ISA 220 – Quality Control at the Engagement Level and
ISA 600 – Group Audits

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Force Co-Chair
CAG Meeting, Madrid, Spain
Agenda Item G.1
September 11, 2017
ISA 220 – Quality Control for an Audit of Financial Statements
Planned Revisions to ISA 220—Project Proposal

• Clarify and strengthen engagement partner (EP) responsibilities, in particular in relation to direction, supervision and review
  – Situations where EP is not located where majority of audit work is performed

• Clarifying what is required at engagement level in relation to firm, and network, quality management processes and procedures

• Clarifying what needs to be done for managing quality for evolving audit delivery models

• Other matters:
  – Consideration of all resources needed for an engagement
  – Acceptance and continuance
  – Ongoing two-way communication
## Activities Since September 2016 CAG Meeting

<table>
<thead>
<tr>
<th>November 2016 CAG Teleconference</th>
<th>December 2016 IAASB Meeting</th>
<th>June 2017 IAASB Meeting</th>
<th>August 2017 IAASB Teleconference</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAG discussion of project proposal for Quality Control (ISQC 1 &amp; ISA 220) and Group Audits</td>
<td>Project proposal approved</td>
<td>ISA 220 TF (formerly “Crossover TF”) proposed enhancements to certain requirements in ISA 220 and related application material (AM), taking into account IAASB feedback from its Dec 2016 meeting (including proposed four-step approach)</td>
<td>QCTF* discussed proposed structure of ISQC 1; ISA 220 TF Chair presented proposed structure of ISA 220 and explained alignment with ISQC 1, including a brief overview of a revised approach for progressing revisions to ISA 220</td>
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* “QCTF” is the Quality Control Task Force responsible for revisions to ISQC 1.
Progressing Changes to ISA 220

• Proposed revisions presented by the ISA 220 TF and supported by the Board that seek to embed quality management principles within ISA 220:
  – Strengthen leadership responsibility of EP, including emphasis on sufficient involvement in the engagement to discharge responsibility for managing quality at the engagement level
  – Highlight interactions of ISA 220 with other ISAs (e.g., ISA 210, ISA 300, ISA 315 (Revised))
  – Consideration of how best to address strengthening the communication requirements in order to promote behavioral change
  – Extend the requirements and related application material in relation to ‘assignment of engagement teams’ to capture the broader resources required or deployed to perform an audit (e.g., also including technology resources, methodologies and related implementation tools and guidance)
  – Extend requirements and related application material relating to direction, supervision and review
  – Require a ‘stand-back’ at the end of the audit to consider that engagement quality has been achieved
### Managing Quality at the Engagement Level

<table>
<thead>
<tr>
<th>Four Step Approach</th>
<th>June IAASB Meeting</th>
<th>Revised Approach</th>
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</thead>
<tbody>
<tr>
<td><strong>Understand</strong></td>
<td><strong>Concerns regarding perceived complexity and possible impracticality when implementing the four step approach to all elements of ISA 220</strong></td>
<td><strong>Implement the firm’s responses that address the firm-identified quality risks</strong></td>
</tr>
<tr>
<td>Firm’s quality management system, incl. firm-level and engagement-level expectations to address quality risks</td>
<td><strong>Some proposed revisions seen as potentially overly onerous, especially for the EP</strong></td>
<td><strong>Design and implement additional responses that address ‘what could go wrong’ for the specific engagement</strong></td>
</tr>
<tr>
<td><strong>Determine</strong></td>
<td><strong>Are firm-level responses enough to manage quality at the engagement level, or is more needed?</strong></td>
<td><strong>Implement the firm’s responses that address the firm-identified quality risks</strong></td>
</tr>
<tr>
<td><strong>Respond</strong></td>
<td><strong>Take action at engagement-level to implement firm requirements and whatever else is necessary to manage quality at the engagement level</strong></td>
<td><strong>Design and implement additional responses that address ‘what could go wrong’ for the specific engagement</strong></td>
</tr>
<tr>
<td><strong>Communicate</strong></td>
<td><strong>Within the engagement team and to and from the firm – right things at the right time</strong></td>
<td><strong>Implement the firm’s responses that address the firm-identified quality risks</strong></td>
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</tbody>
</table>

*Concerns regarding perceived complexity and possible impracticality when implementing the four step approach to all elements of ISA 220.*
Revised Approach – The “Core” Elements of ISA 220

<table>
<thead>
<tr>
<th>Extant ISA 220 Elements</th>
<th>Revised ISA 220 Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Responsibilities</td>
<td>Leadership Responsibilities</td>
</tr>
<tr>
<td>Relevant Ethical Requirements</td>
<td>Relevant Ethical Requirements*</td>
</tr>
<tr>
<td>Acceptance and Continuance of Client Relationships and Audit Engagements</td>
<td>Acceptance and Continuance of Client Relationships and Audit Engagements*</td>
</tr>
<tr>
<td>Assignment of Engagement Teams</td>
<td>Assignment and Management of Engagement Resources*</td>
</tr>
<tr>
<td></td>
<td>• People, including competence and capabilities</td>
</tr>
<tr>
<td></td>
<td>• Technology and intellectual (including software applications, audit methodologies, related guidance and forms etc.)</td>
</tr>
</tbody>
</table>

* These sections will be encompassed within the prescribed quality objectives within the Quality Management Approach (QMP) in ISQC 1. The prescribed risks in ISQC 1 will address the matters within each section.
### Revised Approach – The “Core” Elements of ISA 220 (cont.)

<table>
<thead>
<tr>
<th>Extant ISA 220 Elements</th>
<th>Revised ISA 220 Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagement Performance (including direction, supervision and performance; reviews; consultation; engagement quality control review and differences of opinion)</td>
<td>Engagement Performance*</td>
</tr>
<tr>
<td></td>
<td>• Direction and supervision; and reviews of audit documentation</td>
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<tr>
<td></td>
<td>• Nature, timing and extent to be determined based on engagement facts and circumstances; underpinned by the premise of sufficient involvement by the EP to fulfill overall responsibility for managing quality</td>
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<tr>
<td></td>
<td>• Consultation</td>
</tr>
<tr>
<td></td>
<td>• Engagement quality control reviews (subject to ongoing discussions related to ISQC 2)</td>
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<tr>
<td></td>
<td>• Differences of opinion</td>
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<tr>
<td>Monitoring</td>
<td>Monitoring and Remediation</td>
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</table>

* These sections will be encompassed within the prescribed quality objectives within the Quality Management Approach (QMP) in ISQC 1. The prescribed risks in ISQC 1 will address the matters within each section.
Way Forward

• Ongoing consideration of how to best align requirements and related application material in ISA 220 with the revised ISQC 1

• Subject to discussion by the IAASB, the ISA 220 TF anticipates the following timing:
  – December 2017 IAASB Meeting: Presentation of revised requirements in ISA 220
  – March 2018 CAG Meeting: First read of revised ISA 220
  – March 2018 IAASB Meeting: First read of revised ISA 220
  – June 2018 IAASB Meeting: Second read of revised ISA 220
  – September 2018 CAG Meeting: Final read/discussion of Exposure Draft
  – September 2018 IAASB Meeting: Approval of ISA 220 Exposure Draft
Questions? Comments?
ISA 600 – Group Audits
## Activities Since September 2016 CAG Meeting

### September 2016 IAASB Meeting
- Responses to the **ITC** relating to group audits
- Discussion of the scoping of the group audit engagement (top-down approach)

### December 2016 IAASB Meeting
- **Project Proposal** approved

### June 2017 IAASB Meeting
- The Group Audit Task Force (GATF) presented an update to the Board on the ISA 600 project and the way forward
- IAASB supported the GATF’s proposal to prepare and publish a **Project Update**
Topics from Recent GATF Discussions

• Scoping of a group audit engagement (Top-Down Approach) – addressing the Board’s comments from its September 2016 meeting

• Acceptance and continuance of a group audit engagement (including access issues and a possible approach to equity method investments)

• Communications between the group engagement team and the component auditors
  – Including communications relating to compliance with relevant ethical requirements (incl. NOCLAR)

• Appropriateness of, a separate standard for component auditors

• The necessary work effort of the group engagement team in relation to the consolidation process, particularly regarding sub-consolidations

• Matters regarding networks, e.g., group audits involving component auditors when the component auditor is from within the group engagement team’s network versus when the component auditor is from outside the network
Linkages with Other International Standards

• There are strong linkages between ISA 600 and other International Standards, in particular ISQC 1, ISA 220, and ISA 315 (Revised)
  – For example, a foundational issue may be addressed through a requirement in ISQC 1, ISA 220, or ISA 315, but the unique application of that requirement in a group audit scenario needs to be addressed in ISA 600
  – The IAASB supported the proposal of the GATF to engage with the QCTF, ISA 220 TF and ISA 315 (Revised) Task Force
    o Needed to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600
ISA 600 Project Update – Objective

• The objective is to provide an update about the issues being considered in the revision of ISA 600.

• It also explains the linkages between the project to revise ISA 600 and other current IAASB projects including projects addressing the IAASB’s quality control and risk assessment standards.
  – Some foundational issues to be dealt with in the revisions to ISA 600 need to be first considered and addressed in these other projects.
Questions? Comments?