

Quality Management at the Engagement Level (ISA 220)¹—Issues and Discussion

Extant ISA 220 is premised on the basis that the firm is subject to ISQC 1² or to national requirements that are at least as demanding. Therefore, the work on proposed ISA 220 (Revised) is closely aligned with the ongoing work on proposed ISQC 1 (Revised) and proposed ISQC 2. This paper makes reference to the work being done by the Quality Control Task Force (QCTF) to revise proposed ISQC 1 (Revised) and develop proposed ISQC 2. This paper incorporates terms and addresses matters currently being contemplated in those revisions (including as it relates to the proposal to introduce a quality management approach (QMA) for managing quality at the firm level in proposed ISQC 1 (Revised)). Accordingly, this paper and the related agenda items should be read after having read, or in combination with reading, Agenda Items 6, 6-A, and 6-B. Supplement A to Agenda Item 5 deals specifically with the inter-relationship between proposed ISQC 1 (Revised) and proposed ISA 220 (Revised).

Objective of this Agenda Item

The objective of this agenda item is to obtain Board views on the matters set out in this paper, together with the proposed changes to extant ISA 220 set out in **Agenda Item 5-A**.

The Board's views will help the ISA 220 Task Force³ (the "Task Force") make further progress towards developing an exposure draft of revisions to ISA 220 ("ISA 220 ED"). The Task Force plans to present a first draft of the ISA 220 ED to the Board at its meeting in March 2018.

A. Introduction and Background

1. In December 2016, the IAASB approved a project proposal⁴ that addresses the revision of the IAASB's quality control standards (ISQC 1 and ISA 220). This project proposal followed outreach and consultation related to these standards, including:
 - Findings from the IAASB's ISA Implementation Monitoring Project, which was completed in 2013.
 - The IAASB's Invitation to Comment (ITC), [Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits](#) which set out the issues related to quality control at the firm and engagement level, professional skepticism, and group audits (ISA 600),⁵ including highlighting areas of crossover between these topics.

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

² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

³ <http://www.iaasb.org/projects/quality-control-engagement-level-isa-220>

⁴ http://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal-Approved_0.pdf

⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

2. In December 2016, June 2017 and August 2017, the IAASB discussed various matters related to the proposed changes to ISA 220 (Revised). In summary:

- December 2016—Board members supported the overall direction of the proposed changes to ISA 220 and offered specific suggestions for further consideration by the Task Force.
- June 2017—Board members supported some aspects of the proposed changes (e.g., strengthening the engagement partner’s leadership responsibilities for the engagement and a consideration of all resources needed for an engagement), but cautioned that some of the proposed requirements would be difficult to implement in practice and document.
- August 2017—Board members agreed broadly with the proposed overall approach to revising ISA 220 and made various observations for further consideration by the Task Force (including emphasizing the importance of keeping the practicality of any proposed changes as an overriding consideration, and balancing the engagement partner’s responsibilities with those of the firm).

Approved minutes of the IAASB’s discussions on this topic (December 2016, June 2017, and August 2017) can be found in Appendix B to this paper.

3. Related agenda materials are provided as follows:

Agenda item 5-A	Preliminary proposed enhancements to ISA 220 (“clean”)
Agenda Item 5-B	‘Marked to extant’ version of the revisions proposed in Agenda Item 5–A
Supplement A to Agenda Item 5	Explain the relationship between the draft Exposure Draft (ED) of ISQC 1 (Revised), set out in Agenda Item 6–A , and the working draft of proposed ISA 220 (Revised), set out in Agenda Item 5–A
Appendix A to Agenda Item 5	Task Force’s activities including outreach and coordination with other IAASB Task Forces or Working Groups
Appendix B to Agenda Item 5	Approved IAASB Meeting Minutes (December 2016, June 2017, and August 2017)

4. The proposed revisions within proposed ISA 220 (Revised):

- Incorporate more proactive management of quality at the engagement level;
- Incorporate more explicit requirements to implement the firm’s policies or procedures at the engagement level;
- Retain the fundamental premise that the engagement partner has responsibility for managing and achieving quality at the engagement level; and
- Emphasize that the engagement partner’s responsibility for managing and achieving quality at the engagement level is expected to be fulfilled by addressing the requirements of revised ISA 220, including being sufficiently and appropriately involved in the engagement.

5. The following matters will be considered as revisions to ISA 220 are progressed:
- Ongoing revisions to proposed ISQC 1 (Revised) and the firm's system of quality management that directly impact the manner in which quality is managed at the engagement level (this includes discussions related to networks and the use of network resources);
 - Ongoing revisions to proposed ISQC 2 relating to the responsibilities of the EQC Reviewer and impact on the responsibilities of the engagement partner or engagement team in this regard;
 - Ongoing revisions of ISA 315 (Revised);⁶
 - Input from the Group Audits Task Force relating to considerations relevant to audits of group financial statements and where revisions to the requirements or application material in proposed ISA 220 (Revised) should be considered to better support revisions being considered for ISA 600;
 - Changes based on restructuring of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (IESBA Code). Once these changes are finalized and approved by the IESBA,⁷ corresponding changes will need to be considered in revising ISA 220 (and other IAASB standards);⁸ and
 - Consideration of public sector issues through specific outreach with The International Organisation of Supreme Audit Institutions' Auditing Subcommittee in early 2018.
6. The approach set out in **Agenda Item 5–A** is premised on, and provides for, professional judgment being the basis for addressing the requirements in light of the nature and circumstances of the audit engagement. Therefore, the Task Force is of the view that the approach is adaptable to audits of different sizes and complexity, and appropriately takes into account different structures of engagement resources or audit delivery models. The Task Force is also following the ongoing efforts of the QCTF to incorporate scalability into proposed ISQC 1 (Revised) (see **Agenda Item 6–A**, paragraphs 8 and A23). The Task Force plans to align the guidance in ISA 220 accordingly, in particular to reflect that smaller firms' systems of quality management may involve less formal responses (policies or procedures) and may provide for quality risks at the firm level being more directly addressed by actions taken at the engagement level (see **Agenda Item 5–A**, paragraph A1D).

B. Proposed Enhancements to ISA 220

Introduction (Agenda Item 5–A, paragraphs 1–4A and A0–A2B)

⁶ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁷ The IESBA intends to approve its Restructured Code at its December 2017 meeting.

⁸ IAASB Staff intends to perform a comprehensive review of the restructured IESBA Code in Q1 2018 to assist the Task Force in this regard.

7. In response to input from the Board, the relationship between proposed ISQC 1 (Revised), proposed ISA 220 (Revised) and other relevant ISAs is clarified and set out in the Introduction section. (paragraphs 1-4A in **Agenda Item 5–A**):
- The scope paragraph (paragraph 1 in **Agenda Item 5–A**) refers to the engagement partner’s responsibility to manage and achieve quality for the audit engagement, and acknowledges the engagement partner’s ability to assign procedures, tasks, or other actions to other members of the engagement team to assist the engagement partner in fulfilling that responsibility.
 - In the section titled “System of Quality Management and Role of Engagement Teams” of **Agenda Item 5–A**:
 - Paragraphs 2–2B refer to the firm’s system of quality management, and paragraph 2 describes the objective of proposed ISQC 1 (Revised). Proposed amendments to these paragraphs are a result of amendments to ISQC 1 proposed in **Agenda Item 6–A**. In addition, paragraph 2A refers to the requirements relevant to engagement quality control review (EQC) and the EQC reviewer that are now included in proposed ISQC 1 and proposed ISQC 2. Paragraph 2B retains the concept that ISA 220 is premised on the basis that the firm is subject to the ISQCs or to national requirements that are at least as demanding.
 - Paragraphs 3(a) and 3(b) describes the engagement team’s responsibility, within the context of the firm’s system of quality management, to understand and implement the firm’s responses to quality risks at the engagement level, and provide the firm with relevant information to enable and support the proper functioning of the firm’s system of quality management. The Task Force believes these requirements are consistent with the expectations set out in extant ISA 220.
 - Paragraph 3A describes the engagement team’s responsibility to determine whether responses, in addition to the firm’s responses are necessary to manage and achieve quality at the engagement level.
 - Paragraph 4 states that engagement teams take into account the firm’s system of quality management unless the engagement team becomes aware that the firm responses are inadequate in the context of the engagement.
 - Paragraph 4A establishes the linkage between managing quality at the engagement-level and addressing the requirements of other ISAs.
8. The Task Force is proposing application material to the Introduction (**Agenda Item 5–A**, paragraphs A0–A2B) that:
- Strengthens the linkage between proposed ISQC 1 (Revised) and proposed ISA 220 (Revised);
 - Provides that the engagement team may rely on the firm’s system of quality control, unless information provided by the firm or other parties suggests otherwise; and
 - Provides examples of the interactions between proposed ISA 220 (Revised) and the requirements of other ISAs.

Matters for IAASB Consideration

- 1) Does the IAASB:
 - a) Have the view that the proposed scope and introductory paragraphs and related application material in paragraphs 1–4A and A0–A2B adequately describe:
 - (i) The relationship between proposed ISQC 1 (Revised) and proposed ISA 220 (Revised) (i.e., between the firm’s system of quality management and quality management at the engagement level)?
 - (ii) The overall responsibilities of the engagement team (including as to how firm responses to quality risks are taken into account)?
 - b) Have other views about these proposed paragraphs and related application material?

Objective (Agenda Item 5–A, paragraph 6)

9. The proposed objective of ISA 220 is directed at the auditor, establishing that all members of the engagement team have responsibility for performing a quality audit, not just the engagement partner. “Auditor” can also mean the firm, thereby also acknowledging that in some cases, the requirements of ISA 220 can be addressed by firm policies or procedures.
10. The Task Force is of the view that the proposed objective responds to the Board’s suggestions that it:
 - Appropriately focuses on a quality outcome at the engagement level (retaining the concept of reasonable assurance); and
 - Provides appropriate direction to the auditor in concluding whether quality has been achieved, i.e., when:
 - The audit complies with professional standards and applicable legal and regulatory requirements; and
 - The auditor’s report is appropriate in the circumstances.

Matters for IAASB Consideration

- 2) The IAASB is asked for its views on whether all members of the engagement team have responsibility for performing a quality audit, not just the engagement partner, as described in the proposed requirement in paragraph 6 of ISA 220 (Revised)?
- 3) The IAASB is asked for its views on the proposed objective in ISA 220 (Revised), specifically, whether the proposed objective:
 - a) Appropriately focuses on a quality outcome at the engagement level?
 - b) Provides appropriate direction for concluding whether quality has been achieved?

Definitions (Agenda Item 5-A, paragraph 7 and A2C–A2E)

11. The Task Force is not proposing amendments to the definitions in ISA 220 (other than changes to align with new or revised definitions in proposed ISQC1 (Revised) or proposed ISQC 2). However, as the Task Force and Board deliberate these matters further, changes to the definitions may be proposed or additional application material may be considered necessary.
12. Application material, to be further developed in future drafts (**Agenda Item 5–A**, paragraphs A2C–A2E), is proposed to clarify:
 - How the definition of “engagement team” applies to different and evolving engagement team structures;
 - That the engagement team includes the group engagement team as defined in ISA 600; and
 - The effect of “engaging” another auditor or another firm to perform audit procedures, and whether they comprise part of the engagement team, including whether component auditors form part of the engagement team even though they are not necessarily “engaged” by the firm.
13. Consistent with the approach being taken by the QCTF in proposed ISQC 1 (Revised), the Task Force proposes to relocate the current application material in the Relevant Ethical Requirements section (paragraph A5 in **Agenda Item 5–A**) that defines “firm,” “network” and “network firm” to explanatory material to the definitions of “network” and “network firm.” (**Agenda Item 5–A**, paragraphs A2D–A2E).

Matter for IAASB Consideration

- 4) The IAASB is asked for its views on the overall approach proposed in paragraph 7 of proposed ISA 220 (Revised) and whether the IAASB has views relating to the development of application material as proposed in paragraphs A2C–A2E of proposed ISA 220 (Revised)?

Leadership Responsibilities for Quality on Audits (Agenda Item 5–A, paragraphs 8 and A3–A3J)

14. The Task Force continues to believe that sufficient and appropriate⁹ involvement in the engagement by the engagement partner is fundamental to meeting the objective of ISA 220. This view has been supported by the IAASB in prior Board discussions. Because the Engagement Performance requirements (and in particular those addressing direction, supervision and review) relate not only to the engagement partner, but to all members of the engagement team, the Task Force believes that overall requirement related to the sufficiency and appropriateness of the engagement partner’s involvement in the engagement should be included in the section relating to Leadership Responsibilities (**Agenda Item 5–A**, paragraph 8). Doing so makes it clear that the engagement

⁹ The Task Force notes that the glossary to the International Standards includes definitions of the terms “sufficient” and “appropriate” as they relate to audit evidence. The Task Force notes that concern has been expressed by some Board members about the use of these terms in a context other than audit evidence. The Task Force notes that there are other uses of these terms in the ISAs and is of the view that they can be used in other contexts, provided that it is sufficiently clear as to how sufficiency and appropriateness will be judged and measured. In the context of the proposed requirement in ISA 220, paragraph 8, sufficiency and appropriateness would be judged and measured primarily in the context of the engagement performance requirements and how they are effectively addressed given the nature and circumstances of the audit engagement.

partner cannot address the requirement to take responsibility for managing and achieving quality if the partner is not involved.

15. The Task Force proposes related application material in **Agenda Item 5–A** to recognize the importance of the sufficient and appropriate involvement of the engagement partner in the audit engagement by:
 - Highlighting that the engagement partner holds ultimate responsibility for creating an environment that supports quality through instilling a culture that emphasizes ethical values and behaviors (paragraph A3);
 - Providing examples of characteristics that maximize the likelihood that quality audits are performed, providing the basis for a measurement of whether a quality audit has ultimately been performed (paragraphs A3A–A3D);
 - Describing how the engagement partner demonstrates sufficient and appropriate involvement in the audit (paragraph A3E); and
 - Describing what is expected when the engagement partner assigns procedures, tasks, or other actions to another member of the engagement team (paragraphs A3F–A3G);
16. The Task Force acknowledges that questions have arisen regarding jurisdictional requirements addressing the signature of an auditor’s report. These questions relate to requirements for auditor’s reports to be signed by individuals registered or licensed in the jurisdiction where the entity is domiciled (where such individuals may or may not be the designated engagement partner), or for the auditor’s report to be signed by other individuals in addition to the engagement partner. The preliminary view of the Task Force is that it will be difficult, if not impossible to address these issues in the ISAs because they relate to jurisdictional requirements. However the Task Force will continue to discuss these matters (likely in combination with the Group Audits Task Force) and bring forward the issues for discussion with the Board at a future meeting.
17. The Task Force believes, having received support from the Board that effective communication plays an important role in managing quality and is key to how the requirements of this ISA are addressed. However, the Task Force also notes prior reservations of making the requirements of ISA 220 overly complex in this regard. The Task Force is therefore proposing application material to paragraph 8 that:
 - Highlights the link between effective communication and managing quality; and
 - Provides examples of appropriate communications in various situations. (**Agenda Item 5–A**, paragraphs A3H–A3J).
18. Additionally, the ITC highlighted possible actions to address issues identified related to ISA 220 including, adding an appendix to ISA 220 that indicates where the responsibilities of the engagement partner are articulated within the requirements and application material in the ISAs (with a similar

appendix to ISA 600 to deal with the responsibilities of a group engagement partner). The Task Force will consider this as it progresses revisions to ISA 220.

Matters for IAASB Consideration

- 5) The IAASB is asked for its views on the following:
- a) The proposed requirement in paragraph 8 related to sufficient and appropriate involvement of the engagement partner in the audit engagement and whether it should be included in the section relating to Leadership Responsibilities.
 - b) Whether the proposed application material will be effective in providing guidance to the engagement partner in managing and achieving quality on the audit engagement, including as it relates to being sufficiently and appropriately involved throughout the audit engagement.
 - c) Whether the proposed application material addressing communication is appropriate and will be effective in driving the expected behavior.
 - d) Whether it has other views about the proposed requirement(s) and related application material.

Relevant Ethical Requirements, Including Independence (Agenda Item 5–A, paragraphs 9–11, and A4–A7)

19. The Task Force is of the view that the engagement partner should be satisfied that the members of the engagement team are aware of, and understand, the relevant ethical requirements for that engagement and the firm’s policies or procedures in this regard, and that they have followed such policies or procedures. Requirements are proposed related to the engagement partner’s responsibilities in this regard.
20. Application material to be included in future drafts will be developed to:
- Describe relevant ethical requirements that might have particular significance to the audit engagement, including specifically emphasizing requirements related to non-compliance with laws and regulations;
 - Highlight firm policies or procedures that may be relevant in addressing the requirements (including the annual independence confirmations); and
 - Emphasize the importance of communications between the engagement partner and the firm about actual or potential breaches, and between the engagement partner and the firm to encourage engagement team members to raise concerns.
21. As described in paragraph 5 above, the Task Force will consider the results of the review by IAASB Staff of the effect of changes arising from the Restructured IESBA Code on ISA 220.
22. At this time the Task Force proposes no changes to the extant Independence requirement in paragraph 11 in **Agenda Item 5–A**. However the Task Force notes that further changes will be considered based on the related revisions to proposed ISQC 1 (Revised), which may result in

combining the Independence requirements with the more overall requirements addressing relevant ethical requirements.

Matters for IAASB Consideration

- 6) The IAASB is asked for its views on:
- a) Whether the proposed requirements in paragraphs 9–10 with respect to relevant ethical requirements are appropriate.
 - b) The proposals for additional application material as described in paragraphs A4A – A6A of proposed ISA 220 (Revised).
 - c) Whether it has other views about the proposed requirement(s) and related application material.

Acceptance and Continuance of Client Relationships and Audit Engagements (Agenda Item 5–A, paragraphs 12–13A and A8–A9)

23. The Task Force proposes:

- Revisions to the requirements that clarify the engagement partner’s responsibilities with respect to the firm’s acceptance and continuance decision; and
- That the auditor be required to use the information learned in the acceptance and continuance process in performing the audit in accordance with the ISAs (**Agenda Item 5–A**, paragraph 13A).

24. The Task Force also proposes application material that:

- Clarifies the information that the engagement partner may use in becoming satisfied that, with respect to the audit engagement, the firm’s policies or procedures have been followed and that the conclusions reached are appropriate;
- Links to other standards where information obtained during acceptance and continuance may also be relevant in addressing the requirements of other ISAs, for example, ISA 315 (Revised), ISA 240,¹⁰ ISA 500,¹¹ and ISA 600; and
- Provides guidance where the engagement partner may have concerns regarding the appropriateness of the conclusions reached regarding the acceptance and continuance decisions related to the engagement.

The Task Force also notes the need for additional application material to emphasize using all available information in making or confirming the acceptance or continuance conclusion, and for highlighting considerations where there are issues relating to access to management, information or other auditors.

¹⁰ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹¹ ISA 500, *Audit Evidence*

Matters for IAASB Consideration

- 7) The IAASB is asked for its views on whether:
- a) The proposed requirements in paragraphs 12–13A with respect to acceptance and continuance are appropriate.
 - b) The proposals for additional application material as described in paragraphs A8 – A9 of proposed ISA 220 (Revised).
 - c) Whether it has other views about the proposed requirement(s) and related application material.

Engagement Resources (Agenda Item 5–A, paragraph 14–14B, and A9A–A12)

25. The Board has supported the Task Force’s proposed changes to revise the title and requirements of this section to clarify the engagement partner’s responsibility to deal with all resources related to the audit, i.e., not just the human resources. These changes are also consistent with the revisions being proposed to ISQC 1 by the QCTF. In addition, the Task Force proposes the following in paragraphs 14–14B in **Agenda Item 5–A**:
- Resources that are required for the engagement need to be sufficient and appropriate in the context of the nature and circumstances of the engagement;
 - Requiring active management of the resources in accordance with the firm’s policies or procedures; and
 - Requiring that the engagement team have enough time to perform the work assigned, recognizing that insufficient time to perform the engagement is an impediment to professional skepticism (as identified by respondents to the ITC).¹²
26. The Task Force proposes application material (**Agenda Item 5–A**, paragraphs A9A–A11A) that:
- Clarifies that “Resources”, includes human resources, technological resources, and intellectual resources and provides examples of each.
 - Indicates that the engagement team is required to understand the firm’s policies or procedures in using resources, including required considerations or responsibilities for the engagement team.

Matters for IAASB Consideration

- 8) The IAASB is asked for its views on:
- a) The proposed requirements in paragraphs 14–14B and related application material regarding the use of resources in proposed ISA 220 (Revised).
 - b) Whether it has other views about the proposed requirements(s) and related application material in proposed ISA 220 (Revised).

¹² http://www.iaasb.org/system/files/meetings/files/20160919-IAASB_Agenda_Item_8-B-Professional_Skepticism_Impediments_Table.pdf

Engagement Performance – Direction, Supervision, and Reviews (Agenda Item 5–A, paragraphs 15–17C, and A12A–A20)

27. The Task Force is of the view that the engagement partner should be sufficiently and appropriately involved throughout the audit. The Task force is also of the view that the engagement partner uses professional judgment in developing and tailoring the approach to direction and supervision of the members of the engagement team, and the review of the work performed, to demonstrate sufficient and appropriate involvement throughout the audit. Proposed requirements, related to the engagement partner’s responsibility, include:
- To be sufficiently and appropriately involved throughout the audit engagement (aligned with the proposed revisions to paragraph 8 in **Agenda Item 5–A**);
 - For being responsible 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
 - To be satisfied that the direction, supervision and review is in accordance with the firm’s policies or procedures, tailored to the engagement circumstances and determined on the basis that work performed by less experienced team members is overseen by more experienced team members.
28. The Task Force has proposed strengthened requirements for engagement partner reviews, including providing additional specificity as to what the engagement partner should review (elevating extant application material requiring reviews of draft auditor’s reports (including where applicable, key audit matters and related audit documentation) and the drafts of written communications made in accordance with the ISAs, to management, those charged with governance, or external parties.
29. The Task Force will also consider whether certain application material for supervision and review should be elevated to requirements.
30. Application material, to be included in future drafts, will be developed to:
- Describe how the engagement partner uses professional judgment in developing and tailoring the approach to direction, supervision and review to demonstrate sufficient and appropriate involvement throughout the audit, and to address issues of scalability and differing engagement team structures.
 - Demonstrate linkage with ISA 300,¹³ explaining the effect of the requirements in ISA 220 on the development of the audit plan and the establishment of the overall audit strategy.
31. The Task Force will further consider related requirements in the Public Company Accounting Oversight Board’s Auditing Standard 10, *Supervision of the Audit Engagement*.

¹³ ISA 300, *Planning an Audit of Financial Statements*

Matters for IAASB Consideration 15–17C, and A13–A20)

- 9) The IAASB is asked for its views on:
- a) The proposed requirements and guidance regarding the sufficient and appropriate involvement of the engagement partner throughout the engagement, and the reviews responsibilities of the engagement partner.
 - b) Whether The proposed requirements and guidance regarding the sufficient and appropriate involvement throughout the engagement would provide a basis for demonstrating how the engagement partner has addressed the requirements relating to managing quality at the engagement level.
 - c) Whether it has other views about the proposed requirement(s) and related application material.

Standback (Agenda Item 5–A paragraph 23A, A35A)

32. The Task Force is of the view that the engagement partner should, prior to forming an opinion, “stand back” and, taking into account any changes in the circumstances of the engagement, or the firm’s policies or procedures, determine whether the requirements of proposed ISA 220 have been addressed, and whether the engagement partner’s involvement throughout the audit has been sufficient and appropriate. Such a requirement has been added (**Agenda Item 5–A**, paragraph 23A).
33. Application material, to be included in a future draft, is intended to explain that the engagement partner may make this consideration throughout the course of the engagement to consider the effect of any changes in the circumstances of the engagement, or the firm’s policies or procedures.

Matter for IAASB Consideration

- 10) Does the IAASB agree with the proposed stand back requirement in paragraph 23A, and does the IAASB have views about matters to be considered by the Task Force in developing the related application material?

Other Sections of ISA 220

34. The Task Force has considered the requirements in the other sections of ISA 220 and has proposed limited amendments to the requirements and related application material. Further amendments will be considered and proposed, in future drafts, in response to changes to proposed ISQC 1 (Revised) or proposed ISQC 2, or additional Task Force deliberations to the following sections:
- Consultation (**Agenda Item 5–A**, paragraph 18 and A21–A22)
 - Engagement Quality Control Review (**Agenda Item 5–A**, paragraphs 19–21 and A23–A32)
 - Differences of Opinion (**Agenda Item 5–A**, paragraphs 22–22B and A32A)
 - Monitoring and Remediation (**Agenda Item 5–A**, paragraphs 23 and A33–A35)
 - Documentation (**Agenda Item 5–A**, paragraphs 24–25A and A36–A36B)

Matter for IAASB Consideration

- 11) Does the IAASB have any observations with respect to the anticipated future Task Force deliberations?

C. Way Forward

35. The Task Force, in coordination with IAASB Staff, plans to continue to progress the changes to ISA 220 based on feedback from the Board with the goal of presenting a first read of the ISA 220 ED to the IAASB in March 2018. The Task Force will also take into account the matters referred to in paragraph 6.

Questions for the IAASB: Way Forward

- 12) Does the IAASB have any observations on the proposed way forward?

Appendix A

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

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

Task Force Activities since the last IAASB Discussions

2. The last Board meeting discussion on this topic was in August 2017. To develop the material in this agenda item, the following meetings have taken place:
 - Two ISA 220 Drafting Team¹⁴ teleconferences and three physical meetings;
 - One physical meeting of the Task Force.

Outreach

3. The Chair of the Task Force participated in outreach to the Global Public Policy Committee in September 2017 (see Outreach summary in **Agenda Item 6–A**) and presented an overview of the proposed changes to ISA 220 (Revised) to obtain their views.

Coordination with Other IAASB Task Forces and Working Groups

4. Since the last IAASB discussion at the September 2017 IAASB meeting, the Chairs of the ISA 220 TF and the QCTF, certain members of the respective drafting teams and staff of the respective projects held three meetings to discuss matters of mutual interest related to quality management at the firm level and quality management at the engagement level. Further coordination has also been facilitated through the overlap of task force members and frequent staff liaison.

¹⁴ The Drafting Team comprises Megan Zietsman (Chair of the Task Force), Josephine Jackson, Susan Jones (technical advisor to Len Jui), and IAASB Staff.

Appendix B

December 2016 IAASB Approved Meeting Minutes – Quality Control – Engagement Level (ISA 220)

Ms. Zietsman presented the Board with the Crossover Working Group's¹⁵ (Crossover WG's) initial views on possible revisions to ISA 220 from the responses to the ITC as set out in **Agenda Items 8-A and 8-B**. The possible revisions included suggested enhancements to many of the extant requirements and application guidance in ISA 220, the introduction of possible new requirements to embed quality management principles at the engagement level and to address communications among members of the engagement team and others involved in the audit.

There was general agreement from the Board on the direction of the proposed enhancements put forward by the Crossover WG, with some areas for further consideration by the Task Force noted variously by Board members, including:

- Although supporting linking the objective of the auditor to managing quality of the audit, it was noted that more clarity about how this would be operationalized in ISA 220 is required (in particular the interaction between a risk assessment for these purposes (i.e. risks to quality) versus the assessment of the risks of material misstatement as required by ISA 315 (Revised));
- Support for clarifying the engagement partner's (EP) overall responsibility and accountability for audit quality at the engagement level, while still allowing the EP the flexibility to assign certain responsibilities to other members of the engagement team;
- Further consideration of situations where the signing partner is different from the EP who was responsible for the direction supervision, and review of the work performed as a part of the audit;
- The need for appropriate coordination with the IESBA relating to considerations around the definitions of EP, engagement team, and network firms;
- Support for a new requirement related to strengthening two-way communication among the members of the engagement team and those involved in the audit; and
- Support for further consideration of how firms in networks interact, especially as relates to quality control

PIOB OBSERVER REMARKS

Prof. Van Hulle encouraged the Task Force to further consider supervision of auditors where audit work has been outsourced (e.g., to other auditors), in particular as it relates to responsibilities for direction, supervision and review as well as communication.

WAY FORWARD

The Crossover WG will continue to progress possible changes to ISA 220 for discussion by the IAASB at future meetings, including further considering how to embed quality management principles at the engagement level.

¹⁵ The ISA 220 TF was formerly known as the Crossover Working Group.

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

Ms. Zietsman explained the recommendations of the ISA 220 TF as set out in **Agenda Item 5-A**, in particular how these recommendations interact with the changes being proposed to ISQC 1. She noted that the ISA 220 TF's recommendations had been developed using the extant elements of ISA 220, although it was acknowledged that changes were being made to ISQC 1 would require further consideration in ISA 220, and would therefore involve efforts by both the ISA 220 TF and QCTF to address the interaction among the two standards.

While agreeing broadly with the direction of the changes proposed for ISA 220, in relation to the recommendations set out in **Agenda Item 5-A**, Board members:

- Agreed with the principle that addressing quality risks at the engagement level is important and should be addressed, but encouraged the ISA 220 TF to further consider how this could be accomplished. In particular, it was noted that the proposed four-step approach and the resulting changes being proposed to the requirements could be very challenging, or impractical, to implement, as well as being unnecessarily and difficult to document, all of which would likely result in the engagement partner spending unnecessary time demonstrating compliance with the revised standard.
- Questioned how ISA 220 interacts with the revisions being proposed to ISQC 1, in particular as ISA 220 was still presented using the elements, whereas ISQC 1 no longer distinguished the elements separately. The Task Force was encouraged to further consider how the elements could help users of the standard understand what quality 'looks like.'
- Questioned whether some of the changes were needed as ISA 220 is "not broken". Rather, the ISA 220 TF was encouraged to focus on the areas highlighted as requiring attention in the Invitation to Comment, *Enhancing Audit Quality in the Public Interest*,¹⁶ such as the engagement partner's involvement in the direction, supervision and review of an audit. It was noted that focusing on the appropriate involvement of the engagement partner would likely have the most significant impact in enhancing audit quality, and encouraged that further consideration be given by the TF to how the engagement partner could assess that quality had been achieved at the engagement level, which is the underlying objective of ISA 220.
- Questioned some of the new introductory paragraphs making the link to other ISAs, including whether it was necessary to add a lot of extra content regarding the interaction with ISQC 1 (as this was unchanged) and noting that these paragraphs linked to only some relevant ISAs and there may be others that should also be highlighted.

Board members variously supported:

- Strengthening the responsibilities of the engagement partner.
- Enhancing the standard to consider all resources needed for the engagement.

¹⁶ <http://www.ifac.org/publications-resources/invitation-comment-enhancing-audit-quality-public-interest>

- Strengthening the requirements for ongoing, two-way communication. However, it was emphasized that further consideration should be given to how this is achieved, as requiring communication in a standard would not necessarily promote the necessary behavioral change.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin agreed with the Board's concerns regarding building in quality management principles, and encouraged the ISA 220 TF to focus on the ongoing responsibilities of the engagement partner in an audit engagement.

WAY FORWARD

The ISA 220 TF will reconsider the proposed changes, including reflecting on how to embed quality management principles into ISA 220 while keeping the requirements appropriate but focused on the necessary changes. In addition, the ISA 220 TF will focus on requiring the appropriate involvement of the engagement partner in the direction, supervision and review of the audit. The ISA 220 Task Force will continue to work with the QCTF in progressing changes, and will present revised proposals for changes to ISA 220 to the IAASB for discussion at the December 2017 IAASB meeting.

August 1 2017 IAASB Approved Meeting Minutes – Quality Control – Engagement Level (ISA 220)

Ms. Zietsman introduced the topic and recommendations set out in **Agenda Item 1-A**, explaining the modified approach to revising ISA 220¹⁷ to address comments from the IAASB at the June 2017 IAASB meeting, noting that the revisions to ISA 220 will still remain focused on incorporating more proactive management of quality risks at the engagement level while addressing the responsibilities of the engagement partner. Ms. Zietsman also explained the proposal for how the revisions to ISA 220 would be expected to align to the changes being proposed to ISQC 1, adding that both the ISA 220 Task Force and QCTF will continue to coordinate as changes to both ISQC 1 and ISA 220 are progressed.

Board members expressed support for:

- Retaining the extant elements of ISA 220 (i.e., Leadership Responsibilities, Relevant Ethical Requirements, Acceptance and Continuance of Client Relationships and Audit Engagements, Assignment of Engagement Teams, Engagement Performance (including direction, supervision, and performance; reviews, consultation; engagement quality control review and differences of opinion)).
- The revised approach proposed by the ISA 220 DT for revising the requirements, with a caveat that the Board would only be in a position to express full support when the proposed revisions are drafted.

¹⁷ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

- Continuing efforts to achieve alignment between ISQC 1 and ISA 220, i.e., noting that this involves a two-way process, and that the Task Forces on both projects need to continue to coordinate to ensure that both standards interconnect appropriately.

The following observations were made by various Board members for further consideration by the ISA 220 DT:

- Agreement to align the terminology in ISA 220 with ISQC 1, but caution about using exactly the same phrases in certain instances because quality management at the engagement level is not necessarily be the same as quality management at the firm level (which is about the firm's entire system of quality management).
- Further consideration should be given to addressing the importance of communication in the revised standard, noting the variety of different types of communications (i.e., focusing on communications between the engagement partner and the engagement team, as well as on other types of communications such as communications between engagement partners or teams with the firm's quality resources, and communications with management and those charged with governance).
- Varying views were expressed related to the approach set out in paragraph 27 of **Agenda Item 1-A**, and the Task Force was encouraged to further reflect on how the engagement partner would be expected to consider what would need to be done in relation to quality for that engagement, including how to understand and apply the firm's policies or procedures at the engagement level.

Board members also cautioned that:

- The proposed revisions should not weaken the current requirements of the standard.
- The engagement partner's responsibilities should be balanced with the responsibilities of the firm, and not duplicative of the firm's efforts, or efforts within a network structure.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Dalkin was supportive of the direction of the revised approach to amending ISA 220.

PIOB OBSERVER REMARKS

Ms. Stothers expressed support for the alignment of the changes being proposed to ISQC 1 and ISA 220.

WAY FORWARD

The ISA 220 TF will continue to progress the changes to ISA 220, coordinating with the QCTF as necessary, for revised proposals to be presented to the IAASB for discussion at the December 2017 IAASB meeting.