

ED-ISA 220 – Comments on Question 4

Question 4 asked:

Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

NOTE: Respondents' comments related to the engagement team definition are included in these extracts.

Q4 – Agree with Definition

1. Monitoring Group

IFIAR

Revision to the definition of engagement team (and supporting application material) that clarifies that all individuals who perform audit procedures on the engagement team are members of the engagement team. Importantly, we believe the change recognises that, regardless of where such individuals are located, or how they are related to the firm, if they are performing audit procedures, then the engagement partner is responsible for the appropriate direction, supervision and review of their work

2. Regulators and Oversight Authorities

FRC

We strongly support the clarification of the definition of engagement team (and supporting application material) that all individuals who perform audit procedures on the engagement team are members of the engagement team. Importantly, we believe the change appropriately recognises an evolving auditing environment whilst maintaining an emphasis on the attributes of a high-quality audit. That is, regardless of where such individuals are located, or how they are related to the firm, if they are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed by the engagement partner in accordance with ISA 220. This clarification is also consistent with the proposals in PCAOB Release No. 2016-002.

Paragraph A18 clarifies that engagement teams may include individuals from network firms or other firms to perform audit procedures, and therefore captures component auditors (whether from network firms or other firms) performing audit procedures on behalf of the engagement team. We strongly support this clarification as we believe that the requirements in ED-220 that are relevant to the engagement team, should be equally relevant to other auditors performing audit procedures. Otherwise, in a group audit engagement, component auditors would not be subject to the same robust requirements set out in ED-220 as the engagement team, and this is not in the public interest.

This includes matters such as, for example:

Emphasizing to other auditors that they are responsible for contributing to the management and achievement of quality at the engagement level (paragraph 12).

Encouraging open and robust communication (paragraph 12).

Emphasizing the importance of professional skepticism (paragraph 12).

That other auditors have an understanding of, and confirm compliance with, the relevant ethical requirements including those related to independence that are applicable given the nature and circumstances of the engagement (paragraphs 14-19).

That sufficient and appropriate resources to perform the engagement are assigned or made available, and the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement (paragraphs 23-26).

Direction, supervision and review (paragraphs 27-28).

We also support the reference to ISA 500 Audit Evidence (paragraph A10) in paragraph A16 of ED-220 which describes different types of audit procedures. We believe that this gives firms an appropriate reference when determining whether the work performed by individuals on an audit engagement is categorised as an audit procedure. We encourage the IAASB to maintain this reference, and not try to be too precise about different scenarios, particularly when technology is used. This reference maintains the flexibility required in an evolving auditing environment.

Yes.

5. Public Sector Organizations

OAGA

We note that IAASB has a project to consider ISA 600. Nevertheless, paragraph A18 that engagement teams may include individuals attending an inventory count is inconsistent with ISA 600.02. It is not clear when ED-ISA 220 and ISA 600 are taken together if someone asked to attend an inventory count is part of the engagement team or not. It is also not clear whether ISA 600 “adapted as necessary” means that ISA 700.39 (c) is trigger “when ISA 600 applies...” and therefore group audit should be included in the auditor’s report.

Since ISA 220 is redefining what the engagement team is, the IAASB has an opportunity to fix ISA 600’s dual focus on auditing of a group (a characteristic of the client) and how the audit is done (by a single audit team or multiple audit teams). Component auditors are most likely members of the audit team because they are performing procedures for the audit. IAASB should make it clearer via ISA 600 what an auditor should do when asking another auditor to do something on their behalf, whether it is an engagement leader asking someone on their team to do something, or using a shared service center, or a consultation, or attending an inventory count. We propose the IAASB move guidance from ISA 600 to ISA 220. The point is these are all part of the resources that are used to complete the audit, and because ED ISA 220.A1 is clear that it applies to group audits, IAASB should move the component auditor concept into ISA 220.

Q4 – Agree with Definition But With Further Comments

1. Monitoring Group

BCBS

The Committee would welcome further guidance on the application of the requirements to component auditors, as we find the current exposures drafts unclear. Additional material that sets out the interaction of the group and component auditor regarding quality management would also be helpful.

The firm responsible for the group engagement and the firm responsible for the component audit will each have their own quality risk management process. This is in the case, applying ED-ISQM1, the two firms are in the same network.

The Committee would welcome further guidance on the application of the requirements to component auditors, as we find the current exposures drafts unclear. Additional material that sets out the interaction of the group and component auditor regarding quality management would also be helpful.

The firm responsible for the group engagement and the firm responsible for the component audit will each have their own quality risk management process. This is in the case, applying ED-ISQM1, the two firms are in the same network.

The Committee believes that the group auditor should be responsible for quality management in respect of the entire group audit, including any relevant component auditors. The exposure drafts do not appear to deal with this point, and no amendments are proposed to ISA 600 to specifically describe this situation. Moreover, parts of the text read as if there is a boundary between the group and component parts, such that the group auditor's responses to risks may not be implemented at the component level. Similarly, the engagement quality review may not extend into and sufficiently cover the risks in the component. The risk that the group auditor may not consider themselves responsible for quality management throughout the group audit seems heightened for group audit firms that are part of a network, where the group auditor may look to place reliance on the network's requirements regarding the quality management of the component auditor.

It is also unclear whether there is any requirement stating that the group auditor should have regard to the quality management processes of the component auditor and the risks to which the component auditor identifies and responds. These are very relevant considerations for the group auditor, both in relation to specific aspects of the group audit and as part of the assessment of the competence and capabilities of the component auditor.

We are supportive of the IAASB's objective to modernise ISA 220 for an evolving environment, including changes in ADMs. As the expression ADM is intended to cover terms such as "firm shared service centers", "centers of excellence", "on-shoring", "offshoring" or "outsourcing", the approaches to oversight of these evolving models can vary significantly across firms.

Concerns have been expressed about the quality control in relation to ADMs, in particular about how an engagement partner addresses requirements for retaining responsibility for the direction, supervision, performance and review of the works performed by ADMs.

The approach of ED-220 is to define ADMs as a part of the engagement team (paragraph 10(d)). We understand that the IAASB wants to maintain the flexibility of the standard as the nature and extent of use of ADMs will change, but we are not convinced that this response will help to eliminate the concerns identified. We believe that more clarification around this issue is needed, in particular the need for policies and procedures to safeguard against the inappropriate use of ADMs.

We would also recommend an initiative for more transparency around the use of ADMs. The concerns about quality expressed by stakeholders might result from the fact that for many users of financial statements, the use of ADMs is obscure and non-transparent.

3. National Standard Setters

HKICPA

However, we would like the IAASB to clarify whether the engagement team as defined under paragraph 10(d) of ED-220 includes component auditors (in the case of a group audit) and reviewers who perform other types of engagement review as mentioned in paragraph A95 of ED-ISQM1.

JICPA

However, we have the following comments regarding the definitions of "engagement team":

Paragraph 10(d)

The engagement team is defined as “all partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm” but it is not clear which cases are covered by “who perform audit procedures.” In the modern auditing environment, the boundaries between audit procedures and other works are becoming obscure, and it is assumed that there will be more cases in which it is difficult to make such decisions in the future. For example, when data input is outsourced using external data centers, steps that are outsourced may include, for example, data entry work, preparation of a data analysis spreadsheet based on the input data, highlighting variable items that exceed a certain threshold on the spreadsheet, and preparation of supporting documents for highlighted variable items. Of these steps, judgment as to which part corresponds to audit procedures may vary. Therefore, we suggest that some guidance be provided.

NBA

This remains a difficult question and challenging especially for large and complex group audits where many component auditors are involved as well (according to us they are included in the definition of engagement team). In the standard itself, this aspect is less clear than in the appendix in the explanatory memorandum. We recommend incorporating the information in the appendix in a separate section in the introduction to the standard.

4. Accounting Firms

DTTL

As the definition of engagement team is a fundamental concept, additional guidance is needed as to how this new definition interacts with the requirements within ED-220, and how this definition is applied to different and evolving team structures (e.g., service delivery centers, component auditors). (See Appendix IV, Question 4)

DTTL supports the focus on the engagement partner’s overall responsibility for managing quality on the engagement. We are also supportive of the focus on modernizing ED-220 for an evolving environment, including the evolving use of audit delivery models. We note the definition of “engagement team” has been modernized and includes all partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm (excluding external experts and internal audit).

EYG

However, we recognize that this standard also applies in the context of group audits and that the IAASB currently has a project underway to revise ISA 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). Given ISA 600 (Revised) will not be effective until after ISA 220 (Revised) is required to be implemented, we recommend the IAASB create non-authoritative guidance in the interim for implementing ISA 220 (Revised) in the context of group audits. See our response to Q1 in ‘Appendix 3 EYG Response to ED-ISA 220’ for further information on the areas for which we believe interim guidance is needed.

Our analysis of ED-ISA 220 was from the perspective of a non-group audit, but we recognize that this standard also applies in the context of group audits. Given that the IAASB is currently undertaking a project to revise ISA 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors), we expect ISA 600 (Revised) will include specific considerations for applying ISA 220 to group audits. However, ISA 600 (Revised) will not be effective until after ISA 220 (Revised) is required to be implemented. To bridge this timing gap between the effective dates of the two standards, we recommend the IAASB create non-authoritative guidance in the interim that includes the IAASB’s expectations or direction for implementing revised ISA 220 in the context of group audits. Guidance is

specifically needed on the roles and responsibilities of the engagement partner at the component level in comparison to those of the group engagement partner for ISA 220 requirements related to relevant ethical requirements, engagement resources, and engagement performance. Without such interim direction or guidance from the IAASB, we believe there is a high risk of differing interpretations of how ISA 220 is intended to apply to group audits.

Our analysis of ED-ISA 220 was from the perspective of a non-group audit, but we recognize that this standard also applies in the context of group audits. Given that the IAASB is currently undertaking a project to revise ISA 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors), we expect ISA 600 (Revised) will include specific considerations for applying ISA 220 to group audits. However, ISA 600 (Revised) will not be effective until after ISA 220 (Revised) is required to be implemented. To bridge this timing gap between the effective dates of the two standards, we recommend the IAASB create non-authoritative guidance in the interim that includes the IAASB's expectations or direction for implementing revised ISA 220 in the context of group audits. Guidance is specifically needed on the roles and responsibilities of the engagement partner at the component level in comparison to those of the group engagement partner for ISA 220 requirements related to relevant ethical requirements, engagement resources, and engagement performance. Without such interim direction or guidance from the IAASB, we believe there is a high risk of differing interpretations of how ISA 220 is intended to apply to group audits.

GTIL

We are concerned that the extent of the requirements and the resulting responsibilities that lay with the engagement partner may make this standard too onerous to apply to large single entity engagements or large multi-national engagements. We would recommend that the application of the requirements in these circumstances be considered as part of ED-220. Whilst we understand that from a group perspective, the IAASB has indicated that the responsibilities of the group engagement partner will be considered in the current project on ISA 600, there will be a period of time when ED-220 has become effective and the revision to ISA 600 will still be in development. We are of the view that this would be detrimental to quality and would recommend that if these requirements are to remain in a revised standard, guidance is provided by the IAASB on how to apply these requirements to large single entity engagements or multi-national engagements at the same time that the revised standard is approved. If these requirements are not considered as part of the ED-220 project, we would recommend that the effective dates of proposed ISA 220 (Revised) and proposed ISA 600 (Revised) be aligned.

In light of the evolving technology being employed in audits, we are, however, concerned with how the term 'audit procedure' may be interpreted and applied to an audit engagement. Absent a definition of what constitutes an audit procedure, this could result in personnel such as those that perform data mining, being considered members of the engagement team. This in turn may have the unintended consequence of requiring such individuals to comply with certain other ISA requirements, such as those pertaining to relevant ethical requirements including independence, or those pertaining to certain required engagement team communications. We would recommend that consideration be given to incorporating a description of "audit procedure" in ED-220. We understand that the American Institute of Certified Public Accountants, in its Audit Evidence Project, has proposed the view that audit data analytics is not an audit procedure under the classifications of risk assessment, test of controls and substantive audit procedures, but that it is a technique that may be used in meeting the objective of an audit procedure, and would recommend the IAASB consider this proposal in incorporating a description of "audit procedure" into ED-220.

Also, in relation to the definition of engagement team, we note that there are differing views on whether the amended definition results in a component auditor, in a group audit engagement, being considered a member of the engagement team. We recommend that clarity on this matter is provided in application guidance to definition, for example, in paragraph A18 pf ED-220. We would also highlight this as another

reason for aligning the effective dates of ED-220 and proposed ISA 600. If the effective dates cannot be aligned, we would strongly recommend that guidance is issued with proposed ISA 220 (Revised) on how it should be applied to group audit engagements.

Also, in relation to the definition of engagement team, we note that there are differing views on whether the amended definition results in a component auditor, in a group audit engagement, being considered a member of the engagement team. We recommend that clarity on this matter is provided in application guidance to definition, for example, in paragraph A18 of ED-220. We would also highlight this as another reason for aligning the effective dates of ED-220 and proposed ISA 600. If the effective dates cannot be aligned, we would strongly recommend that guidance is issued with proposed ISA 220 (Revised) on how it should be applied to group audit engagements.

In addressing the use of different audit delivery models, we note that ED-220 proposes a new definition of engagement team with related application material, which indicates that engagement team members may be geographically dispersed, may be part of a service delivery centre, or may be sourced from the network or other firm. We are of the view that this appropriately deals with the different audit delivery models that are being employed.

KPMG

In connection with this, we highlight that the definition of “engagement team” together with the increased emphasis on leadership responsibilities of the Engagement Partner, including increased supervision and review, as well as monitoring the performance of the work of assignees and evaluating their conclusions, will likely have significant implications in respect of group audits.

Extant ISA 600, in explaining how the requirements in ISA 220, and other ISAs, are to be applied in a group audit situation, establishes clear requirements as to how the group Engagement Partner interacts/communicates with the component Engagement Partner and team, and how the group Engagement Partner fulfils his/her responsibilities for direction, supervision and review of the group audit as a whole, including involvement in the work of the component auditor.

The changes proposed in ED ISA 220 (Revised) will likely broaden the leadership responsibilities of the group Engagement Partner beyond those currently contemplated by the extant standards, since any individual performing procedures for group audit purposes may be considered to be part of the wider group engagement team. We suggest the IAASB continue to explore the interaction between these two standards and liaise with those involved in the project to revise/update ISA 600.

We are supportive of the efforts to modernise the standard and, as part of this, to explicitly recognise broader engagement team structures, which may reach across borders and involve personnel from other member firms within a network, as well as from outside the firm/network altogether.

In connection with this, we highlight that the definition of “engagement team” together with the increased emphasis on leadership responsibilities of the Engagement Partner, including increased supervision and review, as well as monitoring the performance of the work of assignees and evaluating their conclusions, will likely have significant implications in respect of group audits.

Extant ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) in explaining how the requirements in ISA 220, and other ISAs, are to be applied in a group audit situation, establishes clear requirements as to how the group Engagement Partner interacts/communicates with the component Engagement Partner and team, and how the group Engagement Partner fulfils his/her responsibilities for direction, supervision and review of the group audit as a whole, including involvement in the work of the component auditor.

The changes proposed to ISA 220 will likely broaden the leadership responsibilities of the group Engagement Partner beyond those currently contemplated by the extant standards, since any individual

performing procedures for group audit purposes may be considered to be part of the wider group engagement team. We suggest the IAASB continue to explore the interaction between these two standards and liaise with those involved in the project to revise/update ISA 600.

We are supportive of the efforts to modernise the standard and, as part of this, to explicitly recognise broader engagement team structures, which may reach across borders and involve personnel from other member firms within a network, as well as from outside the firm/network altogether.

In connection with this, we highlight that the definition of “engagement team” together with the increased emphasis on leadership responsibilities of the Engagement Partner, including increased supervision and review, as well as monitoring the performance of the work of assignees and evaluating their conclusions, will likely have significant implications in respect of group audits.

Extant ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) in explaining how the requirements in ISA 220, and other ISAs, are to be applied in a group audit situation, establishes clear requirements as to how the group Engagement Partner interacts/communicates with the component Engagement Partner and team, and how the group Engagement Partner fulfils his/her responsibilities for direction, supervision and review of the group audit as a whole, including involvement in the work of the component auditor.

The changes proposed to ISA 220 will likely broaden the leadership responsibilities of the group Engagement Partner beyond those currently contemplated by the extant standards, since any individual performing procedures for group audit purposes may be considered to be part of the wider group engagement team. We suggest the IAASB continue to explore the interaction between these two standards and liaise with those involved in the project to revise/update ISA 600.

MZRS

As shared audit and joint audit are developing in many countries of Europe, we recommend that the application material should be extended to address this factual situation (see below extract from the Study requested by the ECON committee of the European Parliament on the EU Statutory Audit Reform IPOL_STU(2019)631057_EN):

“Currently, joint audits are only mandatory in three EU countries: 1) for all PIEs in France; 2) for banks, insurers and pension funds in Bulgaria; and 3) under certain conditions in Croatia. Thus, in all other Member States, joint audits are voluntary for PIEs. In this sense, EU regulation regarding a joint audit requirement is similar in most Member States (except for France). (...) The countries where joint audits are promoted via an extension of the mandatory firm rotation period are: Belgium, Cyprus (not for banks, though), Denmark, Finland, France, Germany, Slovakia, Spain and Sweden. (...)

In total, 20 Member States have at least one PIE client that engages in a joint audit, and the average percentage of joint PIE audits in the EU equals 9.1 % in 2017 (excluding France). Member States that score high for the percentage of voluntary joint audits are Sweden (where 37.6 % of all PIE clients had a joint auditor in 2017), Spain (33.1 %), Finland (18 %), Czech Republic (11.8 %) and Belgium (11.2 %). Note that Sweden, Spain, Finland and Belgium are countries in which joint audits can be used to extend the MFR period.”

Some aspects of the standards may also create challenges for implementation and further guidance should be given to help all firms to be in line with the principles (definition of “quality objectives” (ISQM 1), definition of a “deficiency” (ISSM 1), examples of “quality indicators” to be put in place (ISQM 1), definition of the audit team and consideration of joint audit (ISA 220)).

We would make the following points in relation to the definition of the engagement team § 10 d and A18:

We understand that it has been slightly changed to clarify that the engagement team includes any individual engaged, employed or not by the firm or the network firm. So it seems that for a group, the group engagement team includes all component auditors.

We are concerned by this change as it could be interpreted as re-introducing the concept of related auditor which disappeared when the ISA 600 was revised and clarified.

This change could also be interpreted to include the auditor of any service organization used by an audited entity, where the audit engagement team of the audited entity uses an ISAE 3402 report in their audit approach.

The point that the engagement team is responsible for ensuring the involvement and adequate documentation of work done by others (for example, component auditors, shared service centers auditors, service organization auditors) should be addressed clearly and thoughtfully by the standard. It should require that wherever the audit evidences are located and who ever does the work, the engagement team must ensure they can direct, monitor and review the work and obtain sufficient appropriate audit evidence and documentation. This should address the quality of the audit evidence to be obtained for an engagement, but also the practical limitations in considering an engagement team as responsible of the quality management system of other firms or auditors. The main driver should remain the quality of the engagement.

MZRSUS

Response: ED-220 as written and noted in some of our prior comments, the engagement partner requirements for direction, review and supervision will be a challenge for group, multi-location, large and complex engagements.

PKFI

This will have a significant impact on a group audit engagement team which may otherwise intend to use a component auditor from a firm that does not operate a firm-wide system of quality management which is compliant with ED-ISQM 1. Given the unique system of quality management proposed by ED-ISQM 1, including its risk assessment component, it may be unlikely that any other system of quality management would be "at least as demanding" as ED-ISQM 1.

Under ED-220, given the linkages between the proposed standard and ED-ISQM 1, it is unclear how a group auditor, performing a group audit under ISA 600, could use a component auditor from another firm in any circumstance where the component auditor firm does not comply with the requirements of ED-ISQM 1. In other words, if any firm, including a component audit firm, does not comply with the requirements of ED-ISQM 1, then it will not be in a position to issue an audit opinion that is fully compliant with the ISAs.

This will have a significant impact on a group audit engagement team which may otherwise intend to use a component auditor from a firm that does not operate a firm-wide system of quality management which is compliant with ED-ISQM 1. Given the unique system of quality management proposed by ED-ISQM 1, including its risk assessment component, it may be unlikely that any other system of quality management would be "at least as demanding" as ED-ISQM 1.

We are aware that ISA 600 is currently being revised and the final version may address our concern. In the interim we recommend the IAASB issues guidance alongside ED-220 and ED-ISQMs to clarify the implications to group auditors of using a component audit firm which does not comply with ED-ISQMs.

We support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures.

6. Member Bodies and Other Professional Organizations

ICAEW

ED-ISA 220 has fewer obvious scalability problems for less complex audits than the proposed ISQMs and this is directly related to length and complexity. However, the responsibilities of the engagement partner have an onerous feel to them for larger audits. Consideration might be given to noting the need for a layered approach to assignment of responsibilities in larger audits.

ICJCE

According to ED ISA 220 the term engagement team does not include external experts engaged by the firm or by a network firm. This is in line with ED ISQM1. In Spain, Article 67.9 of BRAC states that “if outsourced activities consist of the performance of some parts of the audit work, those individuals carrying out these activities will be part of the audit engagement teams”.

ICPAU

However, we take note of the definition of Engagement Team as has been applied across the suite of quality management standards. Whilst the definition is consistent across each of the quality management standards, the application material which describes how to apply the definition is not. For example the application materials to ED-220 (para A17) outlines that a service delivery centre may be part of an engagement team and that an engagement quality reviewer is not (para A19). In ED-ISQM 1 seems not to be clear on this matter.

However, we take note of the definition of Engagement Team as has been applied across the suite of quality management standards. Whilst the definition is consistent across each of the quality management standards, the application material which describes how to apply the definition is not. For example the application materials to ED-220 (para A17) outlines that a service delivery centre may be part of an engagement team and that an engagement quality reviewer is not (para A19). In ED-ISQM 1 seems not to be clear on this matter.

SAICA

The definition of an engagement team states that this includes any other individuals who perform audit procedures on the engagement. A debate around the meaning of this ensued; specifically, around what is meant by performs audit procedures on the engagement. An example of a personal assistant performing the administration function in obtaining bank confirmations formed the basis of this discussion.

In reading paragraph A16 of ED-220, we noted that reference is made to paragraph A10 of ISA 500, which talks broadly about audit procedures for obtaining audit evidence but it is still not clear to what extent an individual is considered to have performed audit procedures.

SAICA is in agreement with the fact that ED-220 now recognises that engagement teams may be organised in a variety of ways including being located together or across different geographical locations or organized by the activity that they are performing. This is now more in line with the reality of how engagement teams are actually structured.

We would, however like to highlight our concern with the view expressed in the Explanatory Memorandum to ED-220, where it states that ED-220 also recognises that individuals who are involved in the audit engagement may not necessarily be engaged or employed directly by the firm. It is questionable whether an individual will ever perform audit procedures on the engagement without some form of prior engagement between this individual and the firm.

In reading the definition of engagement team together with paragraph A16, it is our view that the standard could be clearer on the fact that partners, staff and other individuals who perform audit procedures on the engagement are either employed by the firm or otherwise engaged.

The definition of engagement team indicates that an auditor's external expert engaged by the firm is excluded from the engagement team. SAICA concluded that the reason for the exclusion was that an auditor's expert is covered by ISA 620. However, the definition of an auditor's expert contained in ISA 620 states that an auditor's expert may be either an auditor's internal expert or an auditor's external expert. We therefore question why the definition of engagement team included in ED-220 makes specific reference to an auditor's external expert only. This may create confusion around whether an auditor's internal expert forms part of the engagement team or is specifically excluded and covered by ISA 620.

The definition of an engagement team states that this includes any other individuals who perform audit procedures on the engagement. A debate around the meaning of this ensued; specifically, around what is meant by performs audit procedures on the engagement. An example of a personal assistant performing the administration function in obtaining bank confirmations formed the basis of this discussion.

In reading paragraph A16 of ED-220, we noted that reference is made to paragraph A10 of ISA 500, which talks broadly about audit procedures for obtaining audit evidence but it is still not clear to what extent an individual is considered to have performed audit procedures.

8. Academics

AAA-ASC

We also support the Board's explicit focus on evolving audit delivery models as recent research documents several challenges that auditors face when working on global group audits (e.g., Sunderland and Trompeter 2017; Downey and Bedard 2019). However, ED-220 provides little specific guidance for managing these challenges. We encourage guidance be provided about how audit partners might approach managing large distributed audit teams. For example, emerging research finds that enhanced accountability helps auditors overcome challenges within distributed teams (e.g., Downey, Johnstone, and Obermire 2019). Paragraph A23 could be modified to emphasize that partners should consider the extent of geographical distribution within the audit team when designing tailored accountability mechanisms. We also recommend the Board provide guidance on how audit partners might promote shared mindsets among remote engagement team members, particularly those from different cultures. Glover and Prawitt (2013) note that professional skepticism may differ among different cultures; not all auditors will challenge management in the same way or to the same degree. Hurtt et al. (2013) note that auditors from high power distance cultures may not be able to exercise high levels of professional skepticism because they are uncomfortable challenging more senior individuals. ED-220 should acknowledge that partners may encounter difficulties managing the cultural diversity that may accompany geographically disbursed teams and require partners consider the possible impact of cultural diversity during the planning stage of the audit.

Q4 – Needs Clarity¹

1. Monitoring Group

IAIS

Insurance groups may have several audit firms that contribute to a group audit, particularly where an insurer has international operations. In these cases, the audit firms used may or may not be part of the same audit network. There is currently no explicit text in the exposure drafts which set out the interaction of the group and component auditor in relation to quality management. As a result, it may be unclear how quality management arrangements should operate where component auditors are used. The IAASB should consider providing some additional clarity in this area.

¹ Responses in this category may have expressed support that ED-220 addressed different audit delivery models (ADM) and asked for clarity, but did not clearly state agreement or disagreement with the definition of an engagement team proposed in ED-220.

2. Regulators and Oversight Authorities

CPAB

The distinctions between the definitions of an engagement team, network and service provider are also unclear and could lead to misunderstandings and challenges in identifying and assessing risks. For example, should service delivery centres supporting the engagement team be viewed as a network service, an external service provider or part of the engagement team?

IRBA

The definition of an engagement team is:

“All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm, and also excludes individuals within the client’s internal audit function who provide direct assistance on an engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).”

It is not clear whether, for instance, an administrative assistant or personal assistant performing bank reconciliations would be considered as part of the engagement team.

6. Member Bodies and Other Professional Organizations

CAQ

The Board has commenced a project to revise and enhance ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). Given the potential impact that the principles in ED-220 have on those that govern a group audit, we recommend that the Board align these standards where appropriate to achieve its intended objectives. We are concerned that the practical implications of the proposed revised responsibilities of the engagement partner when applied to group audits conducted in accordance with ISA 600 have not been sufficiently evaluated. Further, we recommend that supplemental guidance be issued in the interim period between the issuance of ED-220 and the issuance of revised ISA 600. This interim guidance should highlight that the engagement partner’s responsibilities for group audits will continue to be in accordance with extant ISA 600 as the requirements in ED-220, as currently written, may not align with the requirements in extant ISA 600.

The definition of “engagement team” based on the Explanatory Memorandum to ED-220 has been expanded to recognize the evolving organization of engagement teams. There are potential unintended consequences with respect to this expansion. We propose that the overall definition of the “engagement team” be re-assessed to ensure it is consistent across all ISAs. For example, as the modern auditing environment evolves, new types of specialists such as data specialists could be employed by a firm and current ISAs such as ISA 620, Using the Work of an Auditor’s Expert, may need to evolve.

FSR

Furthermore, when applied to group audits, paragraph 13(b) would require that the engagement partner monitors the work, and reviews documentation, of all component auditor partners across the group. On a large, complex group, this is simply not practical.

In Denmark it is not uncommon on larger engagements to have two partners signing the auditor’s report. The revised ISA 220 should address such situations.

We support recognising evolving audit delivery models and providing guidance on how principles-based requirements may be applied in various engagement circumstances. However, we believe that the related application material is limited, which may give rise to inconsistent application.

Especially, we believe more guidance is needed to recognise the potential impact of technology on the execution and review of audit work and the importance of the firm's system of quality management in supporting the use of approved technology. For example, if the firm has developed a tool for identifying higher risk transactions, the engagement team would likely need to place reliance on the firm's processes for developing and maintaining tools that are reliable and fit for purpose. We think it would be helpful to specifically recognise this linkage with the firm's system of quality management in the application material in this section.

IBRACON

Yes. We support that the engagement team itself can be structured in different ways, including service delivery centers or individuals who may not be employed directly by the firm. However, the related application guidance seems limited.

ICAS

However, the revised definition of the engagement team may lead to inconsistencies with ISA 600 regarding component auditors. We would welcome clarification as to whether or not component auditors are expected to be considered part of the engagement team.

However, the revised definition of the engagement team may lead to inconsistencies with ISA 600 regarding component auditors. We would welcome clarification as to whether or not component auditors are expected to be considered part of the engagement team.

NRF

We appreciate the IAASB's effort to recognize evolving audit delivery models and the use of technology in ED-220. We also understand that an expanded focus on how to deal with these matters was not within the scope of this project. However, we believe that the related application material is limited, which may give rise to inconsistent application.

Q4 – Disagree

3. National Standard Setters

AUASB

The application material of the engagement team definition draws in service delivery centres and may also draw in technology support staff assisting the engagement team in using tools and processing data. It may be impractical for the engagement partner to meet the direction, supervision and review requirements for each of these possible groups of engagement team members, particularly where they only perform functions to support the engagement team.

The AUASB is cautious that the broad definition of engagement team may draw in unintended personnel into the engagement team giving rise to a number of challenges for the engagement partner being able to satisfy the requirements in paragraphs 11-13.

Inconsistency in the engagement team definition and application guidance between ISA 220 and ISQM 1

The AUASB raises a significant concern that the definition of engagement team may be interpreted differently due to the different application and explanatory material that applies to this definition in ISA 220 (paragraphs A16-A19) not being replicated in ISQM 1. The impact may be that engagement team members are interpreted differently when the different application and explanatory material in each proposed standard is applied. For example, an Engagement Quality Reviewer (EQR) may be considered to be excluded from the engagement team under the definition and application guidance in ISA 220, but included as part of the engagement team under the definition in ISQM 1.

Overall the AUASB considers that ISA 220 links, where appropriate, to the ISQMs. However, the AUASB raises a significant concern that the definition of engagement team may be interpreted differently under ISA 220 and ISQM 1 due to the different application and explanatory material that applies to this definition in ISA 220 (paragraphs A16-A19) not being replicated in ISQM 1. The potential unintended consequence of this different application guidance is that engagement team members could be interpreted differently when the different application and explanatory material in each proposed standard is applied. For example, an Engagement Quality Reviewer (EQR) may be considered to be excluded from the engagement team under the definition and application guidance in ISA 220, but included as part of the engagement team under the definition in ISQM 1.

CAASB

To recognize the modern-day auditing environment, the definition of engagement team has been revised in ED-220. We do not support the changes that were made to broaden the definition to include any individual who performs an audit procedure on the engagement. We understand that the IAASB has broadened the definition to encompass evolving team structures, for example, individuals who perform audit procedures from a service delivery center. However, we believe broadening the definition of engagement team could lead to unintended consequences. Paragraphs 11 and 12 require the engagement partner to take responsibility for creating an environment that emphasizes the firm's culture and expected behavior of the engagement team members. We foresee practical challenges with implementing this requirement if, for example, some engagement team members are located offsite at a service delivery center, potentially in another country. Paragraph A22 provides guidance that this requirement may be achieved through the engagement partner's conduct and action (e.g., leading by example). This will not be possible if all engagement team members are not in the same location. We recognize that in a group audit, engagement team members are located in different geographic regions, but they work together as an engagement team. In a service delivery center, an individual typically does not work with other members of the engagement team. Rather, the individual performs procedures and provides the results to the engagement team to be used as audit evidence. We recommend keeping the definition of engagement team consistent with the extant standard.

CNCC-CSOEC

team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. (...)"

We consider that the added words "including individuals engaged by the firm or a network firm" in the definition leads to confusion and inconsistencies with the provisions of ISA 600 regarding the Component auditor and the Group engagement team. This change in the definition could imply that the component auditor is part of the engagement team, since the term "including" does not limit exclusively to the individuals engaged by the firm and the network firm. That would have significant impacts in terms of independence obligations for the component auditor, as currently the component auditor may not be independent from the group, but has to be independent from the component. With the revised definition of engagement team, the component auditor would have to be independent from the group.

We also consider that it is unpracticable for the group auditor to impose to the component auditor the application of the same policies and procedures (including firm policies and tools) than the group auditor, especially when the component auditor is not a member of the group auditor's network.

We therefore consider that the wording should be revised to better reflect the fact that components auditors are not part of the engagement team. We strongly recommend the IAASB to

come back to the current definition, i.e. "All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement (...)" and

develop specific paragraphs in the application and other explanatory material to deal with offshoring (part of the engagement team) and component auditor (not part of the engagement team).

What has been included in ED-220 about the use of different audit delivery models and technology is light. These are increasingly important aspects of delivering audits and will become even more widespread in the years to come. If these suites of standards are going to be fit for tomorrow then these aspects need to be more fully considered by the IAASB.

IDW

The definition of engagement team

We note that the definition of engagement team has been changed from “all partners and staff performing the audit engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement” in extant ISA 220 to “all partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or network firm” in the draft. The change to “any other individual who performs audit procedures on the engagement” will automatically include individuals engaged by components to perform audit procedures for the purposes of a group audit, regardless of whether those individuals are a part of the firm, network firm or another firm or network. Hence, this change in the definition would include all component auditors within the definition of an engagement team for a group audit.

We do not believe this change in the definition, with far-reaching consequences to the composition of an engagement team on a group audit, to be appropriate. First, we note that the change would have an impact on the independence requirements applicable to component auditors. ISA 700.A39 recognizes that the ISAs do not require that component auditors in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. While major regulators from large countries, such as the PCAOB in the USA, may be able to enforce some extraterritorial application of their particular independence requirements to component auditors, requiring this for the 130 different jurisdictions around the world is simply not a viable proposition and would inevitably involve conflicts of laws between jurisdictions. There may be cases where no component auditors with the appropriate competence in a particular jurisdiction may be able to comply with the same independence requirements applicable to the group engagement team and individuals from the group engagement team may not be able to legally enter into that jurisdiction to perform work on the component needed. Furthermore, all of the members of a component auditor would need to be subject to the same quality management policies and procedures applicable to the group engagement team (recognizing that the actual policies and procedures applicable in a particular case depend upon the role within the team). When the component auditors are not from the same firm, or even the same network, as the group engagement team, seeking the application of the same quality management policies and procedures would be impracticable.

Hence, the nature, timing and extent of supervision and review of the work of component auditors will be fundamentally different compared to that of group engagement team members, but this does not imply that the quality would be different.

For these reasons, we believe that this change in the definition of “engagement team” is inappropriate.

KSW

We want to draw your attention to the definition of the engagement team. The definition, as drafted, may lead to confusion and inconsistencies with the provisions of ISA 600 regarding the component auditors. As it reads now, we believe that the component auditors would be part of the engagement team. Considering the requirements of interactions with the engagement team it is impossible in practice that

the required interactions can be performed with component auditors. It must be clearly stated in the final definition that component auditors are not part of the engagement team.

4. Accounting Firms

PwC

For example, requiring the partner to review selected documentation of all those to whom responsibility for aspects of quality have been assigned (paragraph 13(b)) is impractical in a large complex audit. In fact, doing so is likely to unduly divert the engagement partner's attention and time from aspects of the audit that most directly warrant their attention. Furthermore, we do not believe this takes account of a key reason why certain audit delivery models have been established - to drive higher quality through consistent performance - and the processes that firms will have put in place around those models with respect to direction, supervision and review of work, to support quality. In addition, when applied to group audits, we understand that paragraph 13(b) would require that the engagement partner monitor the work, and review selected documentation, of all component auditor partners across the group. On a large, complex group, which may involve hundreds of people in the audit of different components around the world, this is simply not practical. See also our comment on the revised definition of engagement team below, which we believe creates this significant practical impediment when applied to a group audit scenario.

Although not explicitly stated, based on paragraph A1, we understand that in the context of a group audit, the revised definition of engagement team is intended to scope in all individuals involved in auditing components of a group (i.e., component auditor teams, which would include individuals from network and non-network component auditors). We believe that this potential change has several significant consequences:

We are aware that there have been initial discussions between the IAASB's and the IESBA's staff on the independence requirements that apply to component auditors and that clarity on this will be sought in the revisions to ISA 600. The Code does not currently address the independence requirements applicable to component auditors from outside the network in the context of a group audit. While practice has developed to address this issue, we believe that it is very important to have clarity on this point and that proposed ISA 220 (Revised) will need to be consistent with the outcome of further deliberations between the two Boards on this issue. The definition and the application material may need revisiting.

There are practical challenges in applying the foundational principles established in proposed ISA 220 (Revised) to group audits. For example, see the discussion of paragraph 13 above and our response to question 5 with respect to requirements addressing direction, supervision and review.

Definition of engagement team and group audits

Although not explicitly stated, we understand, based on paragraph A1, that in the context of a group audit, the revised definition of engagement team is intended to scope in all individuals involved in auditing components of the group (i.e., component auditor teams, which would include individuals from network and non-network component auditors). For the reasons stated above, we believe this has significant implications for the expectations of a group engagement partner that we do not believe have been sufficiently evaluated. We also suggest that this potential change in the application of this definition has several significant consequences for the application of proposed requirements addressing compliance with ethical requirements and the involvement of the engagement partner, in particular with respect to direction, supervision and review. We provide further details in our responses to question 1 and question 5 in appendix 1.

It is important that, in finalising the ISA, the Task Force works closely with the ISA 600 Task Force and the IESBA to fully assess the potential implications of the foundational principles being established in proposed ISA 220 (Revised) when applied in the context of a group audit.

6. Member Bodies and Other Professional Organizations

ACCA-CAANZ

Concerns were expressed with the definition of engagement team. It includes “any other individuals who perform audit procedures on the engagement team”. Audit procedures is not a defined term within the ISAs and without clarity on this point, the engagement team definition could capture more people than is intended, which increases the work effort for no corresponding improvement in audit quality.

Our stakeholders have expressed concern with the definition of engagement team. It includes “any other individuals who perform audit procedures on the engagement”. Audit procedures is not a defined term within the ISAs and without clarity on this point, the engagement team definition could capture a wide range of people. Audit procedures needs to be defined or the definition be specific about the procedures considered to be ‘audit procedures’ to avoid divergence in practice. It should also be made explicit that component auditors are not part of the engagement team.

Yes, however, as we noted in our general comments broadening the definition of the engagement team to include “any other individuals who perform audit procedures on the engagement” seems challenging. For example, in the case of service delivery centres as these tend to be off-side how would the engagement partner take the responsibility required per para 11 which refers to the culture and behaviour of engagement team members?

AE

We also draw your attention to the definition of the engagement team. The definition, as drafted, may lead to confusion and inconsistencies with the provisions of ISA 600 regarding the component auditors. The wording should be revised to better reflect the fact that component auditors are not part of the engagement team, as this is not clear.

What has been included in ED-220 about the use of different audit delivery models and technology is light. These are increasingly important aspects of delivering audits and will become even more widespread in the years to come. If these suites of standards are going to be fit for tomorrow, then these aspects need to be more fully considered by the IAASB. Although ED-220 is not necessarily the only, or indeed, possibly right place to develop these, we believe it is at least a good place to emphasise whether service centres should be part of the engagement team or not. If service centres perform audit procedures, we think that it should be stated that they are part of the engagement team. If, on the other hand, service centres are supporting the process of the audit as an internal service, they should be dealt with at the firm level and in ED-ISQM 1.

ICAS

In particular, we support the focus on the sufficient and appropriate involvement of the engagement partner as part of taking overall responsibility for managing quality on the engagement.

NRF

The IAASB has proposed a change to the definition of engagement team. We question the appropriateness of this propose change, as it, for example, would mean that all component auditors were included in the engagement team definition. In order to avoid inconsistency in application, we would also recommend a closer coordination by the IAASB and IESBA Board on this definition.

SMPC

The IAASB has proposed a change to the definition of engagement team from “all partners and staff performing the audit engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement” in extant ISA 220 to “all partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including

individuals engaged by the firm or network firm”. We do not believe this proposed change is appropriate, as it would mean that all component auditors were included in the engagement team definition, since individuals engaged by components to perform audit procedures for the purposes of a group audit will be included irrespective of whether they are a part of the firm, network firm or another firm or network. This change has far-reaching consequences in terms of the independence requirements applicable to component auditors, who may be subject to conflicts of laws between jurisdictions. In addition, since all of the members of a component auditor would be subject to the same quality management policies and procedures applicable to the group engagement team, this potentially poses significant practical difficulties when the component auditors are not from the same firm, or even the same network, as the group engagement team.