Proposed ISA 220, Quality Management for an Audit of Financial Statements (ED-220)

Lyn Provost, IAASB Member and Task Force Chair
IAASB CAG Meeting
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Agenda Item G.1
The comment period closed on July 1, 2019

Objectives of this session are to:
- Provide an overview of the feedback received on ED-220
- Obtain views on three key issues
Overview of Responses on ED-220

Respondents by Region

Europe: 26
North America: 17
South America: 5
Middle East and Africa: 8
Asia Pacific: 13
Global: 22

Respondents by Stakeholder Groups

Monitoring Group: 4
Investors and Analysts: 1
Regulators and Audit Oversight Authorities: 5
National Auditing Standard Setters: 12
Accounting Firms: 24
Public Sector Organizations: 9
Member Bodies and Other Professional Organizations: 31
Academics: 2
Individuals and Others: 3
Analysis of Key Issues to be Discussed at this Meeting

1. Engagement partner’s responsibility for managing and achieving audit quality
2. Engagement team definition
3. Scalability
Question 1 of the Explanatory Memorandum (EM) to ED-220 asked:

Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220). Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?
What We Heard in Responses to ED-220 (Q1)

• Overall support across stakeholder groups
• Challenges in fulfilling the requirements – “upward scalability” and whether it was feasible for the EP to perform all the requirements
• Paragraph 13 is neither clear nor feasible
Task Force’s Preliminary Views

• Amend requirements on “leadership responsibilities”
• Clarify which requirements the engagement partner may assign to other engagement team members (Appendix 6 of issues paper)
Matters for IAASB CAG Consideration

Q1. What views do Representatives have on the Task Force’s proposed actions to clarify the engagement partner’s leadership responsibilities?
Question 4 of the EM to ED-220 asked:

Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology? (Note: This discussion will focus on the engagement team definition in addressing ADMs.)
Engagement Team Definition (Cont.)

What We Heard in Responses to ED-220 on the Engagement Team Definition (ADM part of Q4)

- Consistency with the IESBA code
- Clarity of the definition
- Practical implications of the definition
Task Force’s Preliminary Views

- Retain the component auditors in the revised definition in ED-220
- Address the practical issues
- Coordinate with IESBA on the engagement team definition
- Coordinate with the ISA 600 task force
Matters for IAASB CAG Consideration

Q2. What views do Representatives have on the Task Force’s proposal to continue to include anyone who performs audit procedures in the engagement team, including individuals from the firm and network and non-network component auditors?

Please note the importance of coordination as noted above.
Question 7 of the EM to ED-220 asked:

Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?
What We Heard in Responses to ED-220 (Q7)

- Positive responses overall
- Questions about whether the engagement partner can personally fulfil all requirements ("upward scalability")
- Closely linked to other key issues
- Desire for appendix on LCE scalability to be in the ISA
Scalability (Cont.)

Task Force’s Preliminary Views

• Clarify responsibilities the engagement partner may assign to other engagement team members
• For audits of less complex entities (LCEs), put current guidance in a prominent and accessible place
Matters for IAASB CAG Consideration

Q3. What views do Representatives have on the Task Force’s preliminary views on addressing scalability, both for audits of larger, more complex entities and LCEs?
The Way Forward

Q3 2019

- Analysis of stakeholders’ comments and identification of key issues
- Coordination with IESBA representatives and other IAASB Task Forces

Q4 2019

- 1st full draft of post ED-220
- Coordination with IESBA representatives and other IAASB Task Forces (ISQM 1, ISQM 2 and ISA 600)

Q2 2020

- Penultimate board agreement for ISA 220 (Revised)
- Coordination with IESBA representatives and other IAASB Task Forces