

Quality Management (Engagement Level) ISA 220¹—Issues and Discussion

Objective of the IAASB Discussion

The objective of this Agenda Item is to obtain the IAASB's input on the first read of the draft Exposure Draft (ED) of proposed ISA 220 (Revised), set out in **Agenda Item 6–A**. This paper provides an overview of the ISA 220 Task Force's (Task Force) considerations in developing the draft ED.

A. Introduction

1. This paper should be read in conjunction with **Agenda Item 6–A**, which is a marked version from the working draft of the draft ED that was presented by the Task Force to the Board during the December 2017 IAASB meeting.
2. **Agenda Item 6–A** builds upon the foundational concepts described in the December 2017 issues paper.² In addition, in progressing the draft ED the Task Force took into account the following:
 - General Board feedback received at the December 2017 IAASB meeting, including written comments provided to the Task Force by Board members during the course of or after the December 2017 IAASB meeting.
 - Ongoing revisions to proposed ISQC 1 (Revised),³ proposed ISQC 2,⁴ and proposed ISA 315 (Revised).⁵
3. Minutes of the IAASB's December 2017 discussion on this topic can be found in Appendix B to this paper.⁶
4. Related agenda materials are provided as follows:

Agenda item 6–A	Draft ED of Proposed ISA 220 (Revised) - Marked to December 2017 IAASB papers
Agenda Item 6–B	Draft ED of Proposed ISA 220 (Revised) - Clean
Agenda Item 6–C	Draft ED of Proposed ISA 220 (Revised) - Marked to Extant ISA 220

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

² See December 2017 IAASB agenda papers <http://www.iaasb.org/system/files/meetings/files/20171211-Agenda-Item-5-Quality-Management-Engagement-Level-ISA-220-Issues-Paper-CLEAN-112217.pdf>

³ Proposed *International Standards on Quality Control (ISQC) 1 (Revised), Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

⁴ Proposed ISQC 2, *Engagement Quality Control Reviews*

⁵ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁶ These minutes were included in the minutes of the December 2017 IAASB meeting and were approved by the Board at its March 2018 meeting.

5. Within **Agenda item 6–A**, grey highlighting is used to show paragraphs or sections that are subject to ongoing revision based on changes necessary to align with proposed draft ISQC 1 (Revised) or proposed ISQC 2. The Task Force will continue to monitor progress on the ISQCs, interact with the respective task forces working on the ISQCs and will make necessary changes to these paragraphs in proposed ISA 220 (Revised). In addition, the following matters will be considered by the ISA 220 Task Force prior to the finalization of the Exposure Draft (and discussed with the Board as necessary):

- Ongoing revisions of ISA 315 (Revised);
- Changes based on the restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) of the International Ethics Standards Board for Accountants (IESBA);
- Consideration of public sector issues through specific outreach with INTOSAI’s⁷ Auditing Subcommittee; and
- Conforming amendments to the other ISAs.

6. The remainder of this paper is organized as follows:

Section B	How Proposed ISA 220 (Revised) Addresses Key Matters of Public Interest and Enhances Audit Quality
Section C	Proposed Revisions to ISA 220
Section D	Other Matters Discussed by the Task Force
Section E	Way Forward
Appendix A	Task Force’s Activities, including Outreach and Coordination with Other IAASB Task Forces and Working Groups
Appendix B	Approved IAASB Meeting Minutes (December 2017)

⁷ International Organization of Supreme Audit Institutions

B. How Proposed ISA 220 (Revised) Addresses Key Matters of Public Interest and Enhances Audit Quality

KEY PUBLIC INTEREST ISSUES ⁸	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 6-A]
<p>Addressing and encouraging appropriate exercise of professional skepticism</p>	<p>The engagement partner’s (EP’s) actions and messaging to the engagement team overall supports the exercise of professional skepticism and demonstrates the behaviors associated with professional skepticism. In addition, the draft ED highlights the importance of the engagement team exercising professional judgment and professional skepticism on the audit, as well as providing examples of the actions engagement teams can take to address impediments to professional skepticism.</p>	<p>4B, 8A, A3G, A3H</p>
	<p>Tight financial reporting deadlines, time, budget, or resource constraints, may act as an impediment to the exercise of professional skepticism. Therefore, the EP makes resourcing decisions, taking into account whether the resources assigned, or made available by the firm, are sufficient given the nature and circumstances of the audit engagement.</p>	<p>14, 14A, 14B, A3G, A11A, A13</p>
	<p>Highlight the existence of unintentional or intentional auditor biases that may act as an impediment to the exercise of professional skepticism.</p>	<p>A3G, A3H, A3I, A13</p>

⁸ The issues identified in this table are adapted from the issues identified in the project proposal addressing the revisions of the IAASB’s quality control standards (ISQC 1 and ISA 220) and group audits (ISA 600). The project proposal can be found at the following link http://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal-Approved_0.pdf

KEY PUBLIC INTEREST ISSUES ⁸	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 6-A]
	<p>Consideration of whether engagement team has the technical competence, capabilities to perform the engagement in order to be in a position to exercise professional skepticism.</p>	<p>14A, A8, A11, A19D</p>
	<p>When directing, supervising, or reviewing the work performed, pairing more experienced team members with less experienced team members allows for less experienced team members to benefit from on-the-job training focused on identifying potential areas of risk and in learning the actions that demonstrate the exercise of professional skepticism.</p>	<p>15(c), A2, A2D, A3F, A3H, A12A, A12D, A13, A15, A19D, A19E</p>
<p>Clarifying the EP's role and responsibilities</p>	<p>Enhancing the requirements and application material in relation to engagement leadership, in particular clarifying what is appropriate in relation to the requirements for the EP to take responsibility for direction, supervision, performance and review on each audit engagement.</p>	<p><u>EP's responsibility for overall quality, including a stand back evaluation, in addition to responsibility for direction, supervision and reviews:</u> 8, 8A, 8B, 15, 23A</p> <p><u>Enhanced application material for leadership:</u></p> <ul style="list-style-type: none"> - Commitment to quality, setting the right tone, creating the right environment: A3A – A3D - Enhanced “all-way” communication: A3E – A3F - Professional skepticism necessary for appropriate judgments: A3G – A3I <p><u>Enhanced application material for tailoring the nature, timing and extent of direction, supervision and review:</u></p>

KEY PUBLIC INTEREST ISSUES ⁸	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 6-A]
		<ul style="list-style-type: none"> • What it means to direct, supervise and review: A12A – A17B • Taking into account, and tailoring, direction, supervision and reviews based on the nature and circumstances of the audit engagement: A19C – A19E
	<p>Focusing on the involvement of the EP, including those situations where the EP is not located where the majority of the audit work is performed.</p>	<p><u>EP's involvement in the audit:</u> 8, 23A(a), A12C, A13</p> <p><u>Considerations where the engagement team is dispersed:</u> A2G, A3D, A19D</p>
	<p>Enhancing the requirements and application material in relation to the two-way communication necessary between engagement team members, and other auditors involved in the audit engagement.</p>	<p><u>Engagement teams' responsibility to communicate information up to the firm:</u> 3(c), A2A, A3E, A4E</p> <p><u>EP's responsibility to communicate information up to the firm:</u> 13, 23(c), A3E, A3H, A4E</p> <p><u>EP's responsibility to communicate with the engagement team:</u> 8A(a)-8A(c), A3C, A3E, A3F, A4D, A13, A35A</p> <p><u>Engagement teams' responsibility to communicate with each other:</u> A3E, A4D, A12D</p> <p><u>Engagement teams' responsibility to communicate with the engagement quality control reviewer:</u> A25A</p>

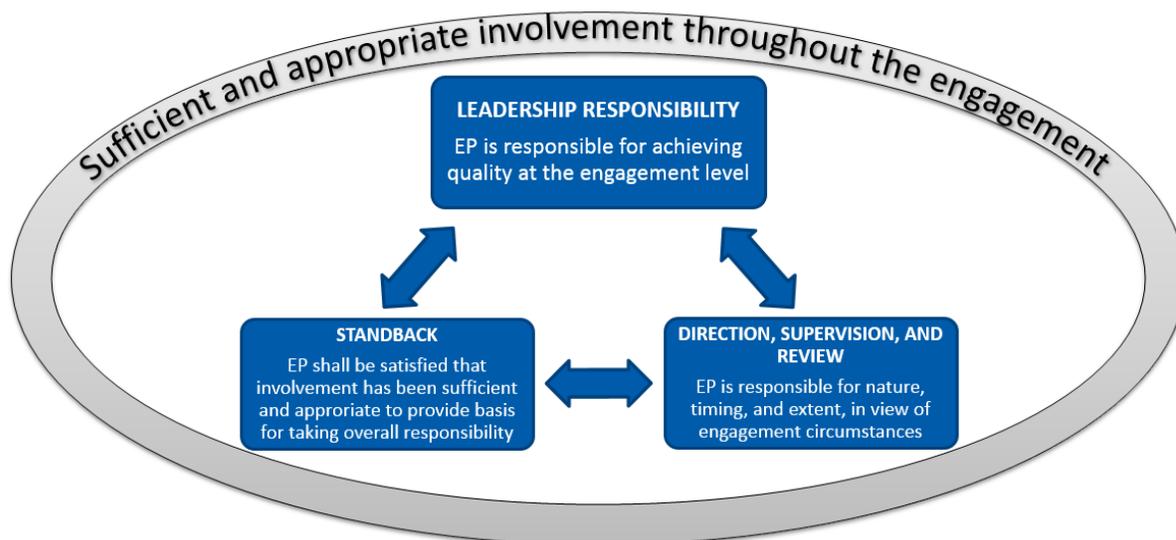
KEY PUBLIC INTEREST ISSUES ⁸	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 6-A]
		<p><u>EP's responsibility to communicate information to management/those charged with governance</u>: A3H, A4E</p> <p><u>Engagement team's responsibility to communicate with other auditors</u>: A3E <i>(communication between the group engagement team and component auditors will be further addressed within the Group Audits project)</i></p>
<p>Reliance on firm or network firm quality management processes and procedures</p>	<p>Clarifying what is required at the engagement level in relation to reliance on applicable firm or network-level quality management processes and procedures.</p>	<p><i>The Task Force has preliminarily included a placeholder addressing networks and the use of network resources. However, the Task Force notes that the Quality Control Task Force intends to present proposals to the Board in June 2018 related this topic, which will then need to be reflected in proposed ISA 220 (Revised) following the Board's discussion. See A1D, A2B, A2H, A2I</i></p>
<p>Addressing audit delivery models</p>	<p>Considering and demonstrating how the requirements for managing quality at the engagement level address evolving service delivery centers that may result in engagement teams with different structures and involve other auditors.</p>	<p><u>Revised definition of engagement team</u>: 7(d), A2H, A2J</p> <p><u>EP's leadership responsibilities for these resources</u>: A3D</p> <p><u>Direction, supervision and review of these resources</u>: A19D</p>

KEY PUBLIC INTEREST ISSUES ⁸	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM 6-A]
<p>Other matters</p>	<p>Clarifying the required understanding for accepting or continuing an engagement, including further consideration of situations where necessary access to</p> <p>(a) the financial information; or</p> <p>(b) other auditors who will be involved in the audit,</p> <p>is restricted or precluded. For situations where restrictions to information or management do exist, clarifying the auditor's considerations about what appropriate actions could be.</p>	<p><u>Revised requirements focusing on the firm's policies or procedures:</u> 12, 13</p> <p><u>Difficulties imposed by management:</u> A3G, A3H</p> <p><u>EP's determination of the appropriateness of the firm's acceptance and continuance conclusions:</u> A8A – A8C</p> <p><u>Audits where the audit firm is appointed pursuant to law or regulation or by a regulatory or other authority:</u> A8G, A9</p>
	<p>Considering the interaction of firm quality management with managing quality at the engagement level, for example in relation to monitoring and EQC reviews.</p>	<p><u>Interaction between the firm's system and the role of engagement teams:</u> 2, 3, A1C, A1D, A2A – A2F</p> <p><u>Areas where the engagement team will use information provided by the firm and how it should be supplemented:</u> 13, 13A, 23, A4C, A8, A8B, A8D – A8E, A8G, A9, A33, A34</p>
	<p>Strengthening the communication requirements to promote effective two-way dialogue, in particular with other auditors.</p>	<p>See above response under "Clarifying the EP's role and responsibilities."</p>

Linking to Audit Quality

- The following illustration shows that the EP's overall responsibility to achieve quality on the engagement is demonstrated through sufficient and appropriate involvement throughout the engagement, such that the significant judgments made and the conclusions reached are appropriate in the circumstances of the audit. This overall responsibility includes:

- a) Fulfilling leadership responsibilities (see Leadership section below, paragraph 21);
- b) Taking responsibility for the nature, timing and extent of direction, supervision and review of the work performed (see Direction, Supervision and Review section below, paragraphs 32–35); and
- c) Determining whether such involvement in the audit has been sufficient and appropriate (see Taking Overall Responsibility for Achieving Quality section below, paragraphs 36–37).



C. Proposed Revisions to ISA 220

Introduction (Agenda Item 6–A, paragraphs 1 – 4B, and A0 – A2F)

8. The Task Force made changes to the introductory paragraphs and related application material in response to board comments, including:
 - Scope paragraph (paragraph 1 in **Agenda Item 6–A**) – The December 2017 draft recognized that it is not possible or practical for the EP to personally perform *all* the procedures that might be relevant in addressing the requirements of proposed ISA 220 (Revised) but that the EP nonetheless remains accountable for the execution of those procedures. The Task Force also acknowledges that quality may best be brought to an engagement through the involvement of particular team members with the right skills, experience and capabilities to address certain areas of the engagement. As proposed by the Board, this concept has been moved to the Leadership Responsibilities section as a requirement, see paragraphs 8B and A3J of **Agenda Item 6–A**.
 - The Firm’s System of Quality Management and Role of Engagement Teams (**Agenda Item 6–A**, paragraphs 2 – 4A) –The Task Force has restructured paragraph 3 to align with proposed ISQC 1 (Revised) and to clarify how the members of the engagement team, led by the EP, collectively have a responsibility to implement the firm’s responses at the engagement level. In addition, the Task Force deleted the previous paragraph 4 (as presented in the December

2017 agenda papers) because it is implicit within the other requirements of proposed ISA 220 (Revised) that the engagement team cannot blindly rely on the firm's responses.

- Professional Judgment and Professional Skepticism – The Task Force has added material in the introductory paragraphs to highlight the importance of applying professional judgment and professional skepticism in achieving quality at the engagement level. The Task Force has also added further material throughout the standard to address these concepts (see paragraph 4B in **Agenda Item 6–A** as well as Section B above).
 - References to the role of engagement quality control reviewers as will be described in proposed ISQC 2 were moved to application material (see paragraph A1B of **Agenda Item 6–A**)
9. The Task Force is proposing application material to the Introduction paragraphs that covers:
- The link between firm level quality management in proposed draft ISQC 1 (Revised) and engagement level quality management in proposed draft ISA 220 (Revised) (see paragraphs A1C–A1D, A2A–A2F of **Agenda Item 6–A**);
 - Additional responses to quality risks that may be needed at the engagement level (see paragraph A2 of **Agenda Item 6–A**);
 - Communication to the firm regarding information that may be relevant to the firm's system of quality management (see paragraph A2A of **Agenda Item 6–A**);
 - The use of network resources (see paragraphs A1D, A2B–A2C of **Agenda Item 6–A**); and
 - Considerations for smaller firms (see paragraphs A2E–A2F of **Agenda Item 6–A**).
10. In December 2017, a Board member asked the Task Force to consider to whom the requirements of the ISA should be directed (i.e., the auditor, the EP, or the engagement team). Currently, in **Agenda Item 6–A** virtually all⁹ of the requirements of the standard are directed at the EP, however there are two instances within the Introduction and Objectives where the paragraphs are directed at the “auditor.” Given the definition of “auditor” in the glossary of terms,¹⁰ the Task Force reconsidered the use of “engagement partner” vs. “engagement team”, vs. “auditor” throughout the proposed revisions to ISA 220 in order to make sure that the use of each term continues to be appropriate. The Task Force believes it is appropriate that most of the requirements within proposed ISA 220 (Revised) are directed at the EP, given the role of the EP is to take overall responsibility for the achievement of quality on the engagement. However, in response to feedback from the ITC, the Task Force has also specifically highlighted in the requirements the responsibility of all engagement team members to contribute to the achievement of quality at the engagement level (see paragraph 8A of **Agenda Item 6–A**).

⁹ Consistent with extant, the only requirement which is directed at all members of the engagement team (which includes the EP), is related to Differences of Opinion, see paragraph 22 of **Agenda Item 6–A**.

¹⁰ “Auditor” is used to refer to the person or persons conducting the audit, usually the EP or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the EP, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

Objective (Agenda Item 6–A, paragraph 6)

11. After considering Board comments on the objective, the Task Force made a change to use the phrase “the auditor fulfilled its responsibilities” in accordance with professional standards and applicable legal and regulatory requirements; rather than “the auditor complies with” such responsibilities in order to avoid the perception that the auditor should be focused on only compliance.
12. The Task Force notes that objective of the standard is primarily accomplished through addressing the requirements of proposed ISA 220 (Revised). While all the requirements of proposed ISA 220 (Revised) support the objective of proposed ISA 220 (Revised), some requirements are of particular relevance, for example:
 - The EP’s proactive leadership of the engagement (see paragraphs 8–8B of **Agenda Item 6–A**);
 - The EP’s sufficient and appropriate direction and supervision of engagement team members, and review of the work performed (see paragraph 15–17C of **Agenda Item 6–A**); and
 - The EP being satisfied that the EP is able to take overall responsibility for achieving quality on the engagement. (See paragraph 23A of **Agenda Item 6–A**).

Matters for IAASB Consideration

Introduction and Objective (Agenda Item 6–A, paragraphs 1 – 4B, 6 and A0 – A2F)

- 1) The IAASB is asked to share its views on whether the revised introductory paragraphs 1–4B have been clarified based on Board feedback?
- 2) The IAASB is asked to share its views on the objective (see paragraph 6 of **Agenda Item 6–A**)

Definitions (Agenda Item 6–A, paragraph 7 and A2G–A2L)

Engagement Partner

13. During the March 2018 IAASB discussion of proposed ISQC 1 (Revised), some Board members suggested that changes to the definition of EP were necessary, given that under ISQC 1, the EP is “assigned” by the firm to an audit engagement. The extant definition of EP does not encompass that the EP be “assigned” or “designated” by the firm. Accordingly the task force agreed with the Board’s proposal that the definition of EP be clarified to recognize that the EP is the “partner or other individual *designated* by the firm.” Note that use of the term “individual” instead of “person” is to align with other changes in proposed ISQC 1 (Revised).
14. The Task Force also considered whether proposed draft ISA 220 (Revised) should address the role and responsibilities of the individual who signs the auditor’s report. This matter is discussed further in Section D of this paper.

Engagement Team

15. The Board supported the Task force proposal provided at the December 2017 meeting that the definition of engagement team should be revised to clarify that all individuals who perform audit procedures on the engagement should be members of the engagement team (see **Agenda Item 6–A** paragraph 7(d)). This change specifically recognizes that individuals who are involved in the audit engagement may not necessarily be “engaged” directly by the firm or located in the same place as

the engagement team (e.g., service delivery centers). Importantly, the change recognizes that regardless of where such individuals are located, or how they are related to the firm, if they are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed. The Task Force has also included application material that (see **Agenda Item 6–A** paragraph A2G–A2J) that recognizes such evolving structures of audit teams (may be in different locations, may have specialized roles) and the use of service delivery centers.

16. However, The Task Force supports the continued exclusion of both an auditor’s external expert and individuals within the client’s internal audit function who provide direct assistance on an audit engagement from the definition of engagement team.
17. The Task Force considered an alternative approach (i.e. instead of proposing a change to the definition of engagement team), which was to retain the extant definition of engagement team and add application material to describe examples of different engagement team structures, and to indicate that individuals performing audit procedures would be considered members of the engagement team. However the task force agreed that this alternative approach would be perceived as extending the definition through the application material, and would therefore be less clear and likely confusing.

Coordination with the Quality Control Task Force and IESBA Regarding Proposed Definitions of EP and Engagement Team

18. As the definitions of EP and engagement team are also used in ISQC 1 and the IESBA Code, the Task Force acknowledges that close coordination with the Quality Control Task Force and IESBA regarding these proposed changes will be necessary.

Other Definitions

19. The Task Force proposes deleting the definitions of “inspection”, “monitoring”, and “suitably qualified external person” in proposed ISA 220 (Revised). The definitions have been removed from proposed ISQC 1 (Revised) or proposed ISQC 2 and so it is appropriate that they be removed from proposed ISA 220 (Revised). Furthermore, the terms are not used in the proposed ISA 220 (Revised).
20. Additionally, the Task Force notes the following definitions are drawn from the most recent drafts of proposed ISQC 1 (Revised) (March 2018) or ISQC 2 (September 2017), but will need to be modified as these standards progress. For this reason, these definitions are shown in grey text within **Agenda Item 6–A**:
 - Engagement Quality Control Review;
 - Engagement Quality Control Reviewer;
 - Firm;
 - Relevant Ethical Requirements; and
 - Response (in relation to a system of quality management)

Matters for IAASB Consideration

Definitions (Agenda Item 6–A, paragraph 7 and A2G–A2L)

- 3) The IAASB is asked:
 - (i) Whether it agrees with the recommendations of the Task Force in connection with the definition of EP and engagement team in paragraphs 7(a) and 7(d) in **Agenda Item 6–A**, respectively, and the related application material at A2G–A2J; and
 - (ii) Whether there are any unintended consequences that should be considered.
- 4) Whether there are views about the other definitions and related application material.

Leadership Responsibilities for Achieving Quality on Audits (Agenda Item 6–A, paragraphs 8–8B and A3A–A3J)

21. The Task Force has significantly expanded and clarified the requirements for leadership responsibilities, given the importance of the EP's overall responsibility for achieving quality on the audit engagement (see also paragraph 7 above). In particular, the Task Force believes that, to achieve quality on the audit engagement the EP demonstrates sufficient and appropriate involvement in the engagement, which includes being responsible for creating an environment that emphasizes the firm's cultural values and behaviors. Accordingly the Task Force proposes the following revisions:
 - Emphasizing the EP's responsibility for creating an environment that emphasizes the firm's cultural values and behaviors, and for managing quality. The Task Force has also proposed the EP needs to be involved in the engagement such that the EP has a basis for determining the appropriateness of the judgements and conclusions (see paragraph 8 of **Agenda Item 6–A**). New application material (see paragraphs A3C–A3D in **Agenda Item 6–A**) explains how the EP's personal conduct and actions promote a culture focused on the quality of the audit.
 - Elevating application material from A3 and A3F (as presented in the December 2017 agenda papers) to be requirements 8A and 8B, respectively, in **Agenda Item 6–A** and adding application material in support of these new requirements;
 - Paragraph 8A (and related application material A3A–A3D) requires the EP to take clear, consistent and effective actions to reflect the firm's commitment to quality, which is emphasized at a firm level in proposed ISQC 1 (Revised) (where it is acknowledged that the firm's commitment is further shaped and reinforced by the firm's personnel).
 - Paragraph 8B (and related application material A3J) has been included to acknowledge that the EP may assign procedures, tasks or actions to other members of the engagement team as the EP may not be in a position to carry out all responses required to address proposed ISA 220 (Revised). In addition, the Task Force believes that part of achieving quality is assigning procedures, tasks or actions to the most skilled and experienced individuals, which may not always be the EP, and the nature, timing and extent of direction, supervision, and review may be adjusted accordingly to reflect the skills and experience of the assignee. However, the EP remains responsible for concluding on whether the requirements of proposed ISA 220 (Revised) have been addressed and achieving quality on the engagement.

- New application material (paragraphs A3G – A3I in **Agenda Item 6–A**) illustrates how the impediments to professional skepticism may affect quality management at the engagement level. This is supported by examples of actions that may be taken in response to the impediments, and examples of unintentional and intentional auditor biases that may affect the exercise of professional skepticism and the application of professional judgment.

Matter for IAASB Consideration

Leadership Responsibilities for Achieving Quality on Audits (Agenda Item 6–A, paragraphs 8–8B and A3A–A3J)

- 5) What are the IAASB views on paragraphs 8–8B and the related application material at A3A–A3J in **Agenda Item 6–A**.

Relevant Ethical Requirements, Including Independence (Agenda Item 6–A, paragraphs 9–10A, and A4–A7)

22. Board members asked the Task Force to consider clarifying how the EP can “become satisfied” with respect to compliance with the relevant ethical principles and whether the firm’s policies and procedures related to relevant ethical requirements have been followed.
23. In response to the Board’s feedback, the Task Force proposes adding the following enhancements to the requirements as follows:
- Requiring the EP to also have a sufficient understanding of the relevant ethical requirements, and the firm’s related policies and procedures, to identify instances of noncompliance (see paragraph 9 of **Agenda Item 6–A**);
 - Requiring the EP to be satisfied that that engagement team members also understand their responsibilities when they become aware of actual or suspected breaches of independence (see paragraph 9A of **Agenda Item 6–A**);
 - Aligning paragraph 10A(a) of **Agenda Item 6–A** with the required statement on independence in paragraph 28(c) of ISA 700 (Revised).¹¹
24. In response to Board feedback related to the consistency in presentation of the relevant ethical requirements with proposed ISQC 1 (Revised), the Task Force proposes that the Independence requirement in extant paragraph 11 be combined with the paragraph 9 that addresses the overall responsibilities of the EP with respect to relevant ethical requirements.
25. The Task Force has also aligned the application material with draft proposed ISQC 1 (Revised) presented to the IAASB in March 2018. In addition, new application material has been drafted to highlight possible actions when relevant ethical requirements have not been fulfilled (see paragraph A4E of **Agenda Item 6–A**).

¹¹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Matter for IAASB Consideration

Relevant Ethical Requirements, Including Independence (Agenda Item 6–A, paragraphs 9–10A, and A4–A7)

- 6) The IAASB is asked for its views on paragraphs 9–10A and A4–A7 of **Agenda Item 6–A**.

Acceptance and Continuance of Client Relationships and Audit Engagements (Agenda Item 6–A, paragraphs 12–13A and A7A–A9)

26. The Task Force has not made any changes to the requirements proposed at the December 2017 IAASB meeting in this section. However, the Task Force proposes, in support of paragraph 13A, additional application material that describes how information obtained by the firm through its acceptance and continuance procedures may be relevant in planning and performing the audit engagement (see paragraphs A8D in **Agenda Item 6–A**).
27. In some circumstances (for example, in the public sector), firms may be obliged to conduct the audit of an entity due to specific provisions in law or regulation imposing the responsibility for conducting the audit on a particular firm. In such circumstances, the firm’s policies and procedures in relation to acceptance and continuance considerations may need to be applied differently. In particular, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements may not be relevant. The Task Force proposes to acknowledge within the application material that in such a circumstance, the information obtained by the firm, however limited, will still be relevant in planning and performing the audit engagement (see paragraph A8G–A9 in **Agenda Item 6–A**).

Commercial Considerations

28. At the December 2017 IAASB meeting, the Task Force was asked how certain commercial considerations such as low audit fees, relate to acceptance and continuance decisions and what affect those decisions would have on audit quality. The Task believes that, irrespective of the audit fee for the engagement, engagement resourcing should be focused on quality and not on the firm’s financial and operational priorities. The Task Force proposes revisions to the requirements and the addition of related application material in relation to these considerations within the Engagement Resources section, see paragraphs 29–30 below.

Matter for IAASB Consideration

Acceptance and Continuance of Client Relationships and Audit Engagements (Agenda Item 6–A, paragraphs 12–13A and A7A–A9)

- 7) What are the IAASB views on paragraphs 12–13A and the related application material at A7A–A9 in **Agenda Item 6–A**.

Engagement Resources (Agenda Item 6–A, paragraph 14–14C, and A9A–A12)

29. The Task Force notes that the EP is responsible for being satisfied that there are sufficient and appropriate resources at the right time. As such, the Task Force proposes an additional requirement that the EP take the appropriate action when insufficient or inappropriate resources are provided by the firm (see paragraph 14B of **Agenda Item 6–A**). Application material has been proposed that

describes what appropriate actions the EP would take in these circumstances and reinforces that the firm's commitment to quality and the EP's responsibility for achieving quality are of paramount importance (see paragraph A11C of **Agenda Item 6–A**).

30. The Task Force also discussed the direct link between effective project management and audit quality, irrespective of the size of the audit engagement. Project management tools assist the auditor in timely identifying issues related to the audit, thus allowing the EP to address risks to audit quality on a timely basis. For smaller, less complex engagements, project management may be relatively simple and informal, while on larger engagement with resources that are dispersed, project management may be more complex and necessitate more formality. Application material has been proposed to address the importance of project management, see paragraphs A11A and A11B in **Agenda Item 6–A**.

Coordination with the Data Analytics Working Group

31. The Task Force consulted with the Chair of the Data Analytics Working Group (DAWG) who provided initial feedback on the resources section of proposed ISA 220 (Revised). Specifically, the Task Force discussed whether specialized skills or knowledge may be needed to correctly operate complex technology, or other techniques used to perform audit procedures. The Task Force intends to further liaise with the DAWG subsequent to the June 2018 Board meeting in order to incorporate more specific examples into proposed ISA 220 (Revised).

Matter for IAASB Consideration

Engagement Resources (Agenda Item 6–A, paragraph 14–14C, and A9A–A12)

- 8) What are the IAASB views on paragraphs 14–14C and the related application material at A9A–A12 in **Agenda Item 6–A**.

Engagement Performance – Direction, Supervision, and Reviews (Agenda Item 6–A, paragraphs 15–17C, and A12A–A19E)

32. The Task Force has not proposed significant revisions to the requirements within this section since the December 2017 IAASB meeting. Minor changes have been made to further clarify the EP's review responsibilities (see paragraph 17A of **Agenda Item 6–A**), including reviewing the final drafts of the financial statements (see paragraph 17B of **Agenda Item 6–A**).
33. However, the Task Force proposes the following additions to the application material based on the board's feedback:
- **Direction** – Supplementing the list examples of what matters are communicated to engagement team members to illustrate how “direction” is demonstrated. This includes, for example, considerations related to the importance of being aware of unintentional or intentional auditor biases in exercising professional skepticism, the responsibility for all engagement team members for contributing to the achievement of quality, the technical expertise or experience of engagement team members, and informing engagement team members about relevant threats to the achievement of audit quality (see paragraph A13 in **Agenda Item 6–A**).
 - **Supervision** – Describing further what it means to track the progress of the engagement, how coaching and on the job training are critical for less experienced engagement team members,

and the importance of creating an environment where engagement team members raise concerns where necessary (see paragraph A15 in **Agenda Item 6–A**).

- Review – Explicitly stating that the purpose of the review provides the EP, and all members of the engagement team, with support for the conclusion that the requirements of proposed ISA 220 (Revised) have been addressed and reference to the fact that the firm may have specific policies or procedures regarding reviews (see paragraph A17 and A17B in **Agenda Item 6–A**).

The EP's Review of Work Performed

34. In considering the proposed revisions to audit documentation required to be reviewed by the EP (see paragraphs 17A and A19A in **Agenda Item 6–A**), the Task Force developed application material relating to the following:

- The review requirements for the EP should take into account what the engagement quality control reviewer will be required to review (paragraph 17A will be revised when proposed ISQC 2 is finalized); and
- Examples of areas involving significant judgments the EP may need to review:
 - Matters related to planning the engagement such as matters related to determining materiality;
 - 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; and
 - 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.

Nature, Timing and Extent

35. Paragraph 15 in **Agenda Item 6–A** requires the EP to 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. Application material acknowledges the EP may tailor the approach (i.e., the nature, timing and extent) to direction, supervision and review depending on, for example, 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 from and more frequent, or in person, interactions with those directing and supervising them as the work is performed (see paragraphs A19C–A19E in **Agenda Item 6–A**).

Matter for IAASB Consideration

Engagement Performance – Direction, Supervision, and Reviews (Agenda Item 6–A, paragraphs 15–17C, and A12A–A19E)

- 9) What are the IAASB views on paragraphs 15–17C and the related application material at A12A–A19E in **Agenda Item 6–A**.

Taking Overall Responsibility for Achieving Quality (Agenda Item 6–A paragraph 23A and A35A–35B)

36. The Task Force has revised the stand back provision to focus on the EP’s involvement in the audit and whether quality has been achieved (see also paragraph 7). The Task Force made enhancements to the stand back to link the stand back with how the EP demonstrates and achieves the objective of proposed ISA 220 (Revised) and takes overall responsibility for achieving quality on the audit engagement.
37. The Task Force has also drafted new application material to support the requirement, including some guidance for possible actions when the partner is not able to conclude that involvement has been sufficient and appropriate (see paragraphs A35A–A35B of **Agenda Item 6–A**).

Matter for IAASB Consideration

Taking Overall Responsibility for Achieving Quality (Agenda Item 6–A paragraph 23A and A35A–35B)

- 10) What views does the IAASB have on paragraph 23A and A35A–A35B?

Other Sections of Proposed ISA 220 (Revised)

38. The Task Force has considered the requirements in the other sections of proposed ISA 220 (Revised) and has proposed limited amendments to the requirements and related application material, largely to align with the revised proposed requirements within ISQC 1 (Revised).
- Consultation (**Agenda Item 6–A**, paragraph 18 and A21–A22)
 - Engagement Quality Control Review (EQCR) (**Agenda Item 6–A**, paragraph 19 and A23–A25A). Paragraphs A25 and A25A contain guidance on the importance of a timely EQCR and that the EP may choose to assign responsibility for coordinating requests from the EQCR to a member of the engagement team.
 - Differences of Opinion (**Agenda Item 6–A**, paragraphs 22–22A and A32A–A32B). Paragraph A32B provides guidance on appropriate actions that the EP may need to undertake if the EP is not satisfied with the resolution of the difference of opinion.
 - Monitoring and Remediation (**Agenda Item 6–A**, paragraph 23 and A33–A35). Paragraph A34 now also addresses remedial actions that may need to be undertaken at the engagement level.

Matter for IAASB Consideration

Consultation, Engagement Quality Control Review, Differences of Opinion, Monitoring and Remediation (Agenda Item 6–A paragraphs 18–23 and A21–A35)

- 11) Does the IAASB have views on paragraphs 18–23 and A21–A35?

Documentation (Agenda Item 6–A paragraph 24 and A35C–A36)

39. Paragraph 24 has been amended to give greater specificity to the documentation requirements and to align them with revisions to the requirements. In addition to the extant requirements, the audit documentation is now specifically proposed to include how the results of conclusions from

consultations were implemented. Documentation requirements for the work of the engagement quality control reviewer will be dealt with in proposed ISQC 2.

40. In addition, application material has been developed which describes the ways in which the documentation requirements may be met, for example participation in direction can be documented through signoffs of the audit plan and project management activities (see paragraph A35C in **Agenda Item 6–A**). Paragraph A35D also provides brief guidance on how the exercise of professional skepticism may be documented in relation to proposed draft ISA 220 (Revised).

Matter for IAASB Consideration

Documentation (Agenda Item 6–A paragraph 24 and A35C–A36)

- 12) Does the IAASB have views on paragraph 24 and A35C–A36?

D. Other Matters Discussed by the Task Force

Circumstances When an Individual Other Than the EP Signs the Auditor’s Report, Instead of, or in Addition to the EP

Background

41. The definition of EP specifies that the EP is responsible for the auditor’s report that is issued on behalf of the firm. Extant ISA 220 does not specify that the EP has to sign the auditor’s report, and nor do other ISAs. In December 2017, one Board member questioned whether situations in which the individual signing the auditor’s report is different from the EP should be addressed within ISA 220. Subsequent to the December 2017 IAASB meeting, the Board member provided the Task Force with a short summary of the issue, noting that the definition of EP in ISA 220 complicates the situation because it sets forth that the EP is responsible for the auditor’s report. The Board member believes that the IAASB should acknowledge this situation, and provided the following suggested modification to the definition of EP (shown as underlined):

‘The partner or other person in the firm who is responsible for the audit engagement and its performance and for the auditor’s report that is to be issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. In some jurisdictions, pursuant to law or regulation, the individual responsible for signing the auditor’s report, on behalf of the firm, may be an individual other than the EP.’

42. The Board member also noted that this proposed change gives rise to the question as to whether the term “signing partner” should be defined in the ISAs, and whether requirements should be developed with respect to that individual’s responsibilities, but did not make further recommendations in this regard.
43. ISA 700 (Revised) deals with the auditor’s responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor’s report issued as a result of an audit of financial statements, including that the name of the EP shall be included in the auditor’s report for listed entities, and that the report be signed by the auditor. ISA 700 (Revised) notes that the auditor’s signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction.¹² ISA 700 (Revised) does not specify who should

¹² ISA 700 (Revised), paragraphs 47 and A64–A65

sign the auditor's report, nor does it have requirements about the responsibilities of the individual signing the auditor's report.¹³

Task Force Discussion

44. The feedback from the auditor reporting project and subsequent Task Force research has shown that there are a wide variety of circumstances related to the signing of auditor's report. The Task Force notes that local law or regulation may contain the requirements as to who should sign the auditor's report, and in some cases may set forth the expected level of involvement of such individuals in the audit. For example, in some jurisdictions, national law or regulation specifies that only the EP may sign the auditor's report. In other jurisdictions, law or regulation may set forth eligibility criteria for those signing the auditor's report, but may not specify that the EP is required to be the signatory. In some jurisdictions, it may also be practice for other individuals to sign the auditor's report in addition to the EP (e.g., the office managing partner or, in the case of a governmental entity, an auditor-general), and there may be jurisdictional requirements or guidance regarding the procedures that such individuals should perform.
45. The issue of whether the IAASB should explore whether to address situations where the auditor's report is signed by someone other than the EP was covered in the Invitation to Comment, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. The majority of those commenting on this specific aspect were not supportive of the IAASB addressing this topic, noting in particular possibly unintended consequences of undermining the responsibility of the EP for the performance of the audit.¹⁴
46. The Task Force discussed whether ISA 220 could or should acknowledge the possibility that the individual signing the auditor's report is not the EP. The majority of the Task Force concluded that simply acknowledging this possibility would not effectively resolve the issues as it would not outline the responsibilities of the individual signing the auditor's report. Additionally, given the variation in jurisdictional law, regulation or practices, the majority of the Task Force does not believe it is possible for the IAASB to develop requirements and guidance that would be broadly applicable to all the various situations that may arise. Acknowledging the existence of a signing partner other than the engagement partner would also not give transparency as to the identity of such a signatory – and it may therefore be seen as confusing who is ultimately responsible for the quality of the engagement. The Task Force also notes that regulators and audit oversight bodies are generally focused on the EP as being responsible for the audit, and therefore would likely react negatively to any proposal that may be seen as undermining the role of the EP and limiting the enforceability of the ISAs.
47. After considering these matters, a majority of the Task Force continues to believe that national law or regulation or requirements established by national standard setters continue to be the proper means for establishing specific requirements as to who should sign the auditor's report in given jurisdictions

¹³ The issues around the names and signatures included in the auditor's report was extensively discussed in Invitation to Comment, *Improving the Auditor's Report*. The Invitation to comment noted that the IAASB was not proposing that EPs' signatures be required, as mandating EPs' signature in the auditor's report would be left to the discretion of NSS or may be specified by law or regulation. The IAASB's revisions to the auditor reporting standards therefore focused on transparency of the name of the EP (which is now required to be disclosure for listed entities in most circumstances).

¹⁴ The Feedback to the ITC was discussed by the IAASB at its September 2016 meeting. See paragraph 17 of www.iaasb.org/system/files/meetings/files/20160919-IAASB-Agenda-Item-5-A-ITC-Feedback-and-Options-for-Way-Forward-Final.pdf

as well as for requirements or guidance addressing responsibilities of those individuals. The majority of the Task Force also notes that being prescriptive in the ISAs as to the identity and responsibilities of the individual signing the report – a role that is often performed by the EP – would likely confuse who is responsible for achieving quality on the audit engagement and for the auditor’s report issued to be appropriate in the circumstances.

48. One Task Force member believes that this practice is reasonably common in certain jurisdictions as well as being a key characteristic of “audits of letterbox companies”. That member believes it is in the public interest for the IAASB to be explicit that the individual signing the auditor’s report has a level of responsibility for the quality of the audit. This Task Force member would prefer that ISA 220’s application material provide guidance on that person’s role and responsibility for quality.
49. The Task Force notes that this issue is not contemplated within the approved project proposal for ISA 220, and therefore suggests that if the IAASB is of the view that the issue should be investigated again and revisions to the ISAs considered, that this work be progressed by a new working group that can focus specifically on this issue.
50. In addition, the Task Force has discussed the particular challenges for the public sector related to this topic. The Task Force notes that it may be appropriate to provide additional guidance in this regard for the public sector and that the matter will need to be further discussed with INTOSAI.

Matter for IAASB Consideration

- 12) Does the IAASB support the view held by a majority of the Task Force that national law or regulation is the proper place for requirements on:
 - (a) Who signs the auditor’s report in that jurisdiction; and
 - (b) Such individual’s responsibilities.If not, does the IAASB believe that a project should be considered to explore this issue further?

Scalability

Small and Medium-Sized Practitioners

51. The Task Force notes the importance of being clear about how proposed ISA 220 (Revised) can be applied in a scalable way to smaller practices or those that do audits of smaller or less complex entities.
52. Application material has been developed that explicitly recognizes considerations specific to smaller firms in relation to:
 - How the firm’s responses to quality risks, including policies or procedures, may be less formal in a smaller firm, and consequently, the risks this may pose (paragraph A2E of **Agenda Item 6–A**);
 - Some sections of the ISA may not be relevant if the audit is carried out entirely by the EP (see **Agenda Item 6–A** paragraph A2F); and
53. Proposed revisions to the requirements within **Agenda Item 6–A** emphasize a tailored approach to quality management at the engagement level that is responsive to the nature and circumstances of the audit engagement in the following areas:

- Engagement Resources – Paragraphs 14 and 14B;
 - Direction, Supervision and Reviews – Paragraphs 15(b) and 17A(c);
 - Taking Overall Responsibility for Achieving Quality – Paragraph 23A
54. For larger engagements, where members of the engagement team may be dispersed or where the audit requires specialized skills or expertise, the EP may assign certain procedures, tasks or other actions to other members of the engagement team to assist the EP in addressing the requirements of proposed ISA 220 (Revised). See paragraphs 8B, and accompanying application material A3J in **Agenda Item 6–A**.

E. Way Forward

55. Additional matters that will be considered as revisions to ISA 220 are progressed include:
- Ongoing revisions to the requirements of proposed ISA 220 (Revised) and related application material based on board feedback as well as input from outreach;
 - Ongoing revisions of proposed ISQC 1 (Revised) and proposed ISQC 2;
 - Ongoing revisions of ISA 315 (Revised);¹⁵
 - Input from the data analytics and professional skepticism working groups; and
 - Changes based on restructured IESBA Code.
56. The Task Force intends to present a second read of the Exposure Draft of proposed changes to ISA 220 for IAASB discussion in September 2018, including addressing the matters listed in paragraph 5 above.

¹⁵ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Appendix A

Task Force Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups

1. The following sets out the activities of the Task Force, including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the ISA 220 project since December 2017.

Task Force Activities since the last IAASB Discussions

2. The last Board meeting discussion on this topic was in December 2017. To develop the material in this agenda item, the following meetings have taken place:
 - Three Drafting Team¹⁶ meetings; and
 - Two Task Force meetings and one teleconference;

Outreach

3. Since the December 2017 IAASB meeting, the Chair of the Task Force presented an overview of the proposed changes to ISA 220 (Revised) to the Consultative Advisory Group (March 2018) and the Global Public Policy Committee (May 2018) to obtain their views. Additionally, there have been various discussions related to ISA 220 in other broader outreach efforts conducted by the IAASB Chair or Deputy Chair.

Coordination with Other IAASB Task Forces and Working Groups

4. Since the last IAASB discussion at the December 2017 IAASB meeting:
 - The Chairs of the Task Force and the Quality Control Task Force (QCTF), certain members of the respective drafting teams and staff of the respective projects held one meeting to discuss matters of mutual interest related to quality management at the firm level and quality management at the engagement level.
 - The Chair of the Data Analytics Working Group held a teleconference with members of the Task Force to consider certain aspects of data analytics in the proposed revisions to ISA 220.
5. Further coordination has also been facilitated through the overlap of task force members and staff as well as frequent staff liaison.

¹⁶ The Drafting Team comprises Megan Zietsman (Chair of the Task Force), Josephine Jackson, Susan Jones (technical advisor to Len Jui), and IAASB Staff.

Appendix B

December 2017 Approved Meeting Minutes – Quality Control – Engagement Level (ISA 220)

Ms. Zietsman explained the proposed changes of the ISA 220¹⁷ Task Force as set out in **Agenda Item 5-A**. Board members supported the direction of the proposed changes to ISA 220, in particular changes that emphasize that the engagement partner is responsible and accountable for audit quality.

Board members variously encouraged the ISA 220 Task Force to give further consideration to:

- Whether the extant objective of ISA 220 is too compliance-based and could be strengthened by creating a link to how the actions in ISA 220 contribute to audit quality;
- How the phrase “sufficient and appropriate” is used throughout the standard and whether it is appropriate in each instance;
- How the concept of “policies or procedures” in ISA 220 links to the concept of “response” at the firm level in ISQC 1;¹⁸
- The way in which some of the requirements within ISA 220 are directed, e.g., directed at the “auditor,” the “engagement partner,” or the “engagement team” and whether they remain appropriate in each instance;
- Whether the definitions of “engagement team” and “network” remain appropriate given the evolving structures of audit firms and engagement teams and the need to consider that these definitions currently align with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants;
- Whether, and how, situations in which the signing partner is different from the engagement partner should be addressed within ISA 220 or elsewhere;
- How the concept of “manage and achieve” quality would be demonstrated by auditors, e.g., what would constitute that quality has been achieved for a particular engagement;
- Clarifying how the engagement partner, in accordance with paragraph 9A, can become satisfied (e.g., how far the engagement partner is expected to go and what they are expected to obtain) that the firm’s policies and procedures related to relevant ethical requirements have been followed;
- How certain commercial considerations, for example audit fees, long association, or auditor rotation relate to acceptance and continuance decisions and the impact at an engagement level; and
- Incorporating more concepts from ISA 300,¹⁹ in particular paragraphs 8c and 11, and clarifying exactly which activities (procedures, tasks, or other actions) can be assigned by the engagement partner to other members of the engagement team.

Board members continued to support several previous proposals of the ISA 220 Task Force including, enhancing the standard to consider all resources needed for the engagement, and strengthening the requirements for ongoing, two-way communication. As it relates to the proposal for a new “stand-back”

¹⁷ ISA 220, *Quality Control for an Audit of Financial Statements*

¹⁸ International Standards on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

¹⁹ ISA 300, *Planning an Audit of Financial Statements*

requirement in ISA 220, some Board members questioned whether this requirement may be better placed in ISA 700 (Revised).

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin acknowledged the progress that has been made in revising ISA 220 and noted that the profession is currently operating in a manner that, when the requirements of ISA 220 are complied with, audit quality is achieved. Any revisions to the objective of ISA 220 that would change this, could represent a fundamental change for the profession. In addition, Mr. Dalkin noted that it isn't clear within paragraph 13 who would have the information first, the firm or the engagement partner, and how the communication would be done. He encouraged the ISA 220 Task Force to further consider the readability of this paragraph.

PIOB REMARKS

Ms. Stothers noted that the objective of this standard should not only be compliance-focused and, given inspection findings, the goal should be to achieve a higher quality standard which starts with the audit engagement team. She also recommended that further consideration be given to whether commercial considerations (e.g., audit fees) should be taken into account at the engagement level, specifically as it relates to acceptance or continuance decisions.

WAY FORWARD

The ISA 220 Task Force will reconsider the proposed changes and further develop the revisions to ISA 220. A first read of the proposed ED of ISA 220 is expected to be presented to the IAASB for discussion in June 2018.