeting Date: September 8-9, 2020

Agenda Item B3

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 March 2020 CAG meeting.
 - (b) Report back to the CAG on comments of the CAG Representatives on this project at the March 2020 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 to the ISAs, in September 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 September 2020 IAASB meeting are included in this paper and are addressed in **Agenda Items B3.2 and B3.3**. Accordingly, this serves as the final discussion of proposed ISA 220 (Revised) before its anticipated approval by the IAASB in September 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 proposed ISA 220 (Revised).

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

6. Since the March 2020 IAASB CAG meeting, the Board discussed proposed ISA 220 (Revised) at the March, April 1, and June 2020 IAASB meetings. At those meetings, the IAASB further considered the matters discussed with the CAG, other matters raised by respondents to ED-220 and those arising from coordination with other IAASB Task Forces and IESBA representatives.

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

CAG Discussion in September 2020

7. There are two main points for discussion with the CAG (see the presentation slides in **Agenda Item B3.1**):
 - Objective – the Task Force is proposing relocating a paragraph on how the public interest relates to quality management at the engagement level to accompany the Objective. This is consistent with the approach in proposed ISQM 1.
 - Engagement Resources – the Task Force is proposing changes to the requirements and application material to improve how these requirements will operate when dealing with component auditors that are not from the auditor's firm or network.
8. **Agenda Item B3.2**, which accompanies this cover note, is the ISA 220 Issues Paper that will be presented at the September 2020 IAASB meeting. In navigating **Agenda Item B3.2**, which is an IAASB Board paper, Representatives are requested to note the following:
 - The questions in **Agenda Item B3.2** 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.
 - This paper includes references to other IAASB Agenda Items that will be presented at the September 2020 IAASB meeting. 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: www.iaasb.org/meetings/iaasb-board-meeting-virtual-videoconferencing-1.
9. The clean version of proposed ISA 220 (Revised) is in **Agenda Item B3.3**.
10. **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 whether:
 - a) The changes to the Objective section will improve readers' understanding of the relationship between the public interest and quality management at the engagement level.
 - b) Whether the changes to the engagement resources section improve the application of the standard to component auditors who are not from the auditor's firm or network.
2. Representatives are asked whether there are any matters that should be considered by the Board before finalizing proposed ISA 220 (Revised).

Materials Presented – IAASB CAG Papers

Agenda Item B3.1	Presentation – Proposed ISA 220 (Revised)
Agenda Item B3.2	Proposed ISA 220 (Revised) – IAASB Issues Paper (Agenda Item 4-A)
Agenda Item B3.3	Proposed ISA 220 (Revised) – Clean Draft of Proposed ISA 220 (Revised)

Appendix A

Project History

Project: [ISA 220 Project Page](#)

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>

<p>ISA 220 (Revised) Development of Final Standard</p>	<p><u>September 2019</u></p> <p>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</p> <p>March 2020</p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item D) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</p>
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Appendix B

Report-Back on Matters Discussed at the March 2020 CAG Meeting

Extracts from the draft minutes of the March 2020 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
ENGAGEMENT TEAM DEFINITION	
Ms. Zietsman expressed support for the simpler, principles-based definition that will allow for further evolution in the composition of engagement teams. She also supported the ongoing collaboration with IESBA on this matter.	Support noted.
Mr. Hansen questioned whether "performing audit procedures" was broad enough to include other activities within the firm related to an audit engagement, such as in-firm valuation experts.	The engagement team definition applies to all partners and staff performing the audit engagement, and as such will capture all relevant personnel in the firm.
Ms. Robert questioned whether there are barriers in ISA 220 (Revised) that would deter group auditors from using firms outside the firm's network. She also questioned whether the IAASB has considered the effect on the audit market.	Ms. Provost responded by noted that ISA 220 (Revised) provides links to proposed ISA 600 ² and that the ISA 220 Task Force has added more guidance on where proposed ISA 600 (Revised) would apply. She also noted that the ISA 600 Task Force may consider whether proposed ISA 600 is imposing barriers on using component auditors from outside of the group auditor's network.

² ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Pavas noted that, in Latin America, international networks that belong to the Forum of Firms FOF) are required to conduct a review of quality on member firms, but not of specific engagements. He highlighted that if network rules require compliance with the proposed ISQMs, firms may not have enough partners to support those reviews.</p> <p>Mr. Dalkin asked whether the ISA 220 Task Force had considered the impact on engagement quality reviews.</p>	<p>Other than for audits of listed entities, or when required by law or regulation, engagement quality (EQ) reviews are not mandated for other engagements, and the firm may select responses other than an EQ review to address one or more quality risk(s), if appropriate. However, when an EQ review is required or has been determined by the firm to be the appropriate response, then the same requirements should apply in all cases.</p> <p>The Board was generally of a view that a conditional requirement would create a perception of different levels of EQ review for different types of engagements, which could lead to inconsistent application in practice and potential confusion in the minds of stakeholders, and therefore would not be in the public interest.</p>
SCALABILITY AND ENGAGEMENT PARTNER'S RESPONSIBILITY FOR AUDIT QUALITY	
<p>Mr. Hansen supported for the concept of distinguishing the requirements in this way, but he suggested that the ISA 220 Task Force consider whether there could be a clearer differentiation between those requirements for which the engagement partner has sole responsibility and those the engagement partner can assign to other members of the engagement team.</p>	<p>Ms. Provost indicated that the IAASB supported the revised wording at its December 2019 meeting, but asked the ISA 220 Task Force to develop an example to show that the proposed standard is achievable for larger, more complex engagements. She drew attention to the draft illustrative example, which shows how the firm's policies or procedures may differ when dealing with engagement team members who are part of the firm compared to those who are not.</p>
PIOB COMMENTS	
<p>Mr. Kashiwagi welcomed the proposed changes and supported the discussion that had taken place at the CAG meeting.</p>	<p>Support noted.</p>