

This document represents the “clean” version of proposed ISA 220 (Revised). Agenda Item 6–A is a marked version to the working draft of the draft ED that was presented to the Board during the December 2017 IAASB meeting to this document. Agenda Item 6–C is marked to extant version of proposed ISA 220 (Revised).

Text shaded in grey within this document represents either:

- Text that has been drawn from the most recent versions discussed by the Board of proposed ISQC 1 (Revised) (March 2018) or proposed ISQC 2 (September 2017); or
- Matters that will need to be aligned to the ongoing revisions in proposed ISQC 1 (Revised) and proposed ISQC 2, and will therefore be adjusted as these ISQC drafts progress.

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

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

Introduction

Scope of this ISA

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

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

2. The system of quality management is the responsibility of the firm. Under ISQC 1 (Revised), the objective of the firm is to design, implement, and maintain a system of quality management to provide it with reasonable assurance that:
 - (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.¹ (Ref: Para. A1, A2E–A2F)

¹ ISQC 1 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements*, paragraph 16

- 2A. This ISA is premised on the basis that the firm is subject to the ISQCs or to national requirements that are at least as demanding. (Ref: Para. A1A, A2E–A2F)
3. The engagement team, led by the engagement partner, has a responsibility, within the context of the firm’s system of quality management, to implement quality management at the engagement level, including:
 - (a) Implementing the firm’s responses to quality risks that are applicable to the audit engagement, taking into account information obtained from or provided by the firm; (Ref: Para. A1B–A1D, A2B, A2E–A2F)
 - (b) Given the nature and circumstances of the audit engagement, determining whether to implement additional responses; (Ref: Para. A2–A2C, A2E–A2F) and
 - (c) Providing the firm with information that supports the design, implementation, and operation of the firm’s system of quality management, including information that is required to be communicated in accordance with professional standards, law, regulation and the firm’s policies or procedures. (Ref: Para. A2A)
- 4A. Management of quality at the engagement level is also informed through addressing requirements in other ISAs. (Ref: Para. A2D)
- 4B. Professional judgement is applied by the engagement team in addressing the objective and requirements of this ISA. Professional judgement is applied in making informed decisions about the courses of action that are appropriate given the nature and circumstances of the engagement. Professional skepticism supports the quality of judgments made on the audit engagement and, through these judgments, the overall effectiveness of the engagement team in achieving quality at the engagement level. (Ref: Para.A2)

Effective Date [To be coordinated with ISQC 1 and ISQC 2 and discussed with the IAASB at its September 2018 meeting]

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

Objective

6. The objective of the auditor is to manage quality at the engagement level to provide the auditor with reasonable assurance that quality has been achieved such that:
 - (a) The auditor has fulfilled its responsibilities in accordance with professional standards and applicable legal and regulatory requirements; and
 - (b) The auditor’s report issued is appropriate in the circumstances.

Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Engagement partner² – The partner, or other individual designated by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report that

² “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

- (b) Engagement quality control review – The firm’s response to address a quality risk(s) that is:
 - (i) Designed to provide an objective evaluation, in a timely manner, of the significant judgments made by the engagement team and the conclusions reached thereon; and
 - (ii) Completed on or before the date of the audit report. *[From ISQC 1 and 2]*
- (c) Engagement quality control reviewer – An individual appointed by the firm who is responsible for the engagement quality control review. *[From ISQC 1 and 2]*
- (d) Engagement team – All partners and staff performing the engagement, and any other individuals who perform audit procedures on the engagement including individuals engaged by the firm or a network firm. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm,³ and also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).⁴ (Ref: Para. A2G – A2J)
- (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants or public sector equivalent. (Ref: Para. A2K) *[From ISQC 1]*
- (g) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
- (i) Network firm – A firm or entity that belongs to a network. (Ref: Para. A2L)
- (j) Network – A larger structure: (Ref: Para. A2L)
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (k) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (l) Personnel – Partners and staff.
- (m) Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.
- (n) Relevant ethical requirements – Ethical requirements to which the engagement team is subject when undertaking an audit engagement, which ordinarily comprise the provisions

³ ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

⁴ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

of the International Code of Ethics for Professional Accountants (including *International Independence Standards*) (IESBA Code) related to an audit of financial statements, together with national requirements that are more restrictive. *[From ISQC 1, to be discussed with IESBA and ISQC 1]*

- (na) Response (in relation to a system of quality management) – Policies or procedures implemented by the firm to address a quality risk:
 - (i) Policies are statements of what should, or should not, be done to achieve the quality objectives. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies. *[From proposed ISQC 1 (Revised)]*
- (o) Staff – Professionals, other than partners, including any experts the firm employs.

Requirements

Leadership Responsibilities for Achieving Quality on Audits

- 8. The engagement partner shall take overall responsibility for achieving quality on each audit engagement to which that partner is assigned, including being responsible for creating an environment that emphasizes the firm's cultural values and behaviors, and for management of quality. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has a basis for determining that the significant judgments made and the conclusions reached are appropriate in the circumstances of the engagement. (Ref: Para. A3A–A3I)
- 8A. In creating the environment described in paragraph 8, the engagement partner shall take clear, consistent and effective actions that reflect the firm's commitment to quality, including:
 - (a) Communicating to the members of the engagement team the importance of professional values, ethics and attitudes;
 - (b) Establishing and communicating the expected behavior of all engagement team members;
 - (c) Encouraging open and robust communication within the engagement team and supporting the engagement team members' ability to raise concerns without fear of reprisal;
 - (d) Emphasizing the importance of each engagement team member maintaining professional skepticism throughout the audit engagement; and
 - (e) Emphasizing that all engagement team members are responsible for contributing to the achievement of quality at the engagement level.
- 8B. If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in addressing the requirements of this ISA, the engagement partner nevertheless remains responsible for concluding on whether the requirements of this ISA have been addressed. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall: (Ref: Para. A3J)
 - (a) Appropriately inform assignees about the procedures, tasks, or actions that are being assigned and the objectives thereof;
 - (b) Provide the necessary instructions and the relevant information to assignees; and

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

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

- 9. The engagement partner shall have a sufficient understanding of the relevant ethical requirements, including those related to independence, and the firm's related policies and procedures. (Ref: Para. A4–A7):
 - 9A. The engagement partner shall be satisfied that other members of the engagement team have been made aware, and have a sufficient understanding, of relevant ethical requirements and the firm's related policies and procedures, including those that address (Ref: Para. A4–A7):
 - (a) Circumstances that may cause a breach of independence and their responsibilities when they become aware of actual or suspected breaches of independence; and
 - (b) Their responsibilities when they become aware of an instance of actual or suspected non-compliance with laws and regulations.
 - 9B. The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A4–A7)
- 10. If matters come to the engagement partner's attention through the firm's system of quality management or otherwise, that indicate that members of the engagement team have not fulfilled the relevant ethical requirements or have not complied with the firm's related policies or procedures, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A4E)
- 10A. Prior to dating the auditor's report, the engagement partner shall be satisfied that:
 - (a) Relevant ethical requirements, including those related to independence, have been fulfilled; and
 - (b) The firm's policies or procedures that address relevant ethical requirements have been followed and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A4–A7)

Acceptance and Continuance of Client Relationships and Audit Engagements

- 12. The engagement partner shall be satisfied that the firm's policies or procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A7A–A8B, A9)
- 13. If the engagement partner obtains information that would have caused the firm to decline the audit engagement, had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A8C)

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

Engagement Resources

14. The engagement partner shall be satisfied throughout the audit engagement that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm on a timely basis. In doing so, the engagement partner shall take account of the nature and circumstances of the audit engagement and any changes thereto that arise during the course of the engagement. (Ref: Para. A9A–A11B, A12)
- 14A. The engagement partner shall be satisfied that members of the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate time, technical competence, and capabilities to perform the audit engagement.
- 14B. If, as a result of addressing the requirement in paragraph 14, the engagement partner determines that resources assigned, or made available by the firm, are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action. (Ref: Para. A11C)
- 14C. The engagement partner shall direct, supervise, or use the resources assigned, or made available, to the engagement team in accordance with the firm's related policies or procedures and as appropriate given the nature and circumstances of the audit engagement.

Engagement Performance

Direction, Supervision and Review

15. The engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and be satisfied that such direction, supervision and review is (Ref: Para A12A–A17B, A19C–A19E):
- (a) Planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;
 - (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement; and
 - (c) Determined on the basis that the work performed by less experienced team members is directed, supervised, and reviewed by more experienced engagement team members.
17. On or before the date of the auditor's report, the engagement partner shall, through review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18–A19B)
- 17A. In addressing the requirements of paragraph 17, the engagement partner shall:
- (a) Review audit documentation relating to the following areas:

- (i) Significant matters;⁵ and
 - (ii) Other areas involving significant judgments, especially those relating to difficult or contentious matters identified during the course of the audit engagement.
- (b) Review other audit documentation required to be reviewed by the engagement partner in accordance with the firm's policies or procedures; and
- (c) Perform the review at appropriate points in time during the audit.
- 17B. Prior to dating the auditor's report, and in order to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the final drafts of the financial statements and the auditor's report, including, if applicable, the description of the key audit matters⁶ and audit documentation related to the key audit matters not already reviewed in accordance with paragraph 17A.
- 17C. Prior to their issuance, the engagement partner shall review the final drafts of written communications to management, those charged with governance, or regulatory authorities.

Consultation

18. The engagement partner shall:
- (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Matters where the firm's policies or procedures require consultation;
 - (ii) Difficult or contentious matters; and
 - (iii) Other matters that in the engagement partner's professional judgment, require consultation;
 - (b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the audit engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
 - (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
 - (d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para. A21–A22)

Engagement Quality Control Review

19. For audit engagements for which an engagement quality control review is required, the engagement partner shall: (Ref: Para. A23–A25A)
- (a) Determine that an engagement quality control reviewer has been appointed;
 - (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and

⁵ ISA 230, *Audit Documentation*, paragraph 8

⁶ ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

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

Differences of Opinion

- 22. If differences of opinion arise, within the engagement team, or between the engagement team and the engagement quality control reviewer, or personnel performing duties in relation to the operation of the firm's system of quality management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving them. (Ref: Para. A32A–A32B)
- 22A. The engagement partner shall:
 - (a) Take responsibility for differences of opinion being dealt with and resolved in accordance with the firm's policies or procedures;
 - (b) Be satisfied that conclusions reached are documented and implemented; and
 - (c) Not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

- 23. The engagement partner shall: (Ref: Para. A33–A35)
 - (a) Be satisfied that the engagement team has been made aware and has a sufficient understanding of results of the monitoring and remediation process of the firm or, if applicable, the network or other network firms;
 - (b) Determine the relevance and effect of such information on the audit, and take appropriate action; and
 - (c) Remain alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

Taking Overall Responsibility for Achieving Quality

- 23A. Prior to dating the auditor's report, the engagement partner shall be satisfied that they have taken overall responsibility for achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. A35A–A35B)
 - (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has a basis for determining that the significant judgments made and the conclusions reached are appropriate in the circumstances of the engagement; and
 - (b) The firm's policies or procedures, and the nature and circumstances of the engagement, and any changes thereto, have been taken into account in addressing the requirements of this ISA.

Documentation

- 24. The auditor shall include in the audit documentation:⁷ (Ref: Para. A35C–A36)

⁷ ISA 230, *Audit Documentation*, paragraphs 8-11, and A6

- (a) Issues identified, relevant discussions with firm personnel, and conclusions reached with respect to:
 - (i) Fulfillment of relevant ethical requirements, including those related to independence and non-compliance with laws and regulations.
 - (ii) The acceptance and continuance of client relationships and audit engagements.
- (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement and how such conclusions were implemented.
- (c) If the engagement is subject to an engagement quality control review that the engagement quality control review has been completed prior to dating the auditor's report.

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

A0. This ISA applies to all audits of financial statements, including audits of group financial statements. ISA 600,⁸ deals with special considerations that apply to group audits, in particular those that involve component auditors.

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

- A1. ISQC 1 (Revised), or national requirements that are at least as demanding, deals with a firm's responsibilities for its system of quality management. The system of quality management comprises the following eight components:
- Governance and leadership;
 - The firm's risk assessment process
 - Information and communication;
 - Relevant ethical requirements;
 - Acceptance and continuance of client relationships and specific engagements;
 - Resources;
 - Engagement performance; and
 - The monitoring and remediation process.
- A1A. National requirements that deal with the firm's responsibilities to establish and maintain a system of quality management are at least as demanding as ISQC 1 (Revised) when they address all the components referred to in paragraph A1 and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1 (Revised).
- A1B. Engagement quality control reviews may be one of the firm's responses to manage quality risks. ISQC 1 (Revised) deals with the firm's responsibility to establish policies or procedures addressing engagement quality control reviews. ISQC 2 deals with the responsibilities of an engagement quality control reviewer in performing the engagement quality control review.

⁸ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

National requirements that deal with the responsibilities of the engagement quality control reviewer are at least as demanding as ISQC 2 when they address all of the requirements in ISQC 2.

- A1C. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with ISQC 1 (Revised), the firm is responsible for communicating to the engagement team its responsibilities with respect to firm responses to quality risks that are required to be implemented at the engagement level. Such firm requirements may include those to undertake consultations with designated firm personnel in certain situations, for example, for significant technical or ethical matters), or to involve experts in specific audit engagements to address particular matters, (for example, the firm may specify that firm-designated credit experts are to be involved in auditing credit loss allowances in all banking engagements).
- A1D. Firm responses may include policies or procedures established by a network, or by a cluster of firms within a network. (Network services are described further in ISQC 1 (Revised) within the "Considerations Relating to Networks" section).
- A2. The engagement partner uses professional judgment in determining whether to implement additional responses at the engagement level in order to meet the objective of this ISA.⁹ The engagement partner's determination of whether additional engagement level responses are required, (and if so, what those responses are) is influenced by the requirements of this ISA, and the engagement partner's understanding of the nature and circumstances of the audit engagement and any changes thereto. For example, unanticipated circumstances may arise during the course of the engagement (that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available by the firm (e.g., when the auditor commences the audit and becomes aware that the entity has entered into complex hedging transactions for the first time).
- A2A. The requirements of this ISA, or the firm's policies or procedures, may require the engagement team to communicate specific information that is relevant to the firm's system of quality management. During the audit engagement, the engagement partner may become aware (including through being informed by members of the engagement team) that the firm's responses to quality risks are inadequate in the context of the specific engagement. Providing such information to the firm is relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit program provided by the firm does not address a local regulatory requirement, timely communication of such information enables the firm to update the audit program accordingly.
- A2B. The requirements of this ISA are based on the premise that the firm is responsible for taking the necessary action to allow or enable engagement teams to use network resources or the work of network resources on the audit engagement (currently referred to as "network services" in ISQC 1 (Revised)).
- A2C. Some firm level responses to quality risks are not implemented at the engagement level but are nevertheless relevant when addressing the requirements of this ISA. For example, when determining whether the members of the engagement team collectively have the appropriate technical competence and capabilities to perform the audit engagement, the engagement partner

⁹ ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

may take into account the firm's policies and procedures addressing personnel recruitment and professional training. Other examples of such firm-level responses include technological and intellectual resources of the firm (whether purchased, developed internally or provided to the firm by a network) such as:

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

A2D. As explained in paragraph 4A, management of quality at the engagement level is also informed through addressing requirements in other ISAs. For example, the understanding of the entity and its environment required to be obtained under ISA 315 (Revised)¹⁰ provides information that may be relevant to addressing the requirements of this ISA. For example, such information may be relevant to the determination of:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to address complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;
- The nature, timing and extent of review of the work performed by members of the team based on number and significance of the assessed risks of material misstatement (including, in the case of group audits, work done by component auditors at different components where the risks differ); or
- The allocation of the budgeted audit hours, including allocating more time, and time of more experienced engagement team members to areas where there are a greater number of risks of material misstatement or risks are assessed as higher.

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

A2E. In a smaller firm, there may not be a separate function to design and implement and operate the firm's system of quality management, including designing and implementing responses at the firm level. Therefore the design and implementation of responses to the firm's risks to quality may be done by primarily by the firm's engagement partners at the engagement level. Additionally, a smaller firm's policies or procedures may be less formal. Smaller firms may have increased quality risks due to the lack of formality of their processes, and fewer resources available to monitor compliance with the firm's policies and procedures.

A2F. If an audit is carried out entirely by the engagement partner, some requirements in this ISA may not be relevant because they are conditional on the involvement of other members of the engagement team.

¹⁰ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Definitions

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

- A2G. Engagement teams may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations, or may be organized by activity.
- A2H. Engagement teams may include individuals from service delivery centers who perform audit procedures. For example, the firm may have determined that specific tasks that are repetitive or specialized in nature can be performed by a group of appropriately skilled personnel and the engagement team may therefore include such individuals. Service delivery centers may be established at the firm level, at the network level, or by another firm or group of firms from within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.
- A2I. Engagement teams may include individuals from other firms or network firms to perform audit procedures, for example, to attend a physical inventory count or inspect physical fixed assets at a remote location, or perform work on financial information, related to a component in a group audit.
- A2J. Regardless of the structure of the engagement team, any individual who performs audit procedures¹⁴ on the engagement is considered to be a member of the engagement team. External experts and internal auditors providing direct assistance are not members of the engagement team; however, engagement teams may use their work in obtaining audit evidence.

Firm (Ref: Para. 7(e)) [Consistent with changes to ISQC 1, application guidance moved and revised, previously attached to the requirements addressing relevant ethical requirements]

A2K. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ISA. For example, the IESBA Code defines the “firm” as:

- (a) A sole practitioner, partnership or corporation of professional accountants;
- (b) An entity that controls such parties through ownership, management or other means; and
- (c) An entity controlled by such parties through ownership, management or other means.

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

“Network” and “Network Firm” (Ref: Para. 7(i)–7(j)) (Consistent with changes to ISQC 1, application guidance moved and revised, previously attached to the requirements addressing relevant ethical requirements)

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

¹⁴ ISA 500, *Audit Evidence*, paragraph A10

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

Taking Overall Responsibility for Achieving Quality

- A3A. The firm's system of quality management typically includes responses that are designed to be implemented at the engagement level. Due to the specific nature and circumstances of each engagement and changes that may occur during the engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Therefore, in addressing the requirements of this ISA and achieving its objective, the engagement partner may design and implement additional responses that are necessary to obtain reasonable assurance that audit quality has been achieved.
- A3B. The relative balance of the engagement partner's actions, in addressing the requirements of this ISA, between implementing the firm's responses and designing and implementing additional engagement-specific responses may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the engagement, and there may be little or no need for anything additional to be done at the engagement level to confirm the suitability of the audit program. In contrast, the engagement partner's actions in addressing the engagement performance requirements of this ISA may be more focused on designing and implementing tailored responses at the engagement level to address the specific nature and circumstances of the engagement, as opposed to only implementing firm level responses.
- A3C. A culture that promotes the conduct of quality engagements is likely to involve clear, consistent and effective actions, including communication, that emphasize the firm's commitment to quality. The engagement partner is required to communicate to the members of the engagement team the importance of professional values, ethics and attitudes. This communication may be accomplished through direct communication to the members of the engagement team and through personal conduct and actions of the engagement partner. A commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors.
- A3D. The nature and extent of the actions of the engagement partner to reflect the firm's commitment to quality may depend on a variety factors including the size, structure, geographical dispersion and complexity of the firm, and the nature and circumstances of the engagement. With a smaller engagement team, with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient to reflect the firm's commitment, whereas for a larger engagement team that is dispersed over many locations, more formal communication may be necessary.

Communication

- A3E. Communication is the means through which the engagement partner and the members of the engagement team share relevant information on a timely basis in order to address the requirements of this ISA, thereby contributing to the achievement of quality on the audit engagement. Communication may be between and among:
- (a) Members of the engagement team;
 - (b) Personnel performing functions that support the operation of the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management;

- (c) Others involved in the audit (e.g., an auditor’s external expert, component auditors); and
- (d) Parties that are external to the firm (for example, management, those charged with governance, or regulatory authorities).

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

Professional Skepticism

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

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

A3H. Possible actions to address impediments to the exercise of professional skepticism at the engagement level include:

- Communicating with those individuals within the firm responsible for allocating resources that changes in the nature or circumstances of the engagement necessitate additional or different resources for the engagement;
- Explicitly alerting the engagement team to vulnerability to instances or situations when unintentional or intentional auditor biases may be greater (e.g., areas involving greater judgment) and emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures (see paragraph A3I);
- Changing the composition of the engagement team assigned, for example involving more experienced staff in order to obtain greater skills or knowledge or specific expertise;
- Involving more experienced members of the engagement team, members of the engagement team with specialized skills and knowledge, or an auditor’s expert in complex

or subjective areas of the audit or when dealing with members of management who are difficult or challenging to interact with;

- Modifying the nature, timing and extent of direction and supervision of engagement team members, and review of their work, for complex or subjective areas of the audit, including involving more experienced members of the team, more in-person oversight on a more frequent basis and more in-depth reviews of certain working papers;
- Setting expectations for:
 - Less experienced members of the engagement team to seek advice frequently and on a timely basis from other more experienced team members or the engagement partner;
 - More experienced team members to make themselves accessible to less experienced members of the engagement team throughout the audit and respond positively and on a timely basis to their requests for advice or assistance; or
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought.

A3I. Unintentional or intentional biases may affect auditor judgments, including for example, the selection of an audit approach, performance of audit procedures, or the evaluation of evidence. Examples of unintentional auditor biases that may affect the exercise of professional skepticism, and therefore the professional judgments made by the engagement partner in addressing the requirements of this ISA, include, for example:

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

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

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

A3J. It will generally not be possible or practical for all of the requirements in this ISA to be addressed solely by procedures, tasks, or other actions performed by the engagement partner (for example, due to the nature and size of the entity, or the complexity of the audit and the need for specialized skills or expertise). In managing quality at the engagement level, the engagement partner may therefore assign procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team who assist the engagement partner in addressing the requirements of this ISA.

Relevant Ethical Requirements, Including Independence

Understanding Relevant Ethical Requirements and the Firm's Related Policies and Procedures (Ref: Para. 9–9B)

A4. The IESBA Code establishes the fundamental principles of professional ethics that establish the standard behavior expected of a professional accountant. The IESBA Code provides a conceptual framework that is to be applied in order to identify, evaluate and address threats to independence and threats to compliance with the fundamental principles. The fundamental principles are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

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

- Non-compliance with laws and regulation;
- Long association of members of the engagement team on the engagement; or
- Law or regulation addressing money laundering, corruption, or bribery.

A4B. In accordance with ISQC 1 (Revised) the firm's responses to address the quality risks in relation to relevant ethical requirements, including the independence requirements, include policies or procedures that are intended to result in the fulfillment of relevant ethical requirements and to support the engagement team in:¹²

- Identifying threats to compliance with the relevant ethical requirements, including the independence requirements;
- Evaluating whether identified threats are at an acceptable level; and
- In circumstances when the identified threats are not at an acceptable level, addressing the threats appropriately.

A4C. Information provided by the firm may assist the engagement partner in fulfilling relevant ethical requirements. For example, ISQC 1 (Revised) requires that the firm obtain, at least annually, a documented confirmation of compliance with the independence requirements from all firm personnel required by relevant ethical requirements to be independent.

A4D. Open and robust communication about relevant ethical requirements by the engagement partner to the members of the engagement team (see paragraph 8A) may assist in:

- Informing the engagement team members of relevant ethical requirements that may be of particular significance to the audit; and

¹² For example, see ISQC 1 (Revised) paragraph 34(a)

- Keeping the engagement partner informed about matters relevant to the engagement team's fulfillment of relevant ethical requirements and the firm's related policies and procedures.

Taking Appropriate Action (Ref: Para. 10)

A4E. When matters come to the engagement partner's attention that indicate that members of the engagement team have not fulfilled relevant ethical requirements or have not complied with related firm policies and procedures, (including the requirements and policies and procedures related to independence), appropriate actions may be determined in consultation with others in the firm. Appropriate actions may include, for example:

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

Considerations Specific to Public Sector Entities

A7. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 9. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 12–13A)

A7A. ISQC 1 (Revised) requires the firm to design and implement responses to quality risks such that the firm applies appropriate judgment when accepting or continuing client relationships and specific engagements.

A8. ISQC 1 (Revised) requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.¹³ Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity and ethical values of the principal owners, key management and those charged

¹³ ISQC 1 (Revised), paragraph 37(a)

with governance of the entity;

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

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

A8B. In many cases, the engagement partner is directly involved throughout the firm's acceptance and continuance process and is therefore aware of the information obtained, or used by the firm, in reaching the related conclusions. Such involvement may also therefore provide a basis for the engagement partner being satisfied that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A8C. If the engagement partner has concerns regarding the appropriateness of the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements, the engagement partner is required to communicate the information to the firm so that the firm and the engagement partner can take the necessary action. The engagement partner may seek to obtain a better understanding of the conclusions by discussing the basis for those conclusions with those involved in the acceptance and continuance process (if the partner was not personally involved). In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement, and if so, what additional steps are necessary at the engagement level (e.g., the assignment of more staff, or staff with particular expertise). If the engagement partner has further concerns and is not satisfied that the matter has been appropriately addressed, the firm's policies or procedures for resolving differences of opinion may be applicable.

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

- Information about the size, complexity, and nature of the entity, including whether it is a group audit, and the industry in which it operates;
- The entity's timetable for reporting, such as at interim and final stages;
- In relation to group audits, the nature of the control relationships between the parent and its components;

- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement which may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised, and reviewed.

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

- Establishing an understanding of the terms of the audit engagement, as required by ISA 210;³
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA 315 (Revised) and ISA 240;¹⁴
- Understanding the group, its components, and their environments, in the case of group financial statements in accordance with ISA 600, and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with ISA 620; and
- The entity's governance structure in accordance with ISA 260¹⁵ and ISA 265¹⁶

A8F. *[Note to IAASB: paragraph A8F is a conforming amendment approved with the issuance of ISA 250 (Revised)]* Law, regulation, or relevant ethical requirements¹⁷ may require the auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the audit engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code requires that the predecessor auditor, on request by a proposed successor auditor, provide all such facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.¹⁸

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

¹⁴ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹⁵ ISA 260, *Communication with Those Charged with Governance*

¹⁶ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

¹⁷ See, for example, Sections 210.14 of the IESBA Code.

¹⁸ See, for example, Sections 225.31 of the IESBA Code.

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

A9. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not have established policies or procedures regarding the acceptance and continuance of audit engagements. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12–13A and A7A–A8E may not be relevant. Nonetheless, information gathered as a result of the process described may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

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

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

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

A9B. A relevant consideration for the engagement partner, in addressing the requirements in paragraph 14 and 14A, is whether the resources assigned or made available to the engagement team facilitate the ability to fulfill relevant ethical requirements, including ethical principles, such as professional competence and due care.

Human Resources

A9C. Human resources assigned or made available by the firm include members of the engagement team and, where applicable, external experts. In addition, as provided for by ISA 610 (Revised 2013)¹⁹ individuals from within the entity's internal audit function may provide direct assistance.

A10. An engagement team includes any persons using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, who performs audit procedures on the engagement. For example, when technology involving complex data analysis or statistical techniques are used on the audit engagement, expertise in statistics or data analysis may be necessary to operate the technology and evaluate the results.

Technological Resources

A10A. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technology may allow the auditor to more effectively and efficiently manage the audit such that it is performed in accordance with professional standards, law and regulation. Technology may also allow the auditor to evaluate large amounts of data more easily in order to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of the auditor to

¹⁹ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

exercise professional skepticism. Inappropriate use of such technological resources, however, may increase the risk of overreliance on the information produced for decision purposes.

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

A10C. The firm's policies or procedures may also specifically prohibit the use of certain technological resources (for example, new software that has not yet been approved for use by the firm). In some circumstances the firm's policies or procedures may not specifically address the use of a specific technological resource (for example, a spreadsheet developed by the engagement team or obtained from outside the engagement team or the firm). In these cases the engagement partner uses professional judgment in considering whether the use of the resource on the audit engagement is appropriate in accordance with paragraph 14B, and if so, how the technological resource is to be used.

Intellectual Resources

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

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

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

A11. When considering the appropriate technical competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing.
- Knowledge of relevant industries in which the entity being audited operates.
- Ability to exercise professional skepticism and apply professional judgment.
- Understanding of the firm's policies or procedures.

Project Management

A11A. Project management techniques and tools may support the engagement partner and the other members of the engagement team in managing the quality of the engagement by, for example:

- Increasing the engagement team’s ability to apply professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism;
- Facilitating timely performance of audit work to more effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan,²⁰ including the achievement of key milestones. may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources;
- Assisting the engagement partner in taking responsibility for the direction and supervision of engagement team members and the review of their work (see paragraph 15);
- Coordinating work done by auditors of components and auditor experts; or
- Managing the use of certain technological tools on the audit engagement, including those that may require the use of individuals with specialized skills in the use of the tool and evaluation of the results.

A11B. In situations where there are many engagement team members, for example on larger, or more complex, audit engagements, the engagement partner may involve an individual who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for a smaller engagement team with fewer engagement team members, project management may be achieved through less formal means.

Insufficient Resources (Ref: Para. 14B)

A11C. If the engagement partner determines that the resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner is required to take appropriate action. In such cases, appropriate actions may include:

- Communicating with appropriate person(s) within the firm about the need to allocate or assign additional or alternative resources to the audit engagement.
- Following the firm’s policies or procedures for resolving differences if the engagement partner does not obtain the necessary resources for the audit engagement.
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

The firm’s financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. However, such constraints do not override the engagement partner’s responsibility for achieving quality at the engagement level, including for becoming satisfied that the resources made available by the firm are sufficient and appropriate to perform the engagement.

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

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

²⁰ ISA 300, paragraph 9

reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

Engagement Performance

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

A12A. Under ISQC 1 (Revised), the firm is required to establish policies or procedures regarding the responsibilities of firm personnel in relation to engagements are determined and communicated, including responsibilities in relation to:²¹

- (a) The appropriate direction and supervision of the engagement team and review of the work of the engagement team; and
- (b) The review by more experienced engagement team members of work performed by less experienced team members.

A12B. As described in paragraph A3A, the firm's system of quality management typically includes responses that are designed to be implemented at the engagement level. However such responses will generally not include all those responses that will be relevant or appropriate in managing quality at the engagement level. The engagement partner uses professional judgment in determining whether additional engagement level responses are required, based on the requirements of this ISA, and the engagement partner's understanding of the nature and circumstances of the audit engagement and any changes thereto. Direction and supervision of the engagement team and the review of the work of the engagement team are firm level responses that are implemented at the engagement level of which the nature, timing and extent may be further tailored by the engagement partner in managing quality. Accordingly, the approach to direction, supervision and review will generally include a combination of addressing the firm's policies and procedures and engagement-specific responses, and will vary from one engagement to the next.

A12C. The approach to the direction and supervision of the members of the engagement team and the review of the work performed provides support for the engagement partner in addressing the requirements of paragraphs 15 and 16, as well as the conclusion that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 23A.

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

Direction

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

- The responsibility for all engagement team members for contributing to the achievement of quality at the engagement level through their personal conduct, communication, and

²¹ For example, see ISQC 1 (Revised) paragraph 41

actions.

- The importance of maintaining a questioning mind and being aware of unintentional or intentional auditor biases in exercising professional skepticism in gathering and evaluating audit evidence (see paragraph A3I).
- Their responsibilities to fulfill relevant ethical requirements
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- Respective roles and responsibilities of the engagement team members in performing audit procedures and the roles of more experienced team members in directing, supervising and reviewing the work of less experienced team members.
- The objectives of the work to be performed and detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
- Threats to the achievement of audit quality, identified and the engagement team's expected response in this regard, for example, budget constraints or resource constraints should not result in the engagement members modifying planned audit procedures or failing to perform planned audit procedures.

Supervision

A15. Supervision includes matters such as:

- Tracking the progress of the audit engagement, which includes:
 - Monitoring the progress against the plan;
 - Monitoring whether the objective of work performed has been achieved;
 - Monitoring the ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the audit engagement, including for example, reassigning planned audit procedures to more experienced members of the engagement team when issues are more complex than initially anticipated.
- Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.
- Providing coaching and on the job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

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

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

- The work has been performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the auditor's report; and
- The objectives of the audit procedures have been achieved.

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

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

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

A18. Timely review by the engagement partner at appropriate stages during the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation, but may do so. The firm's policies or procedures may specify the nature, timing and extent of the engagement partner's review. As required by ISA 230, the partner documents the extent and timing of the review.²²

A19. An engagement partner taking over an audit during the engagement may apply the review procedures as described in paragraph A18 to review the work performed to the date of the change in order to assume the responsibilities of an engagement partner.

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

- Matters related to planning the engagement such as matters related to determining materiality;
- The composition of the engagement team, including:
 - Personnel using expertise in a specialized area of accounting or auditing;

²² ISA 230, paragraph 9(c)

- The use of personnel from service delivery centers;
- The decision to involve an auditor's expert, including the decision to involve an external expert;
- The engagement team's consideration of risks identified through the acceptance and continuance process and proposed responses to those risks;
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team;
- The engagement team's proposed group audit strategy, including the identification of significant components;
- Decisions about the involvement of component auditors, including how to direct and supervise their work. For example, if a component auditor is located in a jurisdiction or a firm with significant audit inspection findings, then judgments about their involvement in the audit engagement and the direction, supervision and review of their work are likely to be more significant;
- The engagement team's consideration of related party relationships and transactions and disclosures;
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain estimates, accounting policies, or going concern considerations;
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom;
- In group audit situations, the engagement team's evaluation of work performed by component auditors and the conclusions drawn therefrom;
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement; or
- The engagement team's proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

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

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

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

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

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

- The engagement team member's previous experience with the entity and the area to be audited. For example if the work related to the entity's information systems is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information systems, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.
- The complexity of the entity, including whether there are significant events that have occurred at the entity or in the industry in which the entity operates since the previous audit engagement or during the current audit engagement.
- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of direction and supervision of engagement team members, and a more detailed review of their work.
- The capabilities and competence of the individual engagement team members performing the audit work. For example less experienced team members may require more detailed instructions and more frequent, or in person, interactions as the work is performed.
- The manner in which the engagement partner and manager reviews of work performed are expected to take place. For example, in some circumstances remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
- The structure of the engagement team, and location of engagement team members or other individuals performing audit procedures, including component auditors or where audit delivery centers are used. For example, direction and supervision of individuals located at remote audit delivery centers and the review of their work may need to be more formalized and structured than when members of the engagement team are all situated in the same location.

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

engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Consultation (Ref: Para. 18(d))

A21. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.

A22. It may be appropriate for the engagement team to consult outside the firm, for example, where the firm lacks appropriate internal resources. They may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organizations that provide relevant quality control services.

Engagement Quality Control Review [Based on proposed changes to ISQC 1 and ISQC 2; placeholder for additional changes to be considered based on further revisions to ISQCs]

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

A23. ISA 700 (Revised) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements.²³ ISQC 2 requires that the engagement quality control review be completed prior to dating the auditor's report. In cases of an audit of financial statements of listed entities or when an audit engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

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

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

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

Differences of Opinion (Ref: Para. 22)

A32A. ISQC 1 (Revised) sets out requirements for the firm to establish policies or procedures to deal with or resolve differences of opinion. *[Will take into account ISQC 1's finalization of these points]*

²³ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 49

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

- Considering whether the circumstance amounts to information that would have caused the firm to decline the engagement;
- Considering provisions of applicable ethical requirements and whether they provide direction or guidance for the engagement partner in such circumstances;
- Seeking legal advice; or
- Withdrawing from the audit engagement, when withdrawal is possible under law or regulation.

Monitoring and Remediation (Ref: Para. 23) [*Placeholder to revise and develop additional application guidance based on revisions to ISQC 1*]

A33. Under ISQC 1 (Revised), the firm is required to establish a monitoring and remediation process and to communicate, on a timely basis, to firm personnel, information in relation to the firm's monitoring and remediation process.

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

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

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

A35. A deficiency in the firm's system of quality management does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate.

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

A35A. If the engagement's partner's involvement is insufficient and inappropriate to determine that the significant judgments made and the conclusions reached are appropriate, the engagement partner will not be able to take overall responsibility for achieving quality on the audit engagement. Appropriate actions to be taken to address such circumstances and enable the engagement partner to take overall responsibility, include, for example:

- Modifying the planned approach to the nature and extent of review to increase the involvement of the engagement partner; or
- Consulting with firm personnel assigned operational responsibility for [the relevant aspect] of the firm's system of quality management.

Firm policies and procedures may address the required actions to be taken in circumstances when the engagement partner is unable to take overall responsibility for achieving quality on the audit engagement.

A35B. Information relevant to the requirement in 23A, may be provided by the firm or otherwise obtained (for example, from the media or a component auditor) that may affect the determination of whether quality has been achieved.

Documentation (Ref: Para. 24(c))

A35C. Documentation of the performance of the requirements of this ISA may be accomplished in different ways. For example:

- Participation in direction can be documented through signoffs of the audit plan and project management activities;
- Minutes from meetings of the engagement team may provide documentation of the cultural values and behaviors sought and the management of quality;
- Notes from discussions between the engagement partner and engagement team members, and related time records, may provide documentation of the engagement partner's involvement throughout the audit;
- Documentation about the engagement partner's satisfaction that the engagement partner is able to take overall responsibility for the audit may provide documentation about how the engagement partner addressed impediments to professional skepticism; and
- Signoffs by reviewers provide documentation that work papers were reviewed.

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

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

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.