

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

Introduction

1. This paper is organized as follows:
 - Section I: How Proposed ISA 220 (Revised)² Addresses Key Matters of Public Interest and Enhances Audit Quality
 - Section II: Overview of Proposed Revisions to ISA 220

Section I – How Proposed ISA 220 (Revised) Addresses Key Matters of Public Interest and Enhances Audit Quality

2. The issues identified in the table below are adapted from, and expand upon, the issues identified in the [project proposal](#)³ addressing the revisions of the IAASB's quality control standards (ISQC 1⁴ and ISA 220) and group audits (ISA 600⁵).

KEY PUBLIC INTEREST ISSUES	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM D.2]
<p>Performing audits of financial statements in the public interest; exercising professional judgment and professional skepticism</p>	<p>Audits of financial statements (i.e., audit engagements) are performed in the public interest.</p> <p>The engagement partner (EP) and the other members of the engagement team (ET) have a responsibility to act in a manner that recognizes their roles in serving the public interest when performing audit engagements.</p>	<p>4B, A11C</p>

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

² Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

³ http://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal.pdf

⁴ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

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

KEY PUBLIC INTEREST ISSUES	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM D.2]
	<p>The performance of quality audit engagements involves planning and performing such engagements, and reporting on them, in accordance with professional standards and applicable legal and regulatory requirements, including applying professional judgment and exercising professional skepticism. Recognize that professional judgment is applied in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement.</p>	<p>4B, 4C, 17A(c), 18(a)(iii), A2, A3H, A10C, A11, A11D, A19A, A19B</p>
	<p>The EP's actions and communications to the ET overall supports the exercise of professional skepticism and demonstrates the behaviors associated with professional skepticism. In addition, proposed ISA 220 (Revised) highlights the importance of the ET exercising professional judgment and professional skepticism on the audit, as well as providing examples of the impediments to professional skepticism, and actions ETs can take to deal with such impediments.</p>	<p>4B, 4C, 8A, A3G, A3H, A3I</p>
	<p>Highlight the existence of unconscious or conscious auditor biases that may act as an impediment to the exercise of professional skepticism.</p>	<p>4C, A3G, A3H, A3I, A13</p>

KEY PUBLIC INTEREST ISSUES	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM D.2]
	<p>Tight financial reporting deadlines, time, budget, or resource constraints, may act as an impediment to the exercise of professional skepticism. Therefore, the EP makes resourcing decisions, taking into account whether the resources assigned, or made available by the firm, are sufficient given the nature and circumstances of the audit engagement.</p>	<p>14, 14A, 14B, A3G, A11B, A13</p>
	<p>Consideration of whether ET has the competence, capabilities, including sufficient time, to perform the engagement in order to be in a position to exercise professional skepticism.</p>	<p>14A, A1E, A8, A11, A19D</p>
	<p>When directing, supervising, or reviewing the work performed, pairing more experienced team members with less experienced team members allows for less experienced team members to benefit from on-the-job training focused on identifying potential areas of risk and in learning the actions that demonstrate the exercise of professional skepticism.</p>	<p>4C, 15(c), A2, A2D, A3F, A3I, A12D, A13, A15, A19D, A19E</p>
<p>Clarifying the EP's role and responsibilities</p>	<p>Enhancing the requirements and application material in relation to engagement leadership, in particular:</p> <p>(a) Requiring the EP to take overall responsibility for managing and achieving quality on the audit engagement through being</p>	<p><u>EP's responsibility for overall quality, including a stand back evaluation, in addition to responsibility for direction, supervision and review:</u> 8, 8A, 8B, 15, 23A</p>

KEY PUBLIC INTEREST ISSUES	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM D.2]
	<p>sufficiently and appropriately involved throughout the audit engagement.</p> <p>(b) Clarifying “sufficient and appropriate” involvement of the EP.</p> <p>(c) Clarifying what is appropriate in relation to the requirements for the EP to take responsibility for direction, supervision, performance and review on each audit engagement.</p> <p>(d) Requiring the EP to determine whether the EP’s involvement throughout the audit engagement provides the basis for the EP to take overall responsibility for the audit (stand back).</p>	<p><u>Enhanced application material for leadership:</u></p> <ul style="list-style-type: none"> • Commitment to quality, setting the right tone, creating the right environment: A3C – A3D • Sufficient and appropriate involvement: A3DA • Enhanced “all-way” communication: A3E – A3F • Professional skepticism necessary for appropriate judgments: A3G – A3I <p><u>Enhanced application material for tailoring the nature, timing and extent of direction, supervision and review:</u></p> <ul style="list-style-type: none"> • What it means to direct, supervise and review: A12A – A17B • Taking into account, and tailoring, direction, supervision and review based on the nature and circumstances of the audit engagement: A19C – A19E
	<p>Focusing on the involvement of the EP, including those situations where the EP is not located where the majority of the audit work is performed.</p>	<p><u>EP’s involvement in the audit:</u> 8, 23A(a), A3DA, A12C, A13, A35A, A35B</p> <p><u>Considerations where the ET is dispersed:</u> A2H, A3D, A19D</p>

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	<p>Enhancing the requirements and application material in relation to the two-way communication necessary between ET members, and others involved in or relevant to the audit engagement.</p>	<p><u>ETs' responsibility to communicate information up to the firm:</u> 3(c), A2B, A3E, A4E</p> <p><u>EP's responsibility to communicate information up to the firm:</u> 13A, 14B, 23(c), A3E, A3I, A4DC, A4E, A8H</p> <p><u>EP's responsibility to communicate with the ET:</u> 4C, 8A(b), 8A(c), A3C, A3E, A3F, A4D, A13, A34</p> <p><u>ETs' responsibility to communicate with each other:</u> 8A(d), A3E, A4D, A12D</p> <p><u>ETs' responsibility to communicate (and cooperate) with the engagement quality control reviewer:</u> 19(b), A25A</p> <p><u>EP's responsibility to communicate information to management/those charged with governance:</u> A3I, A4E</p> <p><u>ET's responsibility to communicate with other auditors:</u> A3E (<i>communication between the group ET and component auditors will be further addressed within the Group Audits project</i>)</p>
<p>Interaction with or dependence on firm or network firm quality management</p>	<p>Clarifying what is required at the engagement level in relation to dependence on applicable firm or</p>	<p>A1E, A1F, A9A, A10F</p>

KEY PUBLIC INTEREST ISSUES	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM D.2]
processes and procedures	network-level quality management processes and procedures.	
Addressing audit delivery models and component auditors	Clarifying how the requirements for managing quality at the engagement level address evolving service delivery centers that may result in ETs with different structures and involve other individuals performing audit procedures. Similarly, for group audits, clarifying that direction, supervision and review requirements are relevant to component auditors performing audit procedures. <i>(Note that this aspect will be further addressed within the Group Audits project)</i>	<u>Revised definition of ET: 7(d), A2H, A2J</u> <u>EP's leadership responsibilities for these resources: A3D</u> <u>Direction, supervision and review of these resources: A19D</u>
Other matters	<p>Clarifying the required understanding for accepting or continuing an engagement, including further consideration of situations where necessary access to</p> <p>(a) the financial information; or</p> <p>(b) other auditors who will be involved in the audit,</p> <p>is restricted or precluded. For situations where restrictions to information or management do exist, clarifying the auditor's considerations about what appropriate actions could be.</p> <p>Considering the interaction of firm quality management with managing quality at the engagement level, for</p>	<u>Revised requirements focusing on the firm's policies or procedures: 12, 13</u> <u>Difficulties imposed by management: A3G, A3H</u> <u>EP's determination of the appropriateness of the firm's acceptance and continuance conclusions: A8A – A8C</u> <u>Audits where the audit firm is appointed pursuant to law or regulation or by a regulatory or other authority: A8G, A9</u> <u>Interaction between the firm's system and the role of ETs: 2, 3, A1C, A1D, A2A – A2F</u>

KEY PUBLIC INTEREST ISSUES	DESCRIPTION OF ISSUE(S) ADDRESSED	REFERENCE TO RELEVANT PARAGRAPHS WITHIN PROPOSED ISA 220 (REVISED) [AGENDA ITEM D.2]
	example in relation to monitoring and engagement quality control reviews.	<u>Areas where the ET will use information provided by the firm and how it should be supplemented:</u> 13, 13A, 23, A4C, A8, A8B, A8D – A8E, A8G, A9, A33, A34
	Strengthening the communication requirements to promote effective two-way dialogue, in particular with other auditors.	See above response under “Clarifying the EP’s role and responsibilities.”

Embedding Quality Management Principles into ISA 220 (Revised)

3. In making the revisions to proposed ISA 220 (Revised), the ISA 220 Task Force (TF) is attempting to more specifically embed quality management principles into the revised standard, i.e., rather than basing the revisions on a separate quality risk assessment process (the approach being taken in proposed ISQC 1 (Revised)⁶). The IAASB’s Invitation to Comment (ITC)⁷ did not specifically recommend that a separate quality risk assessment process be embedded into proposed ISA 220 (Revised) and respondents to the ITC did not call for one. Rather, respondents were supportive of the approach being taken by the TF, and subsequent discussions with the IAASB have also confirmed the Board’s support. The IAASB expressed significant concerns about incorporating a separate quality risk assessment process at the engagement level, noting the potential confusion that might be created through the introduction of another discrete risk assessment process at the engagement level.
4. The TF believes that the proposed approach will drive a proactive and risk-based approach to the management and achievement of audit quality at the engagement level. In considering and responding to the requirements in each section of proposed ISA 220 (Revised), the view of the TF is that the EP’s response will need to be framed by the EP’s consideration of “what can go wrong” in the context of the nature and circumstances of the engagement, and also taking into account firm level responses that are implemented at the engagement level, or otherwise relevant to the

⁶ Proposed ISQC 1 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁷ Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits

engagement-level response. In managing quality at the engagement level and in complying with the requirements in revised ISA 220, the EP will achieve reasonable assurance through:

- Implementing the firm's responses that address the firm-identified quality risks (i.e., those designed at the firm level) but which are intended to be executed at the engagement level. (e.g., the firm has a requirement for the EP to review selected audit documentation)
- Designing and implementing additional responses that address what could go wrong for that specific engagement, (i.e., based on consideration of engagement facts and circumstances). (e.g., in addition to reviewing the audit documentation prescribed by the firm, the EP decides what other audit documentation to review in managing and achieving quality)

Performing Audits of Financial Statements in the Public Interest; Applying Professional Judgment and Exercising Professional Skepticism

5. In response to comments at the June 2018 IAASB meeting, including from the Public Interest Oversight Board observer, the TF has proposed additions to the introductory material to explicitly address the ET's responsibility to act in the public interest when performing audit engagements, in particular to explain that:

- Audits of financial statements (i.e., audit engagements) are performed in the public interest.
- The EP and the other members of the ET have a responsibility to recognize that audit engagements are performed in the public interest.
- The performance of quality audit engagements involves planning and performing such engagements, and reporting on them, in accordance with professional standards and applicable legal and regulatory requirements, including applying professional judgment and exercising professional skepticism (see paragraph 4B of **Agenda Item D.2**).

These additions are aligned with the changes to proposed ISQC 1 (Revised) relating to the public interest.

6. Since the December 2017 IAASB meeting, in response to Board comments the TF has continued to strengthen the requirements and application material in proposed ISA 220 (Revised) in relation to the ET's application of professional judgment and the exercise of professional skepticism. The TF proposals in this regard are summarized in the Table above.

Matter for IAASB CAG Consideration

- 1) CAG Representatives are asked for their views on whether they agree with the manner in which the key matters of public interest, as identified in the Table above In Section B, have been addressed in proposed ISA 220 (Revised), including how professional judgment and professional skepticism have been addressed in **Agenda Item D.2**.

Scalability for Firms of Different Sizes, and for Engagements Where Nature and Circumstances Differ

7. To date, the IAASB has been generally supportive of the direction of the TF's views regarding how proposed ISA 220 (Revised) will be applied based on a variety of situations, but has encouraged the TF to continue to focus on how scalability can be achieved. The TF continues to note the importance of being clear about how proposed ISA 220 (Revised) can be applied in a scalable way, in particular to take account of:
 - The differing nature and circumstances of a particular audit engagement, including, for example, the size of the ET, geographic dispersion of the ET members, or
 - The size of the firm.
8. Taking into account feedback from Board members, the TF has included application material that explicitly recognizes additional considerations related to the scalability of proposed ISA 220 (Revised). Appendix A to this paper includes the relevant references to the applicable material located within **Agenda Item D.2** where the TF believes scalability has been incorporated.
9. Specific outreach with the International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee is planned in advance of the September 2018 IAASB meeting.

Matter for IAASB CAG Consideration

- 2) CAG Representatives are asked for their views on how the TF has incorporated scalability into proposed ISA 220 (Revised).

Section II – Proposed Revisions to ISA 220

Introduction (Agenda Item D.2, paragraphs 1 – 4C, and A0 – A2F)

10. This introductory section deals with the Scope of the ISA as well as describing the relationship between quality management at the firm level and quality management at the engagement level, including:
 - Indicating that the ISA is to be read in conjunction with relevant ethical requirements (paragraph 1 in **Agenda Item D.2**).
 - Retaining the concept that this ISA is premised on the basis that the firm is subject to the ISQCs or to national requirements that are at least as demanding (Paragraph 2A in **Agenda Item D.2**)
 - Describing the responsibilities of the ET for managing and achieving quality at the engagement level, led by the EP and within the context of the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. (Paragraph 3 in **Agenda Item D.2**)
 - Providing application material, including application material that:
 - Indicates that in certain circumstances, the EP may depend on the firm's policies or procedures in complying with the requirements of ISA 220, based on the EP's determination of whether those policies or procedures are "fit-for-purpose".

- Acknowledges that firm policies and procedures may be established by a network, or a cluster of firms within a network.

Objective (Agenda Item D.2, paragraph 6)

11. The objective of proposed ISA 220 (Revised):

- Remains focused on a quality outcome at the engagement level (retaining the concept of reasonable assurance), but updated to focus on managing and achieving quality at the engagement level.
- Has been strengthened to focus on whether the auditor has “fulfilled the auditor’s responsibilities” rather than whether the auditor has “complied”, which may be viewed as encouraging only a compliance mindset.

Revisions to the objective are aligned with the revisions to the objective in proposed ISQC 1 (Revised).

Definitions (Agenda Item D.2, paragraph 7 and A2H–A2L)

12. Revisions to the definitions have been and continue to be coordinated with the Quality Control Task Force (QCTF) (responsible for revisions to ISQC 1) and the ISQC 2 Task Force (ISQC 2 TF) (responsible for the development of proposed ISQC 2). Certain definitions have been removed as they are no longer used in the standard (for example, the definitions of “Inspection”, “Listed entity” and “Monitoring”. The TF has proposed the following changes to the definitions of EP and ET:

- Engagement Partner – Clarified to recognize that the EP is the “partner or other individual *designated* by the firm”, as the extant definition does not address that it is the firm’s responsibility to designate the EP.
- Engagement Team – Revised to clarify that all individuals who perform audit procedures on the engagement should be considered members of the ET. The proposed change recognizes that individuals who are involved in the audit engagement may not necessarily be specifically “engaged” directly by the firm or a network firm. The proposed change is also intended to more directly address situations where members of the team might not be located in the same place as the ET (e.g., personnel performing audit procedures at audit delivery centers and component auditors). The revised definition is supported by new application material (see paragraphs A2H–A2JA).

The proposed changes require further discussion with the IESBA as the extant definitions are aligned with the IESBA Code. The TF plans further coordination with the IESBA in advance of and after the September 2018 IAASB meeting.

Leadership Responsibilities for Managing and Achieving Quality on Audits (Agenda Item D.2, paragraphs 8–8B and A3C–A3J)

13. The TF has significantly expanded and clarified the requirements for leadership responsibilities for managing and achieving quality on the audit engagement. The proposed revisions to paragraphs 8 and 8A of **Agenda Item D.2** deal with the following matters:

- The EP is required to take overall responsibility for managing and achieving quality on the audit engagement, and to create an environment that emphasizes the firm’s culture and expected behaviors
 - That, to achieve quality on the audit engagement, the EP is required to be sufficiently and appropriately involved throughout the audit the engagement
 - Paragraph 8A – A new requirement for the EP, in creating the required environment, to take clear, consistent and effective actions to reflect the firm’s commitment to quality
14. The TF also acknowledges that in most audit engagements, the EP will assign procedures, tasks or other actions to other members of the ET. A new requirement has been included in paragraph 8B of **Agenda Item D.2** to emphasize that the EP continues to take overall responsibility and to deal with the required actions when assigning procedures, tasks or actions to other members of the ET.
15. The enhanced requirements are supported by new application material (see paragraphs A3C–A3J in **Agenda Item D.2**). This revisions to the application material include the following:
- Explaining how the EP’s personal conduct and actions promote a culture focused on the quality of the audit and that the EP holds ultimate responsibility for creating an environment that supports quality through instilling a culture that emphasizes ethical values and behaviors.
 - Describing how the EP can demonstrate sufficient and appropriate involvement in the audit.
 - Highlighting the link between effective communication and managing quality and includes examples of appropriate communications in various situations.
 - Illustrating how the impediments to professional skepticism may affect quality management at the engagement level, provides examples of unconscious or conscious biases that may affect the ET’s professional skepticism and professional judgments and provides possible actions that the EP may take to deal with impediments to professional skepticism. (See also Section I).

Note: the TF considered whether this material was better placed in ISA 200,⁸ but concluded that it was more appropriate for the material to remain in proposed ISA 220 (Revised) as this placement was supported by the majority of the IAASB. In addition, the TF believes it is important and foundational material to support the application of the overall requirements in ISA 200 on professional judgment⁹ and professional skepticism¹⁰ in the context of managing and achieving quality at the engagement level and in complying with the requirements of proposed ISA 220 (Revised).

Relevant Ethical Requirements, Including Independence Requirements (Agenda Item D.2, paragraphs 9–10A, and A4–A7)

16. The TF has proposed enhancements to the requirements in this section, including to align with the revised requirements relating to relevant ethical requirements that are included in proposed ISQC 1

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of An Audit In Accordance with International Standards on Auditing*

⁹ ISA 200, paragraphs 16

¹⁰ ISA 200, paragraphs 15

(Revised). The proposed revisions result in action-oriented requirements that are more robust and that put emphasis on relevant ethical requirements broadly, while still retaining the focus from the extant ISA 220 on requirements that address independence (i.e., the requirements in the extant ISA 220 relating to independence are more granular than for other relevant ethical requirements.) The proposed revisions to paragraphs 9-10A of **Agenda Item D.2** require the EP to:

- Have an understanding of the relevant ethical requirements, including independence requirements, that are applicable to the nature and circumstances of the engagement.
 - Determine that other members of the ET have been made aware of the relevant ethical requirements for that engagement and the firm's related policies or procedures.
 - Obtain relevant information to evaluate threats to compliance with relevant ethical requirements of which the EP becomes aware, and deal with them.
 - Determine, prior to dating the auditor's report, whether relevant ethical requirements have been fulfilled.
17. The enhanced requirements are supported by new application material (see paragraphs A4–A7 in **Agenda Item D.2**). The revisions to the application material include the following:
- Highlighting that based on the nature and circumstances of the engagement, certain relevant ethical requirements may be of particular significance.
 - Explaining that information and communication and resources provided by the firm may assist the EP and other members of the ET in understanding and fulfilling relevant ethical requirements, and highlighting the importance of open and robust communication between the EP and the other members of the ET.
 - Explicitly acknowledging, through an example, that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.
 - Providing examples of appropriate actions the EP may take when matters come to the attention of the EP that the relevant ethical requirements have not been fulfilled.
 - Pointing out that the requirement for the EP to determine, prior to dating the auditor's report, whether relevant ethical requirements have been fulfilled is the basis for complying with the requirement in ISA 700 (Revised)¹¹ to include such a statement in the auditor's report.

Acceptance and Continuance of Client Relationships and Audit Engagements (Agenda Item D.2, paragraphs 12–13A and A7A–A9)

18. The TF has proposed a new requirement (paragraph 13 of **Agenda Item D.2**) that the EP take into account information learned in the acceptance and continuance process in planning and performing the audit in accordance with the ISAs and in complying with ISA 220.

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

19. The TF has also proposed enhancements to the application material in support of the requirements in this section (see paragraphs A7A–A9 in **Agenda Item D.2**). The revisions to the application material include the following:
- Acknowledging that if the EP is directly involved in the firm’s acceptance and continuance processes, the EP’s involvement provides a basis for addressing the relevant requirements of proposed ISA 220 (Revised).
 - Providing examples of information obtained during the acceptance and continuance process that may assist the EP in complying with the relevant requirements of proposed ISA 220 (Revised) and making informed decisions about appropriate courses of action.
 - Highlighting how information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs.
 - Providing guidance for when the EP may have concerns regarding the appropriateness of the conclusions reached regarding the acceptance and continuance decisions made by the firm.

Engagement Resources (Agenda Item D.2, paragraph 14–14C, and A9A–A12)

20. The TF has proposed significant enhancements to this section of the standard, including broadening the scope to all engagement resources. Extant ISA 220 only deals with the assignment of ETs, i.e., human resources. The proposed changes to the requirements are aligned with the proposed revisions to ISQC 1. In addition, the TF has proposed the following enhancements related to active management of the resources on an audit engagement:
- Requiring the EP to determine that the resources for the engagement are sufficient and appropriate in the context of the nature and circumstances of the engagement.
 - Requiring that the EP take the appropriate action when insufficient or inappropriate resources are provided by the firm.
 - Requiring the EP to take responsibility for using the resources appropriately, taking into account the nature and circumstances of the audit engagement.
21. The TF has also proposed enhancements to the application material in support of the requirements in this section (see paragraphs A9A–A12 in **Agenda Item D.2**). The revisions to the application material include the following:
- Clarifying that “Resources”, include human resources, technological resources, and intellectual resources and providing examples of each.
- Note: this is an area where the TF continues to coordinate with the IAASB’s Data Analytics Working Group. See paragraph 7 of **Agenda Item D.2**.
- Highlighting the direct link between effective project management and audit quality, and explaining how project management techniques and tools may support the EP and other members of the ET in managing the quality of the audit engagement.

Engagement Performance

Direction, Supervision, and Review (**Agenda Item D.2**, paragraphs 15–17C, and A12A–A19E)

22. The TF is of the view that the EP should be sufficiently and appropriately involved throughout the audit, which includes being responsible for the direction and supervision of the ET and the review of the work performed. The TF is also of the view that the EP uses professional judgment in developing and tailoring the approach (i.e., the nature, timing and extent) to direction, supervision and review based on the nature and circumstances of the audit engagement. As explained in Section I, these requirements are fundamental to the scalability of the standard. Proposed revisions to the requirements related to the EP's responsibility include:

- Enhancing the requirements relating to direction, supervision and review and emphasizing the need for being responsive to the nature and circumstances of the engagement
- Enhancing the requirements related to reviews of the work performed, including elevating extant application material to the requirements that deals with matters that the EP is required to review; adding new requirements for the EP to review the final draft of the financial statements, the auditor's report and formal written communications to management and those charged with governance.

23. The TF has also proposed enhancements to the application material to support of the requirements in this section (see paragraphs A12A–A19E in **Agenda Item D.2**). The revisions to the application material include the following:

- Emphasizing that the EP's approach to direction and supervision of the members of the ET and the review of the work performed provides support for the EP in complying with the requirements in this ISA, as well as the conclusion that the EP has been sufficiently and appropriately involved throughout the audit engagement.
- Direction – Supplementing the list of examples of matters communicated to ET members to illustrate how "direction" is demonstrated.
- Supervision – Describing further what it means to track the progress of the engagement, how coaching and on-the-job training are critical for less experienced ET members, and highlighting the importance of creating an environment where ET members raise concerns where necessary.
- Review – Explicitly stating that the purpose of the review provides the EP, and all members of the ET, with support for the conclusion that the requirements of proposed ISA 220 (Revised) have been complied with.
- Providing examples of areas involving significant judgments (i.e., where the EP is required to review related audit documentation).
- Acknowledging that the EP may tailor the approach (i.e., the nature, timing and extent) to direction, supervision and review depending on, for example, the competence and capabilities of the individual ET members performing the audit work.

Consultation, Engagement Quality Review (EQR), Differences of Opinion, and Monitoring and Remediation

24. The TF has proposed the following changes to the requirements and related application material in each of the remaining sections within “Engagement Performance”:
- Consultation (**Agenda Item D.2**, paragraph 18 and A19G–A22A) – Enhancing the requirement to provide examples of matters that may necessitate consultation outside the ET (e.g., difficult or contentious matters, where the firm’s policies or procedures require consultation, and matters that require consultation based on the EP’s professional judgment) in addition to proposing application material that notes that the need for consultation on a difficult or contentious matter may be an indicator that it is a key audit matter (which is consistent with ISA 701¹²).
 - EQR (**Agenda Item D.2**, paragraph 19 and A23–A25A) – The TF is coordinating with the ISQC 2 Staff to reflect changes being proposed in the ISQC 2 project in proposed ISA 220 (Revised). The requirements relating to the performance of the EQR (as outlined in paragraphs 20–21 and A26–A32 of extant ISA 220) have been moved to proposed ISQC 2 and are subject to revision by the ISQC 2 TF, while the EP’s responsibilities in relation to the EQR (as outlined in paragraph 19 and A23–A25 of extant ISA 220) remain in proposed ISA 220 (Revised). In addition, the TF has proposed including an additional requirement related to the EP’s responsibility to cooperate with the engagement quality reviewer and to inform other members of the ET of their responsibility to do so. Additional application material recognizes the importance of the EQR being conducted in a timely manner, as well as frequent, ongoing communications between the ET and the engagement quality reviewer.
 - Differences of Opinion (**Agenda Item D.2**, paragraphs 22–22A and A32A–A32B) – The TF has proposed limited changes in this section, primarily to align with what is required under proposed ISQC 1 (Revised). Additional application material provides guidance on appropriate actions that the EP may need to undertake if the EP is not satisfied with the resolution of a difference of opinion.
 - Monitoring and Remediation (**Agenda Item D.2**, paragraph 23 and A33–A35) – The TF has strengthened the EP’s responsibilities in this section, i.e., for being satisfied that the ET is aware of the results of the monitoring and remediation process of the firm, to determine the relevance of those results on the audit, and to remain alert throughout the audit engagement for information that may be relevant to the firm’s monitoring and remediation process and to communicate such information to those responsible for the process. Application material has been proposed that addresses remedial actions that the EP may need to be undertake at the engagement level.

Taking Overall Responsibility for Managing and Achieving Quality (Agenda Item D.2 paragraph 23A and A35A–35B)

25. The TF has proposed a new requirement in paragraph 23A that states the EP should, prior to dating the auditor’s report, “stand back” and be satisfied about having taken overall responsibility for managing and achieving quality on the audit engagement (required by paragraph 8 of proposed ISA 220 (Revised)). This stand back approach is consistent with the approach taken in other ISAs. For

¹² ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

example, paragraph 25 of ISA 330,¹³ in the section on “Evaluating the Sufficiency and Appropriateness of Audit Evidence,” states that “Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate.”

26. In becoming satisfied about having taken overall responsibility for managing and achieving quality on the audit engagement, this new stand back requirement requires the EP to determine that:
 - (a) The EP’s involvement has been sufficient and appropriate throughout the audit engagement such that the EP has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement (links to paragraph 8 within the leadership responsibilities section of proposed ISA 220 (Revised)); and
 - (b) The firm’s policies or procedures, and the nature and circumstances of the audit engagement, and any changes thereto, have been taken into account in complying with the requirements of this ISA.
27. The TF has also drafted application material to support the new requirement, including some guidance for appropriate actions to be taken in order to enable the EP to comply with the requirement. The TF believes that including such a stand back requirement would also assist in supporting the exercise of professional skepticism by the EP and other members of the ET.

Documentation (Agenda Item D.2 paragraph 24 and A35C–A36)

28. Paragraph 24 has been amended to give greater specificity to the documentation requirements and to align them with revisions to the other requirements in proposed ISA 220 (Revised). In addition to the extant requirements, the audit documentation is now specifically proposed to include how the results of conclusions from consultations were implemented. Requirements relating to the documentation of the EQR (as outlined in paragraph 25 of extant ISA 220) have been moved to proposed ISQC 2 and subjected to revision by the ISQC 2 TF with the exception of extant paragraph 25(b) which has now been included in paragraph 24(d) of proposed ISA 220 (Revised), i.e., for the auditor to include in the documentation that the engagement quality review has been completed prior to dating the auditor’s report.
29. In addition, application material has been developed that describes the ways in which the performance of the requirements in proposed ISA 220 (Revised) may be documented, for example participation in direction of the work performed can be documented through signoffs of the audit plan and project management activities. Paragraph A35D also provides guidance on how the exercise of professional skepticism may be documented in relation to proposed ISA 220 (Revised).

¹³ ISA 330, *The Auditor’s Responses to Assessed Risks*

Matters for IAASB CAG Consideration

- 3) CAG Representatives are asked for their views on:
- (a) The proposed changes made to date by the TF to ISA 220, including in particular:
 - (i) Enhancements to the introductory section, including highlighting the interaction between quality management at the firm level and quality management at the engagement level.
 - (ii) More robust requirements regarding leadership responsibilities.
 - (iii) Enhanced requirements addressing relevant ethical requirements.
 - (iv) Broader requirements relating to engagement resources, including in particular the focus on technological resources.
 - (v) Strengthened requirements regarding direction, supervision and review and emphasis on tailoring the approach based on the nature and circumstances of the audit engagement.
 - (vi) Focus on the sufficient and appropriate involvement of the EP in the audit engagement, including through the inclusion of the new stand back requirement
 - (b) Whether there are any other changes that should be considered by the TF prior to the finalization of the ED for proposed ISA 220 (Revised).

Appendix A

Scalability for Firms of Different Sizes, and for Engagements Where Nature and Circumstances Differ

Note: This Appendix includes the relevant references to the material located within proposed ISA 220 (Revised) at **Agenda Item D.2**, where the TF believes scalability has been incorporated.

Reference to Relevant Paragraphs Within Agenda Item D.2	Consideration
<ul style="list-style-type: none"> • The Firm’s System of Quality Management and Role of Engagement Teams – Paragraphs A1E and A1F. • Acceptance and Continuance of Client Relationships and Audit Engagements – Paragraph A8B. • Engagement Resources – Paragraphs A9A and A10F. 	<ul style="list-style-type: none"> • In larger firms, responsibility for elements of the system of quality management are dispersed throughout the firm, the EP may not have direct involvement or detailed knowledge of those elements. In such cases, the EP may use information provided by the firm and personal knowledge, supplemented with additional inquiries or other procedures to have the necessary basis to depend on the firm’s policies and procedures, In a smaller firm, the EP may have more direct involvement in the firm processes which may provide the basis for depending on the firm’s policies or procedures in certain circumstances. • For example, if the EP is directly involved throughout the firm’s acceptance and continuance process the EP will therefore be aware of the information obtained, or used by the firm, in reaching the related conclusions. Such involvement may also therefore provide a basis for the EP being satisfied that the firm’s policies or procedures have been followed and that the conclusions reached are appropriate.
<ul style="list-style-type: none"> • The Firm’s System of Quality Management and Role of Engagement Teams – Paragraph A2E. 	<ul style="list-style-type: none"> • In a smaller firm, the design and implementation of many responses to the firm’s quality risks may be most effectively dealt with by the firm’s EPs at the engagement level.

<ul style="list-style-type: none"> The Firm's System of Quality Management and Role of Engagement Teams – Paragraph A2E. 	<ul style="list-style-type: none"> However the firm's responses to quality risks, including policies or procedures, may be less formal in a smaller firm (e.g., in a very small firm with a relatively small number of audit engagements, firm leadership may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence would be monitored at the engagement level by the EP.)
<ul style="list-style-type: none"> The Firm's System of Quality Management and Role of Engagement Teams – Paragraph A2F. 	<ul style="list-style-type: none"> Some requirements of proposed ISA 220 (Revised) may not be relevant if the audit is carried out entirely by the EP because they are conditional on the involvement of other members of the ET (e.g., requirements related to direction, supervision, and review).
<ul style="list-style-type: none"> Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraph A3D. 	<ul style="list-style-type: none"> For a smaller ET that consists of only a few ET members, the EP's actions influence the desired culture through direct interaction and conduct, which may be sufficient to reflect the firm's commitment to quality. For a larger ET that is dispersed over many locations, more formal communications may be necessary.
<ul style="list-style-type: none"> Engagement Performance – Paragraph 15-17 	<ul style="list-style-type: none"> The requirements relating to nature, timing and extent of direction and supervision of the members of the ET and the review of the work performed are required to be responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement (i.e., the direction, supervision and review is to be specifically tailored or scaled for each engagement, depending on its size and complexity).
<ul style="list-style-type: none"> Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraphs 8B and A3J. 	<ul style="list-style-type: none"> For larger engagements, the EP may assign certain procedures, tasks or other actions to other members of the ET to assist the EP in complying with the requirements of proposed ISA 220 (Revised).

<ul style="list-style-type: none"> • Engagement Resources – Paragraph A11A 	<ul style="list-style-type: none"> • In situations where there are many ET members, for example on larger, or more complex, audit engagements, the EP may involve an individual who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for a smaller ET with fewer ET members, project management may be achieved through less formal means.
<ul style="list-style-type: none"> • Scope of this ISA – Paragraph A0A. • The Firm’s System of Quality Management and Role of Engagement Teams – Paragraphs 3(b), 4C, A1C, A2, and A2E. • Relevant Ethical Requirements, Including Independence Requirements – Paragraphs 9, 9A, 10, A4A, and A4C. • Acceptance and Continuance of Client Relationships and Audit Engagements – Paragraph A8G. • Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraphs 8, A3D, A3DA, and A3F. • Engagement Resources – Paragraphs 14, 14B, A9A, A10E, and A11D. • Direction, Supervision and Review – Paragraphs 15(b), A12B, A19B, and A19E. • Monitoring and Remediation – Paragraph A34. • Taking Overall Responsibility for Managing and Achieving Quality – Paragraph 23A. 	<ul style="list-style-type: none"> • Explicit acknowledgement of a tailored approach to quality management at the engagement level that is responsive to the <u>nature and circumstances</u> of the audit engagement.