

Working Draft of Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements (Marked from Extant)

This document represents the 'Marked from Extant' version of ISA 220, i.e., a comparison of extant ISA 220 to the working draft of proposed ISA 220 (Revised), as set out in Agenda Item 5–A).

The ISA 220 TF has not completed its analysis of all of the existing requirements and related application guidance. This document is marked to indicate where additional work is necessary. In some cases, the notes set out the ISA 220 TF's intentions with respect to additional application material that will be developed. The proposed requirements and related application material will be further refined based on the Board's input, including its input on the proposals of the Quality Control Task Force (QCTF) relating to proposed ISQC 1 (Revised)¹ and proposed ISQC 2.²

Text shaded in grey within this document is contingent upon the ongoing revisions to proposed ISQC 1 (Revised) or proposed ISQC 2, or in some cases, has not yet been addressed by the ISA 220 TF. In some cases, the text shaded in grey is lifted directly from the most recent drafts of proposed ISQC 1 (Revised), or proposed ISQC 2 (and is therefore subject to change as those standards are progressed). In other cases, it is language from the extant standard. Board members are not expected to provide detailed comments on the text shaded in grey, however they are encouraged to provide any overall observations about future revisions, and where indicated, the proposed direction of the ISA 220 TF.

¹ International Standard on Quality Control (ISQC) 1 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² Proposed ISQC 2, *Engagement Quality Control Reviews*

WORKING DRAFT OF INTERNATIONAL STANDARD ON AUDITING 220 (REVISED) QUALITY MANAGEMENT CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS [MARKED FROM EXTANT]

(Effective for audits of financial statements for periods
beginning on or after December 15, 20XX09)

[CONTENTS PAGE TO BE INSERTED]

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 ~~control procedures~~ for an audit of financial statements, and the related responsibilities of the engagement partner. It acknowledges that the engagement partner may assign procedures, tasks, or other actions to other members of the engagement team in order to assist the engagement partner in fulfilling such responsibilities. ~~It also addresses, where applicable, the responsibilities of the engagement quality control reviewer~~. This ISA is to be read in conjunction with relevant ethical requirements. (Ref: Para. A0)

System of Quality Management Control and Role of Engagement Teams

2. The system of quality management is ~~Quality control systems, policies and procedures are the responsibility of the audit firm. Under ISQC 1 (Revised), the objective of, the firm is has an obligation to establish and maintain a system of quality management control to provide it with reasonable assurance that:~~
 - (a) The firm and its personnel fulfill their responsibilities in accordance ~~comply~~ with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
 - (b) Reports issued in relation to engagements by the firm or engagement partners are appropriate in the circumstances.³ (Ref: Para. A1)

[Moved to paragraph 2B]

- 2A. 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 and ISQC 2 deals with the responsibilities of the engagement quality control reviewer in performing the engagement quality control review.
- 2B. [Moved from paragraph 2] This ISA is premised on the basis that the firm is subject to ISQC 1 or to national requirements that are at least as demanding. (Ref: Para. A1–A1A)
3. Within the context of the firm's system of quality management control, engagement teams have a responsibility to:
 - (a) implement the firm's responses to quality risks ~~control procedures~~ that are applicable to the

³ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 16

audit engagement taking into account information obtained from or provided by the firm; and
(Ref: Para. A1B)

- (b) Provide the firm with relevant information to enable and support the proper functioning of that part of the firm's system of quality management, including information that is required control relating to be communicated in accordance with professional standards, law, regulation and the firm's policies or procedures independence.

3A. In accordance with the requirements of this ISA, the engagement team also has a responsibility, given the nature and circumstances of the audit engagement, to determine whether responses, in addition to the firm's responses to quality risks, are necessary in order to manage and achieve quality at the engagement level. (Ref: Para. A1C)

4. When addressing the requirements of this ISA, engagement teams take into account:

(a) The firm responses to quality risks that have been implemented by the engagement team as described in paragraph 3(a); and

(b) Other firm responses,

unless the engagement team becomes aware that such responses are, or will be, inadequate in the context of the specific engagement. (Ref: Para. A2–A2A) Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. (Ref: Para. A2)

Relationship Between this ISA and Other ISAs

4A. Management of quality at the engagement level is also informed through addressing requirements in other ISAs. (Ref: Para. A2B)

Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 20XX09.

Objective

6. The objective of the auditor is to manage implement quality control procedures at the engagement level in order to that provide the auditor with reasonable assurance that quality has been achieved such that:

(a) The audit complies with professional standards and applicable legal and regulatory requirements; and

(b) The auditor's report issued is appropriate in the circumstances.

Definitions [Based on proposed revisions to ISQC 1, ISQC 2, and may require further changes in the context of the IESBA's Restructure Project]

7. For purposes of the ISAs, the following terms have the meanings attributed below:

(a) Engagement partner⁴ – 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 issued on behalf of the

⁴ "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.

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 1/2]

~~A process designed to provide an objective evaluation, on or before the date of the auditor’s report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor’s report. The engagement quality control review process is for audits of financial statements of listed entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.~~

- (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]

~~A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor’s report.~~

- (d) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or a network firm.⁵ The term “engagement team” 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).⁶ (Ref: Para. A2C)

- (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants. (Ref: Para. A2D)

- (f) Inspection – In relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures. *[This phrase is used only in the extant definition of “monitoring”, but not in the proposed revised definition in ISQC 1 – see below; so propose to delete in ISA 220.]*

- (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.

- (h) Monitoring – A process comprising ongoing and periodic evaluations of whether the design and operation of the components of the firm’s system of quality management results in the achievement of the objective of this ISQC. [Adapted from proposed ISQC 1 (Revised)]

~~A process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to~~

⁵ ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

⁶ 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.

~~provide the firm with reasonable assurance that its system of quality control is operating effectively.~~

- (i) Network firm – A firm or entity that belongs to a network. (Ref: Para. A2E)
- (j) Network – A larger structure: (Ref: Para. A2E)
 - (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 and 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 and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive. [*To be reconsidered for necessary revision in the context of the IESBA's Restructure Project*]
- (na) (New) Response (in relation to a quality risk) – The firm's actions, including policies or procedures, to address a quality risk. [From proposed ISQC 1 (Revised)]
- (o) Staff – Professionals, other than partners, including any experts the firm employs.
- (p) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits of historical financial information or of an organization that provides relevant quality control services. [*Placeholder – To be further considered in the context of proposed revisions to ISQC 1 and ISQC 2*]

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

8. The engagement partner shall take responsibility for managing and achieving the overall quality on each audit engagement to which that partner is assigned, which includes responsibility for being sufficiently and appropriately involved throughout the audit engagement. (Ref: Para. A3–A3J)

Relevant Ethical Requirements *[Based on proposed revisions to ISQC 1 and may require further changes in the context of the IESBA's Restructure Project; further consideration to also be given to combining paragraph 11 with paragraphs 9, 9A, 9B and 10 – depending on direction taken in ISQC 1]*

9. [Extant requirements moved to paragraph 9B] The engagement partner shall be satisfied that the members of the engagement team have been made aware, and have a sufficient understanding, of the relevant ethical requirements and the firm's related policies or procedures, including those that address (Ref: Para. A4–A4A):
- (a) Circumstances that may cause a breach of independence; and
 - (b) Their responsibilities in circumstances when actual or suspected non-compliance with laws and regulations⁷ have been identified.
- 9A. The engagement partner shall be satisfied that the firm's policies or procedures that address relevant ethical requirements have been followed. (Ref: Para. A4B)
- 9B. [Moved from paragraph 9] Throughout the audit engagement, the engagement partner shall remain alert, throughout the audit engagement, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements or the related firm policies or procedures by members of the engagement team. (Ref: Para. A4B A4–A5)
10. If matters come to the engagement partner's attention through the firm's system of quality management control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements or the related policies or procedures, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A4C A5)

Independence [Placeholder for changes to be considered based on further revisions to ISQC 1 and may require further changes in the context of the IESBA's Restructure Project. This may include combining these extant requirements into paragraphs 9, 9A, 9B and 10.]

11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: (Ref: Para. A5)
- (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
 - (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
 - (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6–A7)

⁷ See, for example, Sections XX of the IESBA Code.

Acceptance and Continuance of Client Relationships and Audit Engagements

12. The engagement partner shall be satisfied that the firm's policies or appropriate 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. ~~A8–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. ~~A8–A9~~)
- 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. ~~A8–A9~~)

Engagement Resources ~~Assignment of Engagement Teams~~

14. The engagement partner shall be satisfied that, in the context of the nature and circumstances of the engagement, sufficient and appropriate resources to perform the audit engagement are assigned, or made available, to the engagement team by the firm. (Ref: Para. ~~A9A–A10G, A12~~)
~~The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:~~
 - ~~(a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and~~
 - ~~(b) Enable an auditor's report that is appropriate in the circumstances to be issued.~~ (Ref: Para. ~~A10–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 engagement. (Ref: Para. ~~A11–A12~~)
- 14B. The engagement partner shall manage or use the resources assigned or made available to the engagement team in accordance with the firm's policies or procedures. (Ref: Para. ~~A9A–A10G, A12~~)

Engagement Performance

Direction, Supervision and ~~Reviews~~ Performance

15. ~~The engagement partner shall take responsibility for:~~
 - ~~(a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and~~ (Ref: Para. ~~A13–A15, A20~~)
 - ~~(b) The auditor's report being appropriate in the circumstances.~~
- 15A. The engagement partner shall be sufficiently and appropriately involved throughout the audit engagement in order to address the requirements of this ISA. To be sufficiently and appropriately involved, 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–A19X~~)

- (a) 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 engagement and the resources assigned or made available to the audit 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.
- 15B. Placeholder to consider additional requirement(s) relating to direction and supervision; including considering whether some of the existing application material should be elevated. Also to consider an additional requirement to remain alert for changes in nature and circumstances of the engagement and make necessary changes.

Reviews

16. ~~The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16–A17, A20)~~
17. On or before the date of the auditor's report, the engagement partner shall, through a 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–A20)
- 17A. In addressing the requirements of paragraph 17, the engagement partner shall review audit documentation at appropriate points in time during the audit. The engagement partner shall review audit documentation relating to the following areas: (Ref: Para. A18–A20)
- (a) Significant judgments, especially those relating to difficult or contentious matters identified during the course of the engagement;
 - (b) Significant risks; and [Placeholder, will need to be further considered in the context of changes proposed in ISA 315 (Revised) to the concept of significant risk, and potentially the spectrum of risk]
 - (c) Other areas the engagement partner considers important based on the nature and circumstances of the engagement;
- 17B. Prior to dating the auditor's report, the engagement partner shall review the draft auditor's report including, where applicable, the description of the key audit matters,⁸ and any relevant audit documentation related to the key audit matters not already reviewed in accordance with paragraph 17A . (Ref: Para. A18–A20)
- 17C. Prior to their issuance, the engagement partner shall review the drafts of written communications made in accordance with the ISAs, to management, those charged with governance, or external parties. (Ref: Para. A18–A20)

Consultation [Placeholder for additional changes to be considered based on further revisions to ISQC 1]

18. The engagement partner shall:
- (a) Take responsibility for the engagement team undertaking ~~appropriate~~ consultation on:

⁸ ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

- (i) Matters where firm 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 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 [Based on proposed changes to ISQC 1 and ISQC 2, placeholder for additional changes to be considered based on further revisions to ISQCs]

- 19. For ~~audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that~~ an engagement quality control review is required, the engagement partner shall:
 - (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 *[Consider expanding this responsibility beyond just the partner as all team members have a responsibility to co-operate with the engagement quality control reviewer (and others who assist the engagement quality control reviewer)]*; and
 - (c) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. A23–A25)
- 20. ~~The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:~~
 - ~~(a) Discussion of significant matters with the engagement partner;~~
 - ~~(b) Review of the financial statements and the proposed auditor's report;~~
 - ~~(c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and~~
 - ~~(d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A28, A30–A32)~~
- 21. ~~For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:~~
 - ~~(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;~~
 - ~~(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and~~

- ~~(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A29–A32)~~

Differences of Opinion [Placeholder for additional changes to be considered based on further revisions to ISQC 1]

22. [Extant requirement moved to paragraph 22A] The engagement partner shall take responsibility for differences of opinion being resolved in accordance with the firm's policies or procedures. (Ref: Para. A32A)
- ~~22A. [Moved from paragraph 22] If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies or and procedures for dealing with and resolving them differences of opinion. (Ref: Para. A32A)~~
- 22B. The engagement partner shall be satisfied that differences of opinion, if any, are appropriately resolved. (Ref: Para. A32A)

Monitoring and Remediation [Placeholder for additional changes to be considered based on further revisions to ISQC 1]

23. The engagement partner shall:
- (a) Be satisfied that the firm has communicated information about the most recent results of the monitoring and remediation process of the firm or, if applicable, the network or other network firms, to the engagement team in accordance with the firm's policies or procedures;
 - (b) Determine the relevance and effect of such information on the audit, and take appropriate action as necessary; 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. (Ref: Para A33–A35)

~~An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Ref: Para A33–A35)~~

[Standback, title to be considered]

- 23A. Prior to forming an opinion on the financial statements, the engagement partner shall determine whether:
- (a) The requirements of this ISA have been addressed; and
 - (b) The engagement partner's involvement throughout the audit has been sufficient and appropriate. [Placeholder for application material to be developed]

In making this determination, the engagement partner shall take into account changes, if any, in the nature and circumstances of the engagement or the firm's policies or procedures. (Ref: Para A35A)

Documentation *[Placeholder for additional changes to be considered based on further revisions to ISQC 1 and ISA 220]*

24. The auditor shall include in the audit documentation issues identified, relevant discussions with firm personnel and conclusions reached, with respect to:⁹
- (a) Compliance with relevant ethical requirements, including those related to independence and non-compliance with laws and regulations.¹⁰ ~~Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.~~
 - (b) ~~Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.~~
 - (b-e) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
 - (d) ~~[Moved to paragraph 25A]~~
25. ~~The engagement quality control reviewer shall document, for the audit engagement reviewed, that:~~
- (a) ~~The procedures required by the firm's policies on engagement quality control review have been performed;~~
 - (b) ~~The engagement quality control review has been completed on or before the date of the auditor's report; and~~
 - (c) ~~The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.~~
- 25A. [Moved from paragraph 24(d)] The auditor shall include in the audit documentation tThe nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Ref: Para. A36–A36B)

⁹ ISA 230, *Audit Documentation*, paragraphs 8-11, and A6

¹⁰ See, for example, Sections XX of the IESBA Code.

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 600¹¹ deals with special considerations that apply to group audits, in particular those that involve component auditors.

System of Quality ~~Control~~ Management and Role of Engagement Teams (Ref: Para. 2) [Based on changes proposed to ISQC 1, to align with further changes to ISQC 1]

[Subtitle to this section to be developed] (Ref: Para. 2, 2B)

A1. ISQC 1 (Revised), or national requirements that are at least as demanding, deals with a the firm's responsibilities for to establish and maintain its system of quality management control for audit engagements. The system of quality management comprises the following eight components control includes policies and procedures that address each of the following elements:

- The quality management process;
- Governance and leadership;
- Information and communication;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Resources;
- Engagement performance; and
- The monitoring and remediation process.
- ~~Leadership responsibilities for quality within the firm;~~
- ~~Relevant ethical requirements;~~
- ~~Acceptance and continuance of client relationships and specific engagements;~~
- ~~Human resources;~~
- ~~Engagement performance; and~~
- ~~Monitoring.~~

A1A. [moved from A1] National requirements that deal with the firm's responsibilities to establish and maintain a system of quality management control are at least as demanding as ISQC 1 (Revised) when they address all the components elements referred to in this paragraph A1 and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1 (Revised).

[Networks – Placeholder to describe that the requirements within this ISA are based on the premise that the firm is also responsible for taking the necessary action to allow or enable engagement teams

¹¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

to use network resources or the work of network resources on the audit engagement (currently referred to as “network services” in ISQC 1.)

[Subtitle to this section to be developed] (Ref: Para. 3(a))

A1B. 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 perform consultations in certain situations, for example, for a significant technical or ethical matter), or to involve experts in specific engagements to address particular matters, (for example, for the audit of credit loss allowances in all banking engagements). 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)). [placeholder for reference to applicable section of ISQC 1 (Revised)].

[Subtitle to this section to be developed] (Ref: Para. 3A)

A1C. Quality management at the engagement level will be informed by the specific nature and circumstances of the audit engagement. The engagement partner uses professional judgment in determining which responses (in addition to the firm’s responses) are necessary to manage and achieve quality at the engagement level. For example, the engagement partner may be required to implement certain software tools that are made available by the firm for specific purposes (For example, tools to assist in testing journal entries or perform audit sampling). In addition, the firm may provide, and the engagement partner may choose to use, optional software tools that are intended to facilitate performance of further audit procedures.

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

A1D. [Placeholder to address considerations for smaller firms, including when many of the firm’s responses to quality risks may be implemented at the engagement level, and when the firm’s policies or procedures are more likely to be less formal. Leverage guidance in ISQC 1.]

Using the Firm’s System of Quality Management Reliance on the Firm’s System of Quality Control (Ref: Para. 4)

~~A2. Unless information provided by the firm or other parties suggest otherwise, the engagement team may rely on the firm’s system of quality control in relation to, for example:~~

- ~~• Competence of personnel through their recruitment and formal training.~~
- ~~• Independence through the accumulation and communication of relevant independence information.~~
- ~~• Maintenance of client relationships through acceptance and continuance systems.~~
- ~~• Adherence to applicable legal and regulatory requirements through the monitoring process.~~

A2. Examples of other firm-level responses to quality risks that engagement team may take into account when addressing the requirements of this ISA may include:

- Personnel recruitment and formal training.
- Independence tracking systems
- Client acceptance and continuance systems
- Technological and intellectual resources of the firm, whether purchased or developed internally or at a network level.

A2A. The engagement team may become aware, through information provided by members of the engagement team, the firm, or otherwise, that the firm's responses to quality risks are inadequate in the context of the specific engagement. In such cases, when addressing the requirements of this ISA, the engagement team may not be able to use the firm's responses or may supplement the firm's responses with additional responses at the engagement level. When information about inadequate firm responses comes to the engagement team's attention from sources other than the firm, the engagement team may also communicate such information to the firm, for example, when an engagement team member identifies that an audit program provided by the firm has not been updated to reflect a change in the professional standards.

Relationship Between this ISA and Other ISAs (Ref: Para. 4A)

A2B. As explained in paragraph 4A, management of quality at the engagement level is also informed through addressing requirements in other ISAs. For example ISA 315 (Revised)¹² deals with the auditor's responsibility to obtain an understanding of the entity and its environment. This understanding provides information that may be relevant to the engagement partner and engagement team in 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 on complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at locations where the balances are material;
- 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 work done by component auditors in the case of group audits at different components where the risks will differ);
or
- How to allocate the audit budget hours, including allocating more time, and time of more experienced engagement team members where there are more risks of material misstatement and risks that are assessed as higher.

Definitions

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

A2C. When assigning personnel to engagements or other roles, the firm may use a variety of audit delivery models and may organize its personnel in a variety of ways, including where its personnel are located and the activities that they perform. For example, the firm may determine that specific tasks that are repetitive in nature can be performed by a group of appropriately skilled personnel in one location, (for example, a center of excellence). In some cases, centers of excellence can be established at the network level, or by another firm or group of firms from within the same network. Nonetheless, any individual who performs audit procedures on the engagement is considered to be a member of the engagement team. Audit procedures are described in ISA 500¹³ and include inspection, observation, external confirmations, recalculation, reperformance, analytical procedures and inquiry.

¹² ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹³ ISA 500, *Audit Evidence*, paragraphs A14-A25

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]

A2D. [Moved from paragraph A5] The definition of “firm,” “network” or “network 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)

A2E. [Moved from paragraph A5] The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. The IESBA Code provides guidance in relation to the terms “network” and “network firm.”

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

~~A3. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize:~~

- ~~(a) The importance to audit quality of:
 - ~~(i) Performing work that complies with professional standards and applicable legal and regulatory requirements;~~
 - ~~(ii) Complying with the firm’s quality control policies and procedures as applicable;~~
 - ~~(iii) Issuing auditor’s reports that are appropriate in the circumstances; and~~
 - ~~(iv) The engagement team’s ability to raise concerns without fear of reprisals; and~~~~
- ~~(b) The fact that quality is essential in performing audit engagements.~~

A3. The conduct of quality engagements is facilitated when the engagement partner creates an environment that emphasizes the firm’s cultural values and behaviors, and takes clear, consistent and effective actions that reflect the firm’s commitment to quality. Actions of the engagement partner that create such an environment include, for example:

- (a) Reinforcing to the members of the engagement team the importance of professional values, ethics and attitudes, a philosophy of accountability, transparency and continual improvement;
- (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 reprisals;
- (d) Emphasizing the importance of each engagement team member maintaining professional

- skepticism throughout the engagement; and
- (e) Emphasizing that all engagement team members contribute to managing and achieving quality at the engagement level.

Managing and Achieving Quality

- A3A. Managing quality at the engagement level means taking into account the firm's quality-related policies or procedures that are relevant to the requirements of this ISA and the facts and circumstances of the engagement. However, due to the specific nature and circumstances of each engagement, a firm's quality management process may not be able to identify or articulate all quality risks that may arise at the engagement level with specific granularity, or set forth all relevant and appropriate responses.
- A3B. In considering and responding to the requirements in each section of this ISA, the engagement partner determines what could go wrong in the context of the specific engagement, and responds appropriately by implementing the firm's responses or designing and implementing additional responses that address what could go wrong for that specific engagement.
- A3C. [Placeholder to address how the required stand back within paragraph 23A links to managing quality at the engagement level]
- A3D. 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 will vary based on the nature of the requirements, the efficacy of the firm's responses, and the specific nature and circumstances of the audit engagement. For example, if the engagement partner participates in the firm's process for acceptance and continuance of client relationships and audit engagements (see paragraphs 12–13A), there would be little or no need for anything additional to be done for the engagement partner to determine that the conclusions reached in this regard are appropriate. Alternatively, the engagement partner's actions to address the engagement performance requirements of this ISA (see paragraphs 15–22B) will include implementing firm-level responses, but will likely be more focused on designing and implementing responses at the engagement level to address the nature and specific circumstances of the audit engagement.

Sufficient and Appropriate Involvement Throughout the Audit Engagement

- A3E. To demonstrate sufficient and appropriate involvement in accordance with paragraph 15A, the engagement partner is required to take responsibility for the nature, timing and extent of the direction and supervision of members of the engagement team, and the review of the work performed.

Assigning Responsibility to Other Members of the Engagement Team

- A3F. The engagement partner is required to take responsibility for managing and achieving quality on each audit engagement to which that partner is assigned, and this responsibility may not be delegated. However, it may 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). The engagement partner may assign procedures, tasks, or other actions to other members of the engagement team to assist the engagement partner in addressing the requirements

of this ISA. However, the engagement partner remains responsible for the direction and supervision of the engagement team and review of their work in accordance with the requirements of this ISA, which includes, for example:

- (a) Appropriately informing the assignee about the procedures, tasks, or actions that are being assigned;
- (b) Providing the necessary instructions and the relevant information to the assignee; and
- (c) Monitoring the performance, and reviewing the work, of the assignee in order to evaluate the conclusions reached. [Placeholder to consider elevating this material to a requirement, likely as part of the requirements relating to direction, supervision and review.]

A3G. In some cases, the ISAs or the firm's policies or procedures may preclude the assignment of procedures, tasks, or other actions by the engagement partner to other members of the engagement team. For example, in accordance with paragraph 11, the engagement partner is required to conclude on compliance with independence requirements that apply to the audit engagement.

Communication

[Placeholder for changes to ISQC 1, also consider additional examples of how information may be communicated by the firm to the engagement team]

A3H. Communication plays an important role in managing quality on an audit engagement and is the means through which the engagement partner and the members of the engagement team share relevant information in order to address the requirements of this ISA. Communication includes the exchange of both relevant and timely information 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., engaged experts); and
- (d) Parties that are external to the firm (for example, management, those charged with governance, and for firms that are part of network structures, the network or other firms within the network).

A3I. Formal or informal communication with parties external to the firm, for example, with management and those charged with governance in particular, may also contribute to an environment that supports the engagement partner's responsibility to manage quality on the audit engagement.

A3J. The nature and circumstances of the audit 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.

Relevant Ethical Requirements *[Placeholder for additional changes based on further revisions to ISQC 1 and may require further changes in the context of the IESBA's Restructure Project; further consideration to also be given to combining paragraph 11 with paragraphs 9, 9A, 9B and 10 – depending on direction taken in ISQC 1]*

Compliance with Relevant Ethical Requirements (Ref: Para. 9–10)

A4. The IESBA Code establishes the fundamental principles of professional ethics, which include:

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

A4A. *Placeholder for additional application material, including a description of the different types of relevant ethical requirements, including those that might have particular significance to the audit engagement (including specifically emphasizing non-compliance with laws and regulations (NOCLAR) and highlighting circumstances where there may be elevated risk of NOCLAR, and can also highlight respective responsibilities of ISA 250 (Revised), Consideration of Laws and Regulations in an Audit of Financial Statements).*

A4B. *Placeholder for additional application material, including a reference to consideration of the requirement of the firm to obtain annual independence confirmations, and a description of the different types of breaches or noncompliance that may occur (including specifically highlighting NOCLAR).*

A4C. *Placeholder for additional application material, including highlighting the need for the engagement partner to communicate to the firm if the engagement partner becomes aware of information about potential breaches or non-compliance through sources other than the firm. Also consider application material to emphasize the importance of the engagement partner establishing a culture amongst the engagement team that promotes a commitment to quality, including professional and ethical values, and for encouraging engagement team members to raise concerns about identified or suspected breaches of the firm's policies or procedures related to non-compliance with relevant ethical requirements, without fear of reprisals.*

~~Definition of "Firm," "Network" and "Network Firm" (Ref: Para. 9–11)~~

~~A5. [Moved to paragraphs A2D, A2E] The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those 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.~~

~~The IESBA Code also provides guidance in relation to the terms "network" and "network firm."~~

~~In complying with the requirements in paragraphs 9–11, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.~~

Threats to Independence (Ref: Para. 11(c)) [Placeholder for changes to be considered based on further revisions to ISQC 1 and may require further changes in the context of the IESBA's project to Restructure the IESBA Code. This may include combining this extant application material with the material supporting the requirements of paragraphs 9, 9A, 9B and 10]

A6. The engagement partner may identify a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level. In that case, as required by paragraph 11(c), the engagement partner reports to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation.

A6A. *Placeholder for additional application material, including highlighting different types of independence breaches that might occur (drawing examples from the IESBA Code, and highlighting that the nature and circumstances of the engagement might elevate certain risks – for example, if the entity frequently engages other practitioners within the firm to perform non-assurance services – that may create an elevated threat that the firm could perform independence impairing work – if the firm or the network do not have robust processes for managing the acceptance and continuance of engagements other than audits, the engagement partner may need to take additional action at the engagement level to manage the risk of noncompliance with relevant independence requirements.*

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 11. This may include, where the public sector auditor's mandate does not permit withdrawal from the 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)

~~A8. ISQC 1 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.¹⁴ 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 of the principal owners, key management and those charged with governance of the entity;~~
- ~~• Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;~~
- ~~• Whether the firm and the engagement team can comply with relevant ethical requirements; and~~
- ~~• Significant matters that have arisen during the current or previous audit engagement, and their~~

¹⁴ ISQC 1, paragraph 27(a)

~~implications for continuing the relationship.~~

A8. ISQC 1 (Revised) requires the firm to design and implement responses to quality risks such that the firm accepts and continues client relationship and specific engagements for which the firm is:

(a) Satisfied with the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance; and

(b) Able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

A8A. In many cases, the engagement partner is involved in the firm's acceptance and continuance process. Such involvement may 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. If the engagement partner was not involved in the firm's acceptance and continuance process, the engagement partner may take into account information obtained or used by the firm during acceptance and continuance process in determining whether the firm's policies or procedures regarding the acceptance and continuance of client relationships and audit engagements has been followed, and that the conclusions reached in this regard are appropriate. For example, such information may include information about:

- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
- Whether the firm has adequate and appropriate resources to perform the 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 is competent 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 there is appropriate access to the information necessary to perform the audit engagement (e.g. management, information, other auditors); and
- Whether significant matters that have arisen during the current or previous audit engagement have implications for continuing the relationship.

A8B. If the engagement partner has concerns regarding the appropriateness of the conclusions regarding the acceptance and continuance, the partner may seek to obtain a better understanding of the conclusions by discussing the basis or reasons for those conclusions with those involved in the acceptance and continuance process. If the engagement partner has further concerns, the engagement partner follows the firm's policies or procedures for resolving differences of opinion.

A8C. 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:

- The process of identifying and assessing risks of material misstatement through understanding the entity and its environment in accordance with ISA 315 (Revised);

- The identification of the risks of material misstatement due to fraud in accordance with ISA 240,¹⁵ paragraph A22;
- Obtaining sufficient appropriate audit evidence necessary to support the auditor's opinion and report in accordance with ISA 500;
- Understanding the group, its components, and their environments, in the case of a group financial statements, in accordance with ISA 600 paragraph 12, and selecting component auditors and directing and supervising their work

A8D. Placeholder to consider additional application guidance:

- *Emphasizing the need for the most informed conclusion possible, and that the premise for the conclusion is based on the considerations about whether, and how it will be possible and practical to obtain sufficient appropriate audit evidence in the circumstances.*
- *Highlighting situations involving issues relating to access to management, information or other auditors.*

A8a. Law, regulation, or relevant ethical requirements¹⁶ may require the auditor to request, prior to accepting the 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, where the predecessor auditor has withdrawn from the 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.¹⁷ [ISA 250 (Revised) Conforming amendment to ISA 220]

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

A9. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12, 13 and A8 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 Assignment of Engagement Teams (Ref: Para. 14, 14B)

A9A. The firm assigns resources or makes them available to the engagement team, which include:

- Human resources;
- Technological resources; and

¹⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹⁶ See, for example, Sections 210.14 of the IESBA Code.

¹⁷ See, for example, Sections 225.31 of the IESBA Code.

- Intellectual resources

Human Resources

- A9B. Human resources assigned or made available by the firm includes members of the engagement team and, where applicable, external experts. In addition, as provided for by ISA 610 (Revised 2013)¹⁸ individuals from within the entity's internal audit function may provide direct assistance.
- A10. An engagement team includes any a persons using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, ~~if any,~~ who performs audit procedures on the engagement. However, a person with such expertise is not a member of the engagement team if that person's involvement with the engagement is only consultation. Consultations are addressed in paragraphs 18, A21 and A22.

Technological Resources

- A10B. 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 exercise professional skepticism. Inappropriate use of such technological resources, however, may increase the risk of overreliance on the information produced for decision purposes.
- A10D. In using technological resources, engagement teams are required to understand the firm's policies or procedures related to the use of those resources. The firm's policies or procedures may set forth required considerations or responsibilities for the engagement team when using firm approved technology, and may also specifically prohibit the use of certain technological tools (for example, new audit software tools that have not yet been approved for use by the firm). In some circumstances the firms policies or procedures may not specifically address the use of a tool (for example, a spreadsheet developed by the engagement team). In these cases the engagement partner uses professional judgement in determining whether the use of the tool on the audit engagement is appropriate.

Intellectual Resources

A10F. Intellectual Resources include, for example:

- Firm, network firm, or network audit methodologies.
- Firm, network firm, or network auditing guides, model programs, templates, checklists, or forms.

A10G. The use of intellectual resources on the audit engagement facilitates the consistent application and understanding of professional standards, laws and regulations, and 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 which other intellectual resources are appropriate and relevant to use based

¹⁸ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

on the nature and circumstances of the engagement, for example, industry-specific methodology or specific jurisdictional methodology or related guides and performance aids.

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

A11. When considering the appropriate 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 client operates.
- Ability to exercise professional skepticism and apply professional judgment.
- Understanding of the firm's quality management control policies and procedures.

A11A. Placeholder for additional application material to highlight considerations relating to professional skepticism – including impact of culture, awareness of personal traits and implicit biases, emphasizing increased attention to business acumen. Also to highlight that these considerations are foundational to being satisfied that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team (see paragraph 14.)

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

A12. In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable 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 or a comprehensive assessment of compliance with law, regulation or other authority and preventing and detecting fraud and corruption.

Engagement Performance

Direction, Supervision and Reviews ~~Performance~~ (Ref: Para. 15A(a))

A12A. Under ISQC 1 (Revised), the responsibilities of firm personnel in relation to engagements are determined and communicated, including responsibilities in relation to:

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

Nature, Timing and Extent

A12B. Placeholder for additional application material to:

- *Describe how engagement partner uses professional judgment in developing and tailoring the approach to direction, supervision and review – including*
 - *Being able to demonstrate sufficient and appropriate involvement of the engagement partner to take responsibility for the engagement and adjusting the nature, timing and extent of direction, supervision and review (based on the nature and circumstances of the engagement, taking into account areas of highest risk, where the work will be performed and who will perform it).*
 - *Reminding engagement team members about their responsibilities for quality in performing the engagement.*
 - *Communicating information that enables all team members to understand and carry out their responsibilities (including responsibilities for engagement team members to communicate with one another and with the engagement partner).*
- *Address the tailoring of nature, timing and extent of direction, supervision and review based on the structure of the engagement team, highlighting examples of different audit delivery models (including where the engagement partner is not located where the work is being performed) – potentially in an Appendix to ISA 220.*
- *Emphasize the importance of project management and its relationship to audit quality, especially for larger engagements with many engagement team members.*
- *Leveraging prior knowledge and experience, including building on what approaches worked well in a prior engagement or other similar engagements, and avoiding past approaches that were not as successful.*

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

- Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional skepticism as required by ISA 200.19
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- The objectives of the work to be performed.
- The nature of the entity's business.
- Risk-related issues.
- Problems that may arise.
- The detailed approach to the performance of the engagement.

Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team.

¹⁹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 15

A14. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

A15. Supervision includes matters such as:

- Tracking the progress of the audit engagement.
- Considering the competence and capabilities of individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the audit engagement.
- 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.

Reviews

Review Responsibilities (Ref: Para. 16)

~~A16. Under ISQC 1, the firm's review responsibility policies and procedures are determined on the basis that work of less experienced team members is reviewed by more experienced team members.²⁰~~

A17. A review consists of consideration whether, for example:

- The work has been performed in accordance with 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 engagement procedures have been achieved.

The Engagement Partner's Review of Work Performed (Ref: Para. 17, 17A, 17B and 17C)

A18. Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report:

- ~~Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement;~~
- ~~Significant risks; and~~
- ~~Other areas the engagement partner considers important.~~

²⁰ ISQC 1, paragraph 33

The engagement partner need not review all audit documentation, but may do so. However, as required by ISA 230, the partner documents the extent and timing of the reviews.²¹

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 a change in order to assume the responsibilities of an engagement partner.

A19X. Placeholder for additional application guidance to paragraphs 17A, 17B and 17C, including for example:

- *In deciding which audit documentation relates to significant judgments, engagement partners may consider reviewing audit documentation related to areas where assessed risk of material misstatement is higher; including estimates where risks of material misstatement are higher because of subjectivity, complexity, estimation uncertainty.*
- *Significant judgements may also include those related to planning the engagement and scoping the work (e.g., some decisions about how to involve component auditors and how to direct and supervise their work can be significant judgments) or in how the engagement team is assembled (e.g., which elves to include, use of personnel from audit delivery centers, involvement of component auditors).*
- *Highlight that written communications to management or those charged with governance or external parties include the communications required by ISAs 260, 265 and 450, as well as other communications to external parties that may be required by professional standards, law and regulation.*

Considerations Relevant Where a Member of the Engagement Team with Expertise in a Specialized Area of Accounting or Auditing Is Used (Ref: Para. 15–17D; open to reconsider this application guidance, including placement)

A20. Where a member of the engagement team with expertise in a specialized area of accounting or auditing is used, direction, supervision and review of that engagement team member's work may include matters such as:

- Agreeing with that member the nature, scope and objectives of that member's work; and the respective roles of, and the nature, timing and extent of communication between that member and other members of the engagement team.
- Evaluating the adequacy of that member's work including the relevance and reasonableness of that member's findings or conclusions and their consistency with other audit evidence.

Consultation (Ref: Para. 18) [Placeholder for changes to be considered based on further revisions to ISQC 1]

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.

²¹ ISA 230, paragraph 9(c)

- 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(c))

- 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.²² 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 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. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.
- A25. Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in ISQC 2 paragraphs 20–21, and where applicable, compliance with paragraph 22. ~~Documentation of the engagement quality control review may be completed after the date of the auditor's report as part of the assembly of the final audit file. ISA 230 establishes requirements and provides guidance in this regard.~~²³

~~Nature, Timing and Extent of Engagement Quality Control Review (Ref: Para. 20) Consider expanding requirement and application material to address responsibilities of the engagement team members to cooperate with the engagement quality control reviewer (and others who assist the engagement quality control reviewer) – noting that in an audit of group financial statements, this might include component auditors being expected to interact with individuals who are assisting the assigned engagement quality control reviewer for the audit of the group financial statements.~~

- ~~A26. Remaining alert for changes in circumstances allows the engagement partner to identify situations in which an engagement quality control review is necessary, even though at the start of the engagement, such a review was not required.~~
- ~~A27. The extent of the engagement quality control review may depend, among other things, on the complexity of the audit engagement, whether the entity is a listed entity, and the risk that the auditor's report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement and its performance.~~

²² ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 49

²³ ISA 230, paragraphs 14-16

~~A28. When ISA 701²⁴ applies, the conclusions reached by the engagement team in formulating the auditor's report include determining:~~

- ~~• The key audit matters to be included in the auditor's report;~~
- ~~• The key audit matters that will not be communicated in the auditor's report in accordance with paragraph 14 of ISA 701, if any; and~~
- ~~• If applicable, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate in the auditor's report.~~

~~In addition, the review of the proposed auditor's report in accordance with paragraph 20(b) includes consideration of the proposed wording to be included in the Key Audit Matters section.~~

~~Engagement Quality Control Review of Listed Entities (Ref: Para. 21)~~

~~A29. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include:~~

- ~~• Significant risks identified during the engagement in accordance with ISA 315 (Revised),²⁵ and the responses to those risks in accordance with ISA 330,²⁶ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.²⁷~~
- ~~• Judgments made, particularly with respect to materiality and significant risks.~~
- ~~• The significance and disposition of corrected and uncorrected misstatements identified during the audit.~~
- ~~• The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.~~

~~These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.~~

~~Considerations Specific to Smaller Entities (Ref: Para. 20–21)~~

~~A30. In addition to the audits of financial statements of listed entities, an engagement quality control review is required for audit engagements that meet the criteria established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review.~~

~~Considerations Specific to Public Sector Entities (Ref: Para. 20–21)~~

~~A31. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General), may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need~~

²⁴ ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

²⁵ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

²⁶ ISA 330, *The Auditor's Responses to Assessed Risks*

²⁷ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

A32. ~~Listed entities as referred to in paragraphs 21 and A29 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.~~

Differences of Opinion (Ref: Para. 22–22B)

A32A. *Placeholder for application guidance, including for example:*

- *Refer to requirements of ISQC 1 (Revised) for the firm to establish policies or procedures to deal with or resolve differences of opinion that may arise within the engagement team, with the engagement quality control reviewer or with personnel performing functions that support the operation of the firm's system of quality management, including those who provide consultation.*

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

A33. ~~Under ISQC 1 (Revised) the firm is required requires the firm to establish a monitoring and remediation process in order to evaluate whether the firm's system of quality management provides the firm designed to provide it with reasonable assurance that its overall objective the policies and procedures relating to monitoring and remediation has been achieved the system of quality control are relevant, adequate and operating effectively.~~²⁸

A34. In considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that audit.

A35. A deficiency in the firm's system of quality control 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.

[Standback, title to be considered] (Ref: Para. 23A)

A35A. *Placeholder to develop application guidance, including how the engagement partner takes into account information from the firm that may affect the determination of whether quality has been achieved.*

Documentation

Documentation of Consultations (Ref: Para. ~~24(d)~~ 25A)

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

²⁸ ISQC 1, paragraph 48

- 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.

A36A. Placeholder to further consider how to emphasize that exercising professional skepticism includes being satisfied that disconfirming evidence has been appropriately dealt with.

A36B. Placeholder to consider additional application material to support any further enhancements to the documentation requirement and clarify link to ISA 230.