

Quality Management at the Engagement Level— Proposed ISA 220 (Revised)

Megan Zietsman, Task Force Chair

IAASB Meeting, New York, USA

Agenda Item 5

December 13, 2017

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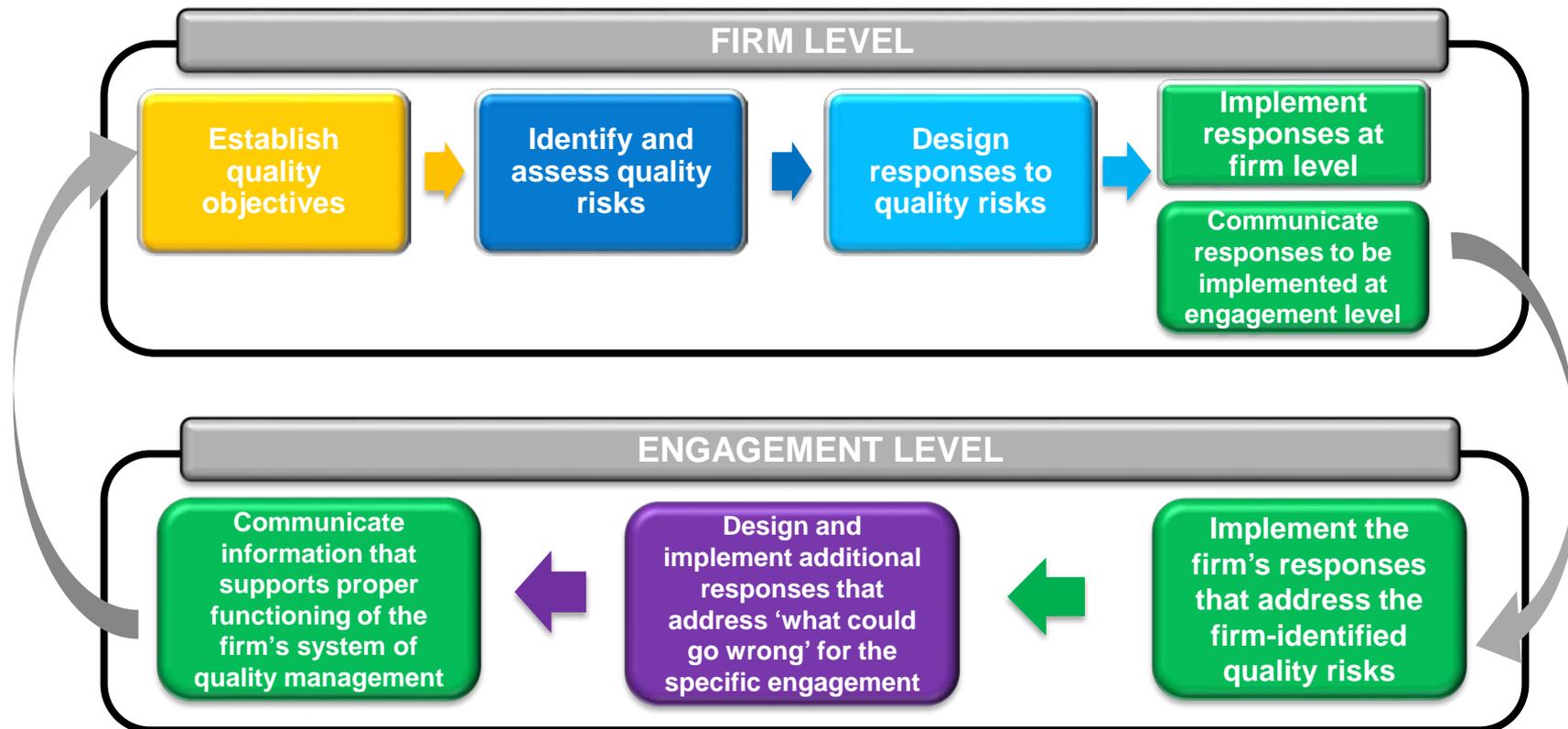
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Planned Revisions to ISA 220—Quality Control and Group Audits Project Proposal

- Clarify and strengthen engagement partner (EP) responsibilities, in particular in relation to direction, supervision and review.
 - Situations where EP is not located where majority of audit work is performed.
- Clarify what is required at engagement level in relation to firm, and network, quality management processes and procedures.
- Clarify what needs to be done for managing quality for evolving audit delivery models.
- Other matters:
 - Consideration of all resources needed for an engagement;
 - Acceptance and continuance; and
 - Ongoing two-way communication.

Relationship Between ISQC 1 (Revised) and ISA 220 (Revised)



Proposed ISA 220 (Revised)—Introduction

	Proposed ISA 220 (Revised)
Paragraph(s)	1–4A
Application Material	A0–A2B

- Proposed additions/revisions to paragraphs that link to proposed ISQC 1 (Revised) and proposed ISQC 2.
- Other explanatory material added/enhanced in the following areas:
 - Scope;
 - Using the Firm’s System of Quality Management;
 - Engagement team (ET) responsibilities with respect to firm responses to quality risks that are required to be implemented at the engagement level; and
 - Relationship Between ISA 220 and Other ISAs.

Proposed ISA 220 (Revised)—Introduction

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?

Proposed ISA 220 (Revised)—Objective

	Proposed ISA 220 (Revised)
Paragraph(s)	6
Application Material	N/A

- Proposed revisions to paragraph focus on a quality outcome at the engagement level (retaining the concept of reasonable assurance).

Proposed ISA 220 (Revised)—Objective

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?

Proposed ISA 220 (Revised)—Definitions

	Proposed ISA 220 (Revised)
Paragraph(s)	7
Application Material	A2C–A2E

- Proposed addition of a new defined term, “Response,” based on the definition within proposed ISQC 1 (Revised).
- Other explanatory material relocated to align with approach in proposed ISQC 1 (Revised).

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)?

Proposed ISA 220 (Revised)—Leadership Responsibilities for Quality on Audits

	Proposed ISA 220 (Revised)
Requirement(s)	8
Application Material	A3–A3J

- Proposed additions/revisions to requirement makes it clear that sufficient and appropriate involvement by the EP in the audit is necessary in order to meet the objective of proposed ISA 220 (Revised).
- Application material added/enhanced in the following areas:
 - Managing and achieving quality;
 - Sufficient and appropriate involvement throughout the audit engagement;
 - Assigning responsibility to other members of the ET; and
 - Communication.

Proposed ISA 220 (Revised)—Leadership Responsibilities for Quality on Audits

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.

Proposed ISA 220 (Revised)—Relevant Ethical Requirements, Including Independence

	Proposed ISA 220 (Revised)
Requirement(s)	9–11
Application Material	A4–A7

- Proposed additions/revisions to requirements that emphasize the EP be satisfied that the members of the ET are aware of, and understand, the relevant ethical requirements for that engagement and the firm’s policies or procedures.
- Application material to be added/enhanced that describes consideration of engagement-specific relevant ethical requirements, highlights firm policies or procedures that may assist the ET, emphasize communication between EP and Firm.

Proposed ISA 220 (Revised)—Relevant Ethical Requirements, Including Independence

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.

Proposed ISA 220 (Revised)—Acceptance and Continuance of Client Relationships and Audit Engagements

	Proposed ISA 220 (Revised)
Requirement(s)	12–13A
Application Material	A8–A9

- Proposed additions/revisions to requirements clarify the EP’s responsibilities 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.
- Application material added/enhanced in order to supplement changes to the requirements (s), highlight that information obtained from other standards may be relevant, and provide guidance related to the appropriateness of the conclusions reached.

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.

Proposed ISA 220 (Revised)—Engagement Resources

	Proposed ISA 220 (Revised)
Requirement(s)	14–14B
Application Material	A9A–A12

- Proposed additions/revisions to requirements clarify the EP’s responsibility to deal with all resources related to the audit, i.e., not just the human resources.
- Application material added/enhanced in the following areas:
 - Human resources;
 - Technological resources;
 - Intellectual resources; and
 - Technical Competence and Capabilities of The ET

Proposed ISA 220 (Revised)—Engagement Resources

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).

Proposed ISA 220 (Revised)—Engagement Performance – Direction, Supervision, and Reviews

	Proposed ISA 220 (Revised)
Requirement(s)	15–17C
Application Material	A12A–A20

- Proposed additions/revisions to requirements emphasize that the EP should be sufficiently and appropriately involved throughout the audit.
- ISA 220 Task Force still to consider the following:
 - Whether certain extant application material should be elevated to requirements;
 - What additional application material would be helpful in describing how the EP fulfills the related requirements for direction, supervision, and reviews; and
 - The Public Company Accounting Oversight Board’s Auditing Standard 10, *Supervision of the Audit Engagement*.

Proposed ISA 220 (Revised)—Engagement Performance – Direction, Supervision, and Reviews

Matters for IAASB Consideration

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.

Proposed ISA 220 (Revised)—Standback

	Proposed ISA 220 (Revised)
Requirement(s)	23A
Application Material	A35A

- Proposed additional requirement for the EP to “stand back” and determine whether the requirements of proposed ISA 220 (Revised) have been addressed.
- ISA 220 Task Force still to consider application material to support the new requirement.

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?

Proposed ISA 220 (Revised)—Other Sections of ISA 220

- Limited amendments proposed to the following remaining sections in proposed ISA 220 (Revised):
 - Consultation (paragraph 18 and A21–A22)
 - Engagement Quality Control Review (paragraphs 19–21 and A23–A32)
 - Differences of Opinion (paragraphs 22–22B and A32A)
 - Monitoring and Remediation (paragraphs 23 and A33–A35)
 - Documentation (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?

Way Forward

- ISA 220 Task Force plans to continue to progress the changes to ISA 220 (Revised) 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 (expected).

Matter for IAASB Consideration

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



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