

Proposed ISA 220 (Revised) – Issues and Recommendations

Objectives of the IAASB discussion

The objectives of this Agenda Item are to:

- (a) Provide an overview of respondents' feedback on the Exposure Draft (ED) of ISA 220 (Revised)¹ (ED-220).
- (b) Obtain the Board's views about the ISA 220 Task Force's (TF) proposals on how to address certain significant matters raised by respondents.

Section I. Introduction

Overview of Comment Letters Received

1. Ninety-one comment letters were received in response to ED-220, *Quality Management for an Audit of Financial Statements*, from a diverse group of stakeholder groups from all regions of the world.
2. The comments were from the following 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
Total	91

3. The comments were received from the following regions:

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

¹ [Proposed International Standard on Auditing 220 \(Revised\), Quality Management for an Audit of Financial Statements](#)

Total	91
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Overview of Responses

4. In general, there was strong support across all stakeholder groups and across all jurisdictions for the new quality management approach (QMA) as it applies to individual audit engagements and with how ED-220 enhances audit quality. In particular, there was strong support for professional skepticism; documentation; and scalability for audits of less complex entities (LCEs).
5. Respondents also supported the way in which ED-220 clarified the role of the engagement partner and the engagement partner's overall responsibility for managing and achieving audit quality, how ED-220 dealt with the modern audit environment, and the clarification of the engagement partner's responsibilities for the direction and supervision of all engagement team members and the review of their work. Their conditional comments on these matters are the main issues discussed in this paper.
6. The ISA 220 Task Force (TF) has reflected on all comments received on ED-220. The Chair of the ISA 220 TF will present a full overview of respondents' feedback to the Board at the September 2019 IAASB meeting, with a focus on the key issues respondents raised, on which the Task Force considers it is most critical to seek early input from the IAASB.

Structure of this Paper

7. The key issues discussed in Section II of this issues paper are as follows:
 - (a) The engagement partner's role and overall responsibility for managing quality on an audit engagement – See [Section II.A](#).
 - (b) The "Engagement team" definition – See [Section II.B](#).
 - (c) Scalability – See Section II.C.
8. The comments received on the other two key issues and the preliminary Task Force thoughts are discussed in Section III of this paper:
 - (a) Direction, supervision and review – See [Section III.A](#).
 - (b) When the engagement partner may depend on the firm's system of quality management – See [Section III.B](#).
9. This paper includes the following appendices:
 - [Appendix 1](#) provides an overview of the ISA 220 Task Force's coordination and other activities during the second and third quarters of 2019.
 - [Appendix 2](#) provides a complete listing of respondents.
 - [Appendix 3](#) provides a "roadmap" for relevant supporting analyses on the key issues to be discussed at the September 2019 IAASB meeting and related agenda items for each issue. It also identifies the remaining issues respondents raised that will be addressed at the December 2019 IAASB meeting.
 - [Appendix 4](#) contains an overview of how the responses were analyzed in the NVivo tool.
 - [Appendix 5](#) contains indicative wording that addresses changes related to the leadership responsibilities section of ED-220 (paragraphs 11–13 of ED-220).

- [Appendix 6](#) contains the Task Force's analysis of the requirements in ED-220 that must be performed by the engagement partner personally, and which procedures, tasks or actions related to the requirement could be assigned to other members of the engagement team to assist the engagement partner in complying with the requirement.
- [Appendix 7](#) contains the Task Force's analysis of alternative ways of dealing with the comments received from respondents to ED-220 and from IESBA representatives on the definition of "engagement team."

Coordination with Other Task Forces

10. Coordination between the three QM Task Forces will be key to finalizing the standards expeditiously. Accordingly, the three Task Forces will continue to liaise as needed to coordinate activities and proposals. For example, as described in Agenda Paper 4, comments were received on ED-ISQM 1 relating to the overall scope and structure of ED-ISQM 1.² The ISQM 1 Task Force is seeking the IAASB's views on how to address those concerns. Because of the close linkages between ED-220 and ED-ISQM 1, including sections related to specific components of the system of quality management proposed in ED-ISQM 1, any changes to ED-ISQM 1 could affect the structure and content in proposed ISA 220 (Revised).
11. In addition, while some respondents commented on matters that were addressed in ED-220, the Task Force recognizes that clarity will be needed for the effect on group audits, and therefore will liaise with the ISA 600 Task Force to determine whether additional requirements and application material are needed to enhance or extend proposed ISA 220 (Revised).
12. It is important to note that the issues respondents raised are closely linked and these interrelationships will need to be addressed holistically both within the standard and across the four standards.

Other Agenda Items Accompanying this Issues Paper

13. **Agenda Item 8–A.1 to 8–A.8** – provide a summary of respondents' comments (in table format) for the key issues addressed in this issues paper.
14. **Agenda Item 8–B.1 to Agenda Item 8–B.5** – are the NVivo reports containing extracts of respondents' comments (in text format) for the key issues addressed in this issues paper.

Section II. Respondents' Views on Key Issues

A. The Engagement Partner's Role and Overall Responsibility for Managing Quality on an Audit Engagement

15. Question 1 of 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), as part of taking overall responsibility for managing quality on the engagement?

² Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1) (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?

16. The Invitation to Comment³ (ITC) highlighted concerns expressed by regulators and audit oversight bodies about how an engagement team addresses requirements for retaining responsibility for the direction, supervision, performance and review of the work performed under different audit delivery models (ADMs). It recognized the evolving nature of these arrangements and the potential need to clarify that the engagement partner retains responsibility for managing and achieving quality at the engagement level, regardless of who performs the work and where it is performed. Accordingly, ED-220 emphasized the importance of the engagement partner taking overall responsibility for managing and achieving audit quality.

What We Heard

17. **Agenda Item 8-B.1** contains the detailed analysis of the comments received on Question 1.

Monitoring Group Members

18. Certain comments made by Monitoring Group members are relevant to this question. From these comments, the Task Force notes that there was support for the proposals, specific comments included support for:
- Agreement that the overall responsibility for managing and achieving quality lies with the engagement partner. It was noted that in a group audit, the responsibility would be in respect of the entire group audit, including any relevant component auditors.
 - The proposals were an improvement from extant ISA 220.
19. It was noted, however, that there should be more prominence given to the public interest and professional skepticism in managing the quality of audits and that further clarity is required over what procedures the engagement partner cannot assign to others.
20. Monitoring Group members also commented on practical issues related to the engagement partner's ability to depend on the firm's system of quality management in group audits. See [Section III.B](#), paragraph 84.

Other Respondents

21. Of those who commented on the engagement partner's responsibility for managing and achieving audit quality, there were none who disagreed, indicating there was overall support for the proposals, across stakeholder groups.
22. Those who indicated reasons for their support, noted, for example, that:
- They agreed with the engagement partner's responsibility for the supervision of the audit, that oversight and direction of the work of the engagement team is a fundamental attribute in achieving high-quality audits;
 - The engagement partner needs to demonstrate sufficient involvement throughout the audit process; and

³ [Invitation to Comment, *Enhancing Audit Quality in the Public Interest, A Focus on Professional Skepticism, Quality Control and Group Audits*](#)

- Prior to forming an opinion, the engagement partner should “stand back.”
23. Others who expressed agreement also indicated the need to provide additional clarification on the following matters related to large and complex engagements:
- How the concept of overall responsibility of the engagement partner applies when it may not be practical for the engagement partner to oversee every aspect of audit quality.
 - How the concept of supervisory roles applies, specifically, paragraph 13.
 - Which requirements the engagement partner must personally fulfil.
 - The stand-back should not be limited to the end of the audit engagement.
 - Factors to be considered by the engagement partner in taking overall responsibility for managing and achieving quality (including involvement in the direction, supervision and review based on the engagement circumstances), for example:
 - In a group audit, how the engagement partner considers the competence and accountability of the component auditor engagement partners in directing, supervising and reviewing work at the component level.
 - When a large volume of work, supporting multiple audit engagements, is performed at a centralized delivery center (or other function under an audit delivery model), how the engagement team would evaluate the overall outcomes of that work and the sufficiency of audit evidence obtained.
 - How the firm’s policies and procedures relating to direction, supervision and review are taken into account.
 - How to document the engagement partner’s involvement.
24. A number of specific suggestions were made to improve the clarity of paragraphs 11–13 of ED-220, including:
- Clarifying what is meant by significant judgments referred to in paragraph 11.
 - Amend paragraph 13 to:
 - Reflect the principle that the engagement partner retains overall responsibility for quality but may assign certain procedures, tasks or actions related to specific requirements to other members of the engagement team to assist the engagement partner in complying with the specific requirement; and
 - In discharging that responsibility, require the partner to have a basis for being satisfied that they have done so by replacing the detailed prescription in actions required of the partner with outcome-based objectives.
 - Clarifying which requirements the engagement partner must perform personally, and which procedures, tasks or actions related to specific requirements the engagement partner may assign to other members of the engagement team to assist the engagement partner in complying with the specific requirement.
 - Elevating the concept of delegating authority from the application guidance in A30 into the requirements or introductory section of ED-220 and clarify that further delegation is possible within the engagement team.

- Developing application material to link the responsibilities in paragraph 27 with the concepts in paragraph 13.
25. There was also a suggestion to reflect the principle of shared accountability for aspects of quality between the engagement partner and other senior members of the engagement team.

Task Force's Initial Thoughts and Recommendations

26. The Task Force, in its deliberations, noted that many of the comments appeared to indicate that paragraph 13⁴ of ED-220 was not well understood and that it may lead to inconsistent practice. Accordingly, the Task Force agreed to clarify the intent of paragraph 13. The Task Force's indicative drafting of the proposed changes is set out in [Appendix 5](#).
27. In addition, to address comments that the engagement partner's ability to take overall responsibility for audit quality may be challenging in larger, more complex engagements, the Task Force has reviewed each of the requirements in ED-220 and has identified those which must be performed by the engagement partner personally and which procedures, tasks or actions related to the requirement could be assigned to other members of the engagement team to assist the engagement partner in complying with the requirement. In doing so, the Task Force considered:
- Requirements in extant ISA 220 to make sure that none of them was lost.
 - How the requirement would be applied in a group audit engagement.
28. The Task Force plans to amend the wording of the requirements as needed to better reflect these two categories. In doing so, it will coordinate with the ISA 600 Task Force.
29. The Task Force's assessment of the requirements under this lens is set out in [Appendix 6](#). See also paragraphs 59–63 of [Section II.C](#) on scalability and paragraphs 76–81 of [Section III.A](#) on direction, supervision and review.

Matters for IAASB Consideration

1. Does the IAASB support the proposed changes to paragraph 13 set out in Appendix 5?
2. Does the IAASB agree with the Task Force's assessment (in Appendix 6), of the requirements in ED-220:
 - (a) That the engagement partner must personally perform; and
 - (b) Those procedures, tasks or actions that the engagement partner may assign to other members of the engagement team to assist the engagement partner in complying with the requirement?

⁴ Paragraph 13 requires:

13. If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall: (Ref: Para. A30)
- (a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and
 - (b) Monitor the performance of the work of assignees and review selected related documentation in order to evaluate the conclusions reached.

B. Modern Auditing Environment – Engagement Team Definition

30. Question 4 asked:

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

Issue

31. This issues paper addresses only respondents' comments related to the engagement team definition, many of which were made in response to Question 4 of ED-220. Other matters related to Question 4 will be considered at the December 2019 IAASB meeting.

32. ED-220 proposed changing the definition of an engagement team⁵ as follows:

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

33. The Explanatory Memorandum (EM) accompanying ED-220 did not pose a specific question related to the proposed change to the engagement team definition; however, respondents commented on the change, specifically in response to the part of this question dealing with the use of different audit delivery models. They also raised practical concerns related to the definition in responding to other questions in this issues paper, including the role of the engagement partner and other members of the engagement team in paragraphs 17–25 of [Section II.A](#) and direction, supervision and review in paragraphs 67–75 of [Section III.A](#). These issues are closely linked to the engagement team definition and accordingly, some of the Task Force's initial thoughts and recommendations related to the engagement team definition will also address respondents' comments on those other questions.

What We Heard

34. **Agenda Item 8-B.2** contains the detailed analysis of the comments received on the part of Question 4 that address different audit delivery models, in particular, the proposed change to the engagement team definition.

Monitoring Group Members

35. All Monitoring Group members that commented on the engagement team definition were supportive of the proposed change in definition. Reasons cited include:

- The engagement partner should be responsible for quality management in respect of the engagement audit, as set out in paragraph 13 of ED-220.
- The proposed revised definition serves the public interest—regardless of who performs the audit procedures or where the work is performed all individuals who perform audit procedures

⁵ ED-220, paragraph 10(d)

should be subject to the same independence requirements and direction, supervision and review by the engagement partner. In the case of a group audit, this applies to component auditors who are engaged by the firm or a network firm.

Other Respondents

36. Regulators also supported the change, with some citing, for example, that the change appropriately recognizes an evolving auditing environment while maintaining an emphasis on the attributes of a high-quality audit. It was also suggested that, 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. Respondents also noted that this clarification is also consistent with the proposals in PCAOB Release No. 2016-002, on Supervision of Audits Involving Other Auditors.⁶
37. Other respondents generally expressed support for the proposed revised definition. However, it was noted that the following issues required clarification:
- (a) The impact on ethical behavior and independence in group audit situations, including:
- The IESBA Code does not address independence in respect of component auditors; and
 - It may be difficult to comply with group independence requirements because of possible conflicts between laws or regulations in different 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 that jurisdiction to perform work on the component needed.
- (b) Practical challenges, including:
- The requirements are onerous for the engagement partner to fulfil personally.
 - How the definition interacts with the requirements in ISA 220, particularly in large, complex group audits, for example:

General comments

- The nature and extent of the engagement partner's responsibilities for the day-to-day direction, supervision and review of the work of the extended engagement team ("upward scalability"); 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.

Comments specific to group audits

- How the group engagement partner:

⁶ See PCAOB Release No. 2016-002, Docket Matter 042 at <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/other-auditors.aspx>

- Interacts and communicates with the component engagement partner and team.
 - Fulfils his/her responsibilities for the direction, supervision and review of the group audit as a whole, including the work of the component auditor.
 - The potential for inconsistent application of relevant ethical requirements in component audits.
 - Confusion as to whether component auditors are subject to the same policies or procedures that apply to firm personnel.
38. Respondents also noted the need for clarity about what is meant by “performs audit procedures” to address the concern that the reference to “perform audit procedures” may scope in too many individuals who would need to comply with ISA requirements (e.g., related to relevant ethical requirements including independence and engagement team communications).
39. Respondents who thought component auditors should not be part of the engagement team also noted the practical issues identified in paragraph 37(b) above. In addition, they noted that the IESBA Code does not currently address the independence requirements applicable to component auditors that are outside the group auditor’s network. It was noted that while practice has developed to address this issue, it is important to have clarity on this point. Respondents suggested the need to coordinate with IESBA on this issue.

Co-ordination with IESBA Representatives

40. A coordination meeting involving the IAASB ISA 600 Chair (who is also a member of the ISA 220 Task Force), the IESBA Liaison Member and IAASB and IESBA staff was held August 6, 2019 to start the dialogue on the comments on ED-220 about the definition on “engagement team.”
41. The IESBA Liaison Member and staff highlighted the following matters on the proposed change to the engagement team definition in ED-220:
- The definition of the engagement team in the IESBA Code was developed based on the engagement team definition in extant ISA 220. Accordingly, changing the definition in ISA 220 to include component auditors will have a number of practical implications with respect to compliance with the independence requirements of the Code. For example, for component auditors that do not belong to the group auditor’s network, it would not be practicable for the group auditor to implement the monitoring and disciplinary procedures necessary to ensure the component auditors’ compliance with all applicable independence requirements, as the component auditors are outside the group auditor’s control. These independence requirements apply to every member of the engagement team and include those relating to, for example, financial interests, business relationships and employment relationships. Many of the independence requirements also apply to immediate and close family members of the relevant individuals.
 - The IESBA Liaison Member and IESBA staff supported the IAASB’s goal of having consistent quality management principles apply to all individuals who perform audit procedures on the engagement. They noted, however that by dealing with quality management matters for group

audits in ED-220 rather than in ISA 600,⁷ the definitions of engagement team would no longer align between the two boards. In light of this, the representatives suggested that the IAASB explore using ISA 600 to set the appropriate requirements about quality management with respect to component auditors.

- Of particular concern to the IESBA representatives was the application of the independence requirements in the IESBA Code. The IESBA Code does not specifically address the need for component auditors who are not within the group auditor's network to be independent the group entity, so the change to the definition of the engagement team may be construed as the IAASB setting *de facto* independence requirements for such component auditors.
 - The IESBA representatives agreed that further coordination was needed in developing options for the way forward.
42. The ISA 220 Task Force's analysis of alternatives identified, including their advantages and disadvantages, is set out in [Appendix 7](#).

Relevant Background Material

43. The ITC recognized that as corporate and audit firm structures continue to evolve in the increasingly global environment and become more complex, the composition of the engagement team, including others outside the firm participating in the audit and where they are located, is changing. The ITC highlighted concerns expressed by regulators and audit oversight bodies about quality control in relation to different audit delivery models (ADMs), in particular about how an engagement team addresses requirements pertaining to responsibility for the direction, supervision, performance and review of the work performed at ADMs. It recognized the evolving nature of these arrangements and the potential need to clarify the following matters:
- The engagement partner retains responsibility for the direction, supervision, performance and review of the work performed, regardless of who performs the work and where it is performed.
 - How these centralized locations or other centralized resources are viewed in the context of the definition of engagement team set out in the ISAs.
44. In summarizing responses⁸ to the ITC, it was noted that there was agreement that the standard needs to be updated for various evolving circumstances of group audits or when other auditors are used. The project proposal to revise ISA 220 and ISA 600 considered the ITC responses and included in its scope the following matters related to ADMs:
- Considering and demonstrating how the requirements for managing quality at the engagement level address evolving ADMs that result in engagement teams with different structures and involve other auditors.
 - Clarifying and reinforcing in ISA 600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular, to ISA 220. In making the changes to ISA 600, the IAASB will build on the principles in the revised ISA 220 and illustrate how these should be applied in a group audit.

⁷ ISA 600, *Special Considerations—Audits Of Group Financial Statements (Including The Work Of Component Auditors)*

⁸ See Agenda Item 6 for the June 2016 IAASB meeting at https://www.iaasb.org/system/files/meetings/files/6-A-20160621-IAASB_Agenda-Item_6-Updated-ITC-Update-final-tues-session.pdf

45. In ED-220, the IAASB proposed changing the definition of the engagement team to recognize different and evolving engagement team structures to address the concerns identified in the ITC and the project proposal. Importantly, the proposed change in the definition recognizes that, regardless of the location or employment status of such individuals, if they are performing audit procedures, then they need to be independent for purposes of the audit engagement (and when relevant, the group audit engagement) and their work needs to be appropriately directed, supervised and reviewed. The change in the definition also allows the engagement partner in a group audit to appropriately respond to the proposed requirements in ED-220 regarding determining that the engagement team (including component auditors, if any) have been made aware of relevant ethical requirements and matters related to the engagement team's compliance with relevant ethical requirements, including independence.

Task Force's Initial Thoughts and Recommendations

46. The Task Force notes that respondents from many stakeholder groups expressed support for the proposed revised definition, although most called for clarifications around practical challenges. The Task Force also noted the IESBA representatives' concerns regarding the implications of the expanded definition on the application of the IESBA Code. In addition, the Task Force notes that on the IAASB's website there is a FAQ⁹ that states, "*the IAASB does not intend to extend or otherwise override the independence requirements of the IESBA Code.*" This FAQ will be considered as part of the ongoing Task Force discussions on the engagement team definition and its implications.
47. The Task Force's initial views were that the practical issues identified by respondents related to the engagement team definition could be overcome by clarifying certain aspects of ED-220 and providing additional guidance. In coming to that view, the Task Force looked at each of the requirements in ED-220 to determine if the application of the requirements to component auditors would be impractical or subject to different firm policies and procedures. Examples of guidance might include clarifying when an individual performs audit procedures, and how the definition applies to ADMs and other individuals who may be involved in the audit.
48. After further reflection the Task Force continues to believe that the principles behind the definition set out in ED-220 should continue to be in the definition for the following reasons:
- This is the approach generally supported by most respondents, including Monitoring Group and regulator respondents.
 - The Task Force's preliminary consideration of the analysis of the alternatives set out in [Appendix 7](#) supports retaining the proposed ED-220 definition (which is Alternative 1 in Appendix 7).
 - It is the same approach as the PCAOB is proposing in its project on Supervision of Audits Involving Other Auditors, which will reduce differences for firms that need to apply both sets of auditing standards.
 - It is preferable for the scope of the engagement team to be dealt with in proposed ISA 220 (Revised), as it is a foundational standard and the definitions are intended to apply to all audit engagements, regardless of their nature or circumstance.

⁹ See <https://www.iaasb.org/clarity-center/faqs-and-other-clarity-resources>

- In relation to the possible approach of dealing with quality management of component auditors in ISA 600, the Task Force believes that the practical issues identified by respondents to ED-220 identified would remain.
49. In addition to developing proposals to address specific practical matters the Task Force plans to:
- Further liaise with IESBA representatives to explore the way forward, taking into account the alternatives in [Appendix 7](#), and possibly develop application material to deal with the independence requirements of the IESBA Code if the definition proposed in ED-220 were to remain broadly consistent with that proposed in ED-220.
 - Better delineate the boundaries of who is part of the engagement team by developing application material on what it means to “perform audit procedures.” Develop examples to illustrate when individuals might be considered to be performing audit procedures under commonly-used ADMs. This will involve expanding references to ISA 500¹⁰ and ISA 200.¹¹
 - Liaise with the ISQM 1 TF to discuss adding application material that explains that the firm’s policies and procedures are not all created equally for each individual engagement team member (e.g., component auditors, whether within or outside the network would not be subject to the same recruitment policies as individuals employed by the firm; however, the firm would establish policies or procedures to address how engagement partners would evaluate the competence of those individuals).
 - Coordinate with the ISA 600 Task Force on the need for guidance on the practical challenges respondents identified related to the definition. Since some of those practical challenges relate to component auditors, guidance on applying the ISA 220 requirements may need to reside in ISA 600.
50. The Task Force will further discuss these matters in Q4 and develop specific proposals for the December 2019 IAASB meeting.
51. The Task Force has the view that clear direction from the Board is necessary on the engagement team definition, so the Task Force can progress the proposed standard.

Matters for IAASB Consideration

3. Does the IAASB agree, in light of the responses and analysis in Appendix 7, and subject to further input from the IESBA representatives, that the engagement team definition should include component auditors as they perform audit procedures on the engagement?
4. Does the IAASB agree with the Task Force’s proposals to clarify the scope of the definition with additional application material?

¹⁰ ISA 500, *Audit Evidence*, paragraph A10

¹¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A21

C. Scalability

52. Question 7 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

53. **Agenda Item 8-B.3** contains the detailed analysis of the comments received on Question 7.

Monitoring Group Members

54. Monitoring Group members noted that additional guidance that clarifies the interaction between the group auditor and the component auditor regarding quality management would be helpful for applying the requirements in a group audit.

Other Respondents

55. Respondents generally supported the scalability of ED-220 with respect to audits of LCEs. It was noted, for example, that ED-220 clarifies that the engagement partner applies professional judgment in addressing the requirements in light of the nature and circumstances of the audit engagement. Therefore, ED-220 is adaptable to audits of different sizes and complexity. It was also noted that ED-220 appropriately takes into account different structures of engagement resources or ADMs.

56. Respondents nevertheless sought implementation guidance addressing how to apply the requirements to large, more complex audit engagements.

57. Specific comments relating to “upward scalability” of certain requirements to audits of larger, more complex entities are identified in previous sections of this paper (i.e., the engagement partner’s role and overall responsibility for managing quality on an audit engagement as discussed in paragraphs 17–25 of [Section II.A](#); the engagement team definition as discussed in paragraphs 34–39 of [Section II.B](#); and direction, supervision and review as discussed in paragraphs 67–75 of [Section III.A](#)). These comments indicate that respondents had concerns about the practicality of specific aspects of ED-220 in a large, complex engagement team environment.

58. Respondents provided general suggestions for further enhancing the scalability of ED-220 for audits of LCEs, including:

- Making certain requirements that are unlikely to apply to very small firms conditional (e.g., paragraph 15(a), 32(a) and (b))
- Retaining the Appendix in the EM for ED-220 that identified specific references in the ED where scalability was addressed
- Retaining the section addressing considerations specific to smaller firms (paragraphs A14–A15, A41, A51 and A67)
- Providing implementation guidance, particularly related to documentation¹² of compliance with the requirements.

¹² General issues related to documentation will be discussed at the December 2019 IAASB meeting.

- Removing certain duplicative material both within the standard, and among the quality management standards.

Task Force's Initial Thoughts and Recommendations

59. The Task Force acknowledges that many respondents supported the scalability of ED-220 for LCEs, but also agreed that more can be done to enhance scalability for audits of larger, more complex entities with some adjustments for audits of LCEs.
60. To address the large, complex entity issues as noted in paragraphs 17–25 of [Section II.A](#) and paragraphs 34–39 of [Section II.B](#), the Task Force has reviewed each of the requirements in ED-220 and determined which ones must be performed by the engagement partner, and which procedures, tasks or actions related to the requirement could be assigned to other members of the engagement team to assist the engagement partner in complying with the requirement. The Task Force's conclusions are set out in [Appendix 6](#). The Task Force will consider clarifying the requirements and application material as needed.
61. The Task Force will also consider this issue further in coordination with the ISA 600 taskforce.
62. The Task Force will consider retaining, either in the standard (e.g., as an appendix) or as implementation guidance outside of the standard, the appendix in the EM for ED-220 that identified specific references in the ED where scalability was addressed for LCEs. The Task Force agrees with respondents that this material is useful.
63. The Task Force will consider how to address the issue of duplication with other standards, through coordination with the ISQM Task Forces.

Matter for IAASB Consideration

5. Does the IAASB agree with the Task Force's proposals improving the upward scalability of ED-220 for larger, more complex engagements?

Section III. Other Matters

64. Related to the key issues identified above, respondents also commented on two other issues:
 - Direction, supervision and review
 - When the engagement partner may depend on the firm's system of quality management

A. Direction, Supervision and Review

65. Question 5 asked:

Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)

66. As indicated in paragraph 16 of [Section II.A](#), the ITC recognized the potential need to clarify that the engagement partner retains responsibility for the direction, supervision, performance and review of the work performed, regardless of who performs the work and where it is performed. This issue is also linked to the engagement team definition analysis in [Section II.B](#).

What We Heard

67. **Agenda Item 8-B.4** contains the detailed analysis of the comments received on Question 5.

Monitoring Group Members

68. A Monitoring Group Member questioned why an explicit step for engagement partners to set out their planned level of direction, supervision and review was not included in the requirements. It was noted that this would aid engagement partners in assessing their subsequent involvement during the audit.
69. Another Monitoring Group Member noted that firms should be required to centrally monitor progress on engagements against milestones to ensure that audits are adequately planned and executed on a timely basis and address possible issues for quality audits with deadline pressures.

Other Respondents

70. Many respondents supported the revised requirements on direction, supervision and review, without further comment.
71. Those who made supportive comments noted, for example, that:
- The requirements are more specific as to the meaning of direction, supervision and review and as to the audit documentation that the engagement partner is required to review which is appropriate and consistent with what is being performed in quality engagements, and appropriate for a risk-based audit approach.
 - The requirements in ED-220 that address direction, supervision and review are clear and represent significant enhancement over the extant standard.
 - The enhanced requirements for the engagement partner to review audit documentation at appropriate points in time during the audit engagement as included in paragraph 29 of ED-220 will support the performance of a quality audit. Further, the application material on how an engagement partner can provide direction and supervision of engagement teams and review of their work will be helpful to the implementation of the requirements of ED-ISA 220.
72. Respondents' comments noted in paragraphs 15–29 of [Section II.A](#) and paragraphs 34–39 of [Section II.B](#) on the practical implications of the proposed change to the engagement team definition are linked to this issue, as some respondents specifically highlighted the engagement partner's ability to comply with the requirements for direction, supervision and review in group engagements.
73. Respondents also sought clarity on the responsibilities of engagement team members who have been assigned supervisory roles.
74. Respondents also suggested an assessment of all requirements related to direction, supervision and review should be performed to determine whether they are capable of being applied in the context of a group audit.
75. There were also requests for clarification on whether the requirement for the engagement partner to review written communications applied to the communications issued as part of the statutory audit at the component level.

Task Force's Preliminary Thoughts and Recommendations

76. The Task Force notes the interrelationship of direction, supervision and review with the engagement partner's responsibilities, as set out in [Section II.A](#), on the engagement partner's role, [Section II.C](#) on scalability and [Appendix 6](#) on the engagement partner's role.
77. The Task Force notes that an explicit step for engagement partners to set out their planned level of direction, supervision and review could be included in the requirements and linked to ISA 300.¹³
78. The Task Force also proposes giving additional prominence to the application material dealing with assigning procedures, tasks or actions related to certain requirements to other members of the engagement team to assist the engagement partner in complying with the requirement by moving it to the Introduction Section of ED-220 (potentially as a new paragraph 8). The Task Force will also seek to improve the application material to highlight the factors to be considered in assigning responsibilities in large, complex audits.
79. Further, as noted above, in relation to the engagement team definition, the Task Force plans to look at the application material related to the definition, together with requirements related to direction, supervision and review. For example, the Task Force plans to clarify that areas requiring increased professional judgment also require greater involvement by the engagement partner in directing, supervising and reviewing the work of engagement team members.
80. The Task Force will further discuss these matters in Q4 and will develop proposals for the December 2019 IAASB meeting.
81. In addition, the Task Force plans to coordinate with the ISA 600 Task Force the application of the requirements in ISA 220 for group audits.

B. When the Engagement Partner May Depend on the Firm's Policies or Procedures

82. Question 2 asked:

Does ED-220 have appropriate linkages with the ISQMs?

Do you 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?

83. Issues relating to the linkages between the quality management projects will be addressed through coordination with the relevant Task Force as the projects progress during Q4. The Task Force will bring matters related to these linkages to the December 2019 IAASB meeting.
84. The Task Force will also bring issues related to clarifying the ability to depend on the firm's system of quality management to the December 2019 IAASB meeting.

What We Heard

85. **Agenda Item 8-B.5** contains the detailed analysis of the comments received on the second part of Question 2 as it relates to when the engagement partner may depend on the firm's policies or procedures.

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

Monitoring Group Members

86. Monitoring Group Members made observations on what is required of engagement teams when they want to depend on the work performed by service delivery centers.
- It was not clear 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 in light of the fact that the firm responsible for the group engagement and the firm responsible for the component audit each have their own quality risk management process.
 - A risk exists that the group auditor may not consider themselves responsible for quality management throughout the group audit, particularly in respect of group audit firms that are part of a network where the group auditor may place reliance on the network's requirements regarding the quality management of the component auditor.
 - 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, 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.
 - There is currently no explicit text that sets 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. It was suggested that the IAASB should consider providing additional clarity in this area.

Other Respondents

87. Overall there was support from regulators, and other respondent groups. In particular, it was noted that the proposed change will assist the engagement partner when determining whether the firm's policies or procedures are appropriate in the specific circumstances of the engagement. It was also noted that it would not be appropriate to "blindly rely" on the firm's system of quality management as this will prompt the engagement partner to determine whether, and if so, the degree to which, the engagement partner may depend on the firm's policies and procedures.
88. Some respondents expressed concern with the removal of paragraph 4 (and related application material in paragraphs A7 and A8) from extant ISA 220 that stated, "Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise." They noted, for example, that;
- It is not clear that paragraph 4(a) of ED-220 is addressing the reliance by the engagement partner on the firm's policies and procedures. This only becomes apparent when read in conjunction with the related application material.
 - The situations where an engagement team can rely on the firm's systems should be more clearly articulated in the standard, as well as what is required of an engagement partner where they choose to rely on those firm systems.
89. Respondents also sought guidance on the following matters:
- Factors the engagement partner may take into account when making a determination whether, and if so, the degree to which the engagement partner may depend on the firm's policies and procedures.

- The need to remain alert for situations when the firm’s responses are inappropriate or are insufficient to respond to quality risks at the engagement level.
 - The audit partner’s and senior engagement team members’ responsibility for the firm’s quality management as it relates to multi-location audit delivery models, including group audits, when it may not be practical for the partner to have full visibility of specific quality and training protocols across a widely-dispersed engagement team.
 - If paragraphs 4, A7 and A8 are retained, explaining how the engagement partner may determine whether the firm’s quality management policies or procedures are “fit-for-purpose” in the engagement circumstances.
90. There was also a concern that changes to the standard to explicitly state that the firm’s system of quality control cannot be relied upon in certain situations may have adverse impacts on scalability and that the benefits of being part of a network may be lost.

Task Force’s Preliminary Thoughts and Recommendations

91. The Task Force notes that it appeared, from respondents’ comments, that the revised guidance was not always being read as intended—it was not intended that reliance cannot be placed, but that reliance must be preceded by the engagement partner taking some action to determine that reliance is warranted. To clarify this in the standard, the Task Force plans to:
- Provide guidance on factors that may be taken into account in determining whether, and if so, the degree to which the engagement partner may depend on the firm’s system of quality management. For example, the engagement partner should be able to depend on the firm’s policies or procedures (e.g., for hiring, training, independence monitoring) based on a critical assessment of information received from the firm when assigning resources to the audit engagement. Nevertheless, in depending on the firm’s policies or procedures, the engagement partner should be alert for information that contradicts the information obtained from the firm. Further, as required in paragraph 24 of ED-220, the engagement partner shall determine that members of the engagement team, and any auditor’s experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.
 - Clarify that ISA 220 intends for quality management to be implemented throughout the audit engagement regardless of whether the audit is of a single entity or a group entity. In that regard, it may be necessary to also provide guidance on how quality management arrangements should operate where component auditors are used, both in ISA 220 and in ISA 600, in light of the fact that the firm responsible for the group engagement and the firm responsible for the component audit will each have their own quality risk management process.
 - Consider providing application material, in coordination with the ISA 600 Task Force, that sets out the interaction of the group and component auditor in relation to quality management.

Matters for IAASB Consideration

6. Do you agree with the Task Force’s preliminary thoughts on direction, supervision and review; and the engagement partner’s ability to depend on the firm’s policies or procedures before the Task Force develops them further for the December 2019 IAASB meeting?

7. Are there any other significant matters in the comment letters related to the topics addressed in Sections II and III above that the Task force should address?

Appendix 1

ISA 220 Task Force Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups

1. The following sets out the activities of the ISA 220 Task Force including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the [quality management at the engagement level](#) project.
2. The Members of the ISA 220 Task Force are:
 - Lyn Provost, Chair
 - Len Jui
 - Melissa Bonsall
 - Josephine Jackson

Task Force Activities in the Second Quarter of 2019

3. In Q2, the ISA 220 Task Force Chair presented jointly with the ISQM 2 Chair a [webcast](#) providing an overview of engagement quality reviews and quality management for audit engagements.

Task Force Activities in the Third Quarter of 2019

4. In Q3, the ISA 220 TF met once in person and held two teleconferences to consider responses to the ED and proposed recommendations on how to address the comments.

Coordination with Other IAASB Task Forces and Working Groups and Other Standard Setting Boards

IAASB Task Forces – ISA 220 TF, ISQM 2 TF and ISA 600 TF

5. In Q3, the Chairs of the QM Task Forces and staff held two teleconferences. Further coordination has also been facilitated through staff liaison on specific matters. In light of the interaction between ISA 600 and the three quality management projects, the ISA 600 Task Force Chair has joined the QM Chairs coordination group.
6. The four Task Force Chairs will also meet during the September 2019 IAASB meeting.

IESBA

7. In respect of the engagement team definition, respondents' feedback on the engagement team definition was shared with IESBA Staff. In addition, in light of the significance of this issue in progressing both the ISA 220 and the ISA 600 projects, the ISA 600 Task Force Chair met, on behalf of both projects, with Sylvie Soulier an IESBA Member, and IAASB and IESBA staff via teleconference to discuss the ISA 220 Task Force's proposals to address respondents' comments. The IESBA staff provided comments on the material developed by the ISA 220 Task Force, which the Task Force considered in developing this paper. The results of that meeting have been reflected in this paper (see [Section II.B](#) and [Appendix 7](#)). The ISA 220 and ISA 600 Task Force Chairs and staff plans to meet again with IESBA representatives before the September 2019 IAASB meeting. Further coordination on these matters is planned to be undertaken in Q4 of 2019 as needed.

8. IESBA staff have indicated that the IESBA project on fees¹⁴ does “*not aim to determine the appropriate level of fees in the Code, but to ensure that the audit fee quoted will enable the firm to allocate and make available appropriate resources to perform the engagement in line with professional standards. As the proposed ISQM 1 and ISA 220 also deals with the same issue the [IESBA] Task Force would like to coordinate its proposals with the changes to the auditing standards.*” The Task Force has provided initial comments on certain draft wording provided by IESBA staff and the Task Force Chair will provide a verbal update at the September 2019 IAASB meeting. Further coordination on these matters is planned to be undertaken in quarter 4 of 2019.

¹⁴ See www.ethicsboard.org/projects/fees for more information

Appendix 2

List of Respondents to ISA 220 (Revised) Exposure Draft

Nr	Acronym	Respondent	Region
Monitoring Group			Total: 4
1.	BCBS	Basel Committee on Banking Supervision	Global
2.	IAIS	International Association of Insurance Supervisors	Global
3.	IFIAR	International Forum of Independent Audit Regulators	Global
4.	IOSCO	International Organization of Securities Commissions	Global
Investors and Analysts			Total: 1
5.	ICGN	International Corporate Governance Network	Global
Regulators and Oversight Authorities			Total: 5
6.	CPAB	Canadian Public Accountability Board	North America
7.	FRC	Financial Reporting Council UK	Europe
8.	IAASA	Irish Auditing & Accounting Supervisory Authority	Europe
9.	IRBA	Independent Regulatory Board for Auditors	Middle East and Africa
10.	NASBA	National Association of State Boards of Accountancy	North America
National Standard Setters			Total: 12
11.	AICPA	Auditing Standards Board of the American Institute of Certified Public Accountants	North America
12.	AUASB	Australian Auditing and Assurance Standards Board	Asia Pacific
13.	CAASB	Canadian Auditing and Assurance Standards Board	North America
14.	CICPA	Chinese Institute of Certified Public Accountants	Asia Pacific
15.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables	Europe
16.	HK-CPA	Hong Kong Institute of Certified Public Accountants	Asia Pacific
17.	IDW	Institut Der Wirtschaftsprüfer	Europe
18.	JICPA	Japanese Institute of Certified Public Accountants	Asia Pacific
19.	KSW	Kammer der Steuerberater und Wirtschaftsprüfer	Europe
20.	MAASB	Malaysian Institute of Accountants - Auditing and Assurance Standards Board	Asia Pacific
21.	NBA	Royal Nederlandse Beroepsorganisatie van Accountants	Europe
22.	NZAASB	New Zealand Auditing and Assurance Standards Board	Asia Pacific

Nr	Acronym	Respondent	Region
Accounting Firms¹⁵			Total: 24
23.	BDO*	BDO International	Global
24.	BT*	Baker Tilly International	Global
25.	BTVK	Baker Tilly Virchow Krause, LLP	North America
26.	CASI	CAS International	Asia Pacific
27.	CG*	Crowe Global	Global
28.	DTL	Duncan & Toplis Limited	Europe
29.	DTTL*	Deloitte Touche Tohmatsu Limited	Global
30.	ETY	ETY Global	Middle East and Africa
31.	EYG*	Ernst & Young Global Limited	Global
32.	GTI*	Grant Thornton International Limited	Global
33.	HM	Haysmacintyre LLP	Europe
34.	KI	Kreston International	Global
35.	KPMG*	KPMG IFRG Limited	Global
36.	MGIW	MGI Worldwide	Global
37.	MNP	MNP LLP	North America
38.	MSI	Moore Stephens International	Global
39.	MZRS	Mazars	Global
40.	MZRSUS	Mazars US LLP	North America
41.	NI	Nexia International	Global
42.	NSW	Nexia Smith & Williamson	Europe
43.	PKFI	PKF International Limited	Global
44.	PKFSA	PKF South Africa	Middle East and Africa
45.	PwC*	PriceWaterhouseCoopers International	Global
46.	RSMI*	RSM International	Global
Public Sector Organizations			Total: 9
47.	OAGA	Office of the Auditor General of Alberta	North America
48.	OAGC	Office of the Auditor General of Canada	North America
49.	OAGNZ	Office of the Auditor General New Zealand	Asia Pacific
50.	AGSA	Auditor General South Africa	Middle East and Africa
51.	ACAG	Australasian Council of Auditors General	Asia Pacific

¹⁵ Forum of Firms members are indicated with an *. The Forum of Firms is an association of international networks of accounting firms that perform transnational audits.

Nr	Acronym	Respondent	Region
52.	GAO	US Government Accountability Office	North America
53.	NAO	National Audit Office of Malta	Europe
54.	PAS	Provincial Auditor Saskatchewan	North America
55.	SNAO	Swedish National Audit Office	Europe
Member Bodies and Other Professional Organizations			Total: 31
56.	ACCA- CAANZ	Association of Chartered Certified Accountants - Chartered Accountants Australia and New Zealand	Asia Pacific
57.	AE	Accountancy Europe	Europe
58.	CAI	Chartered Accountants Ireland	Europe
59.	CaICPA	California Society of CPAs	North America
60.	CAQ	Centre for Audit Quality	North America
61.	CCC-ICPARD	Comite Control de Calidad del ICPARD	South America
62.	CFC	Conselho Federal de Contabilidade - Federal Accounting Council – CFC	South America
63.	CICC-AIC	Comision Interamericana de Control de Calidad de la AIC	South America
64.	CNDCEC	Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili	Europe
65.	CPAA	CPA Australia	Asia Pacific
66.	ES	EXPERTsuisse	Europe
67.	FAAPA	Finnish Association of Authorised Public Accountants	Europe
68.	FAR	FAR (Institute for Accounting Profession in Sweden)	Europe
69.	FSR	FSR Danske Revisorer (Danish Auditors)	Europe
70.	IAB-IEC	Institut des Experts-Comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten	Europe
71.	IBRACON	Instituto dos Auditores Independentes do Brasil	South America
72.	IBR-IRE	Belgian Institute of Registered Auditors	Europe
73.	ICAEW	Institute of Chartered Accountants in England and Wales	Europe
74.	ICAP	Institute of Chartered Accountants of Pakistan	Middle East and Africa
75.	ICAS	Institute of Chartered Accountants Scotland	Europe
76.	ICJCE	Instituto de Censores Jurados de Cuentas de España	Europe
77.	ICPAS	Illinois CPA Society	North America
78.	ICPAU	Institute of CPAs of Uganda	Middle East and Africa
79.	IMCP	Instituto Mexicano de Contadores Públicos	South America
80.	ISCA	Institute of Singapore Chartered Accountants	Asia Pacific

Nr	Acronym	Respondent	Region
81.	MICPA	Malaysian Institute of Certified Public Accountants	Asia Pacific
82.	NYSS CPA	New York State Society of CPAs	North America
83.	NRF	Nordic Federation of Public Accountants	Europe
84.	SAICA	South African Institute of Chartered Accountants	Middle East and Africa
85.	SMPC	IFAC Small and Medium Practices Committee	Global
86.	WPK	Wirtschaftsprüferkammer	Europe
Academics			Total: 2
87.	AAA-ASC	American Accounting Association – Auditing Standards Committee	North America
88.	UNSW	UNSW Research Network	Asia Pacific
Individuals and Others			Total: 3
89.	AFV	Álvaro Fonseca Vivas	South America
90.	CAA-TAS	Training and Advisory Services and Chartered Accountants Academy	Middle East and Africa
91.	VM	Vera Massarygina	Europe

Appendix 3

Questions and Topics to be Considered by the IAASB – Supporting Analyses Roadmap and Timing of IAASB Discussion

1. This Appendix sets out:
 - The questions set out in ED-220 and additional topics identified in ED responses.
 - If available, the relevant Agenda Paper that contains the summary of the analysis for each question or topic (in table format).
 - If available, the relevant Agenda Paper that provides the NVivo reports containing extracts from respondents' comment letters.
 - When the ISA 220 TF plans to present each question or topic to the Board for consideration.
2. The ISA 220 TF Chair will provide a brief overview of all responses to ED-220 at the September 2019 IAASB meeting, but only the topics identified in this issues paper will be considered in detail at that meeting. The table below indicates those topics that will be addressed in detail at the September and December 2019 meetings, as well as the agenda papers provided for the discussion at the September 2019 meeting.

Question or Topic	Agenda Paper – Summary of Analysis (in table format)	Agenda Paper – Extracts of Respondents' Comments (in text format)	Planned timing of IAASB discussion
Question 1 – Sufficient Appropriate Involvement of Engagement Partner, Stand-back	Agenda Item 8–A .1 (Responses by Category) and Agenda Item 8–A.2 (Responses by Theme)	Agenda Item 8–B.1	September 2019
Question 2 – Linkages to other QM EDs, Firm's Policies or Procedures	Agenda Item 8–A.8 (Comments on Firm's Policies or Procedures only)	Agenda Item 8–B.5	September 2019
Question 3 – Professional Skepticism	–	–	December 2019
Question 4 – Modern Auditing Environment (General Comments)	–	–	December 2019

Question or Topic	Agenda Paper – Summary of Analysis (in table format)	Agenda Paper – Extracts of Respondents’ Comments (in text format)	Planned timing of IAASB discussion
Question 4 – Engagement Team Definition	Agenda Item 8–A .3 (Responses by Category) and Agenda Item 8–A.4 (Responses by Theme)	Agenda Item 8–B.2	September 2019
Question 4 – Resources/Technology	–	–	December 2019 (Also forwarded to TWG)
Question 5 – Direction, Supervision and Review	Agenda Item 8–A.7	Agenda Item 8–B.4	September 2019
Question 6 – Documentation	–	–	December 2019
Question 7 – Scalability	Agenda Item 8–A .5 (Responses by Category) and Agenda Item 8–A.6 (Responses by Theme)	Agenda Item 8–B.3	September 2019
Topic 01 – Objective	–	–	December 2019
Topic 02 – Definitions and Terminology (Other than Definition of the Engagement Team)	–	–	December 2019
Topic 03 – Comments not Tied to Specific Requirements	–	–	December 2019
Topic 04 – Editorial comments	–	–	December 2019

Appendix 4

Use of the NVivo Analysis Tool

The following points are important in understanding how responses were analyzed using the NVivo12 qualitative data analysis software tool:

1. NVivo12 was used to automate the analysis, summarization and synthesis of ED-220 comments based on the Task Force's consideration of responses received. The staff and Task Force process for considering the responses and identifying the key issues were facilitated by the tool. Likewise, as part of the IAASB's due process, all comments will be considered by the Task Force and presented to the IAASB as ED-220 is progressed towards a final standard.
2. For purposes of analysis, the comments were grouped into the following categories:
 - (a) **Agree** – those who stated simple agreement and those who clearly agreed, and also provided further explanations of why they agreed.
 - (b) **Agree but with further commentary** – those who appeared to agree (i.e., agreement or disagreement was not explicitly stated, but the nature of the comments suggested agreement), but had additional suggestions or concerns with the proposals.
 - (c) **Disagree** – those who stated simple disagreement and those who clearly disagreed, including those who provided further explanations of why they disagreed.
3. Within the groupings, the comments have been further grouped by respondent group (e.g., monitoring group, regulators, national standard setters, investors, as indicated in paragraph 2 of [Section I](#) of this paper).
4. In some cases, a respondent may have made more than one point related to an issue. Each of the comments made related to an issue has been included in the text-format papers for that issue (see **Agenda Item 8-B**).
5. The NVivo summary of the analysis for each question in table format reflect:
 - (a) **Themes:** The ISA 220 Task Force summarized the general themes identified from further analyzing the comments for those respondents who agreed but had comments and those who disagreed. In certain cases, the additional concerns or suggestions raised by respondents who agreed were similar to the reasons provided by respondents who disagreed with the question (i.e., they had similar issues and concerns whether they agreed or disagreed—for example, the upward scalability of proposals to large, more complex audit engagements). The general themes were therefore numbered consistently across the three categories to reflect these similarities. Further explanations provided by respondents who “agreed” were also considered in identifying and analyzing the themes. The summaries of general themes are intended to provide an overview of key themes, and do not reflect the nuances of the individual comments, which are best identified by reading the entire response to provide necessary context.
 - (b) **Other Comments:** Some of the comments or suggestions were isolated and have generally been categorized into “other comments.” Although isolated, these comments will still be considered by the ISA 220 TF as it progresses its work.

Appendix 5

Indicative Wording Changes

Note: This paper identifies certain of the suggested changes arising from the Task Force's consideration of comments on ED-220 that relate to key issues identified in the issues paper. Other paragraphs have been included to provide context for the changes. The indicative drafting below is not final, does not include all the changes that would be needed to respond to the comments received, and is presented for discussion purposes only.

Introduction

...

7A. The requirements of this ISA are intended to be applied to the nature and circumstances of each audit. For example:

- (a) In an audit of a less complex entity, an audit may be carried out entirely by the engagement partner. In this case, some requirements in this ISA are not relevant because they are conditional on the involvement of other members of the engagement team.
- (b) In an audit of a large complex entity, it will generally not be possible or practical for all of the requirements or responsibilities in this ISA to be dealt with solely by the engagement partner and the engagement partner may need to assign procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA. Nevertheless, the engagement partner remains responsible for compliance with the requirements of this ISA.

...

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

...

13. If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement, and remains accountable for managing and achieving quality on the engagement through direction and supervision of members of the engagement team, and review of their work, as required by paragraph 27. ~~When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall:~~ (Ref: Para. A30)

- ~~(a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and~~
- ~~(b) Monitor the performance of the work of assignees and review selected related documentation in order to evaluate the conclusions reached.~~

...

Engagement Performance

Direction, Supervision and Review

27. The engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and determine that such direction, supervision and review is: (Ref: Para. A30, A68–A76, A81–A83)

Application and Other Explanatory Material

The Firm's System of Quality Management and Role of Engagement Teams (Ref: Para. 2 – 5)

Considerations Specific to Smaller Firms (Ref: Para. 2–4)

...

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: Para. 13)

- A30. The engagement partner is ultimately responsible and therefore accountable for managing and achieving quality on the audit engagement. However, it will generally not be possible or practical for all of the requirements in this ISA to be dealt with solely by the engagement partner (e.g., due to the nature and size of the entity, or the complexity of the audit and the need for specialized skills or expertise). In managing quality at the engagement level, the engagement partner may assign responsibility for procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team who assist the engagement partner in complying with the requirements of this ISA. For example, engagement team members other than the engagement partner may be assigned supervisory roles. Assigning responsibilities in this manner may be helpful due to the nature and size of the entity, the complexity of the audit, or the need for specialized skills or expertise.
- A30A. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner may consider, taking into account the nature and circumstances of the engagement, the appropriate nature, timing and extent of the engagement partner's:
- (a) Communication to appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information; and
 - (b) Direction and supervision of the performance of assignees' work and review of selected related documentation to evaluate the conclusions reached.

Appendix 6

Task Force Analysis of the Requirements in ED-220 that Must be Performed by the Engagement Partner and Those on Which the Engagement Partner May Be Assisted by Engagement Team Members

1. This appendix lists the requirements of ED-220 and shows the Task Force's evaluation of which of these requirements must be performed solely by the engagement partner, and for which the engagement partner may assign procedures, tasks or actions related to the requirement to other members of the engagement team to assist the engagement partner in complying with the requirement.
2. To prepare this list the Task Force evaluated each requirement in ED-220 as to whether the engagement partner should be required to perform the requirements. In doing so, the Task Force checked the requirements in ED-220 to those in extant ISA 220 to make sure that no extant requirements were lost in the process. The Task Force also considered how the requirement would be applied to the group engagement partner in a group audit engagement.
3. Of the requirements in ED-220 that are directed at the engagement partner, the Task Force considers that 13 must be performed by the engagement partner personally, while for 14 of the requirements, other engagement team members may assist the engagement partner in complying with the requirements of proposed ISA 220 (Revised).¹⁶ The Task Force will further consider how this distinction could be expressed in proposed ISA 220 (Revised).

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
Leadership Responsibilities for Managing and Achieving Quality on Audits		
11. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining whether the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A22–A29)	✓	
12. In creating the environment described in paragraph 11, the engagement partner, and others to whom supervisory roles are assigned, shall take clear, consistent and		✓

¹⁶ The documentation requirement in paragraph 38 of ED-220 was directed at the "auditor" rather than the "engagement partner" and has been excluded from the analysis.

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
<p>effective actions that reflect the firm’s commitment to quality and establish and communicate the expected behavior of engagement team members, including:</p> <ul style="list-style-type: none"> (a) Emphasizing that all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level; (b) Reinforcing the importance of professional ethics, values, and attitudes to the members of the engagement team; (d) Encouraging open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and (e) Emphasizing the importance of each engagement team member exercising professional skepticism throughout the audit engagement. 		
<p>13. If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall: (Ref: Para. A30)</p> <ul style="list-style-type: none"> (a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and (b) Monitor the performance of the work of assignees and review selected related documentation in order to evaluate the conclusions reached. 	✓	
<p>Relevant Ethical Requirements, Including Those Related to Independence</p>		
<p>14. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and</p>	✓	

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
circumstances of the audit engagement. (Ref: Para. A31–A35, A41)		
<p>15. The engagement partner shall determine that other members of the engagement team have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including those that deal with: (Ref: Para. A33–A35)</p> <p>(a) Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence;</p> <p>(b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and their responsibilities when they become aware of actual or suspected breaches; and</p> <p>(c) Their responsibilities when they become aware of an instance of actual or suspected non-compliance with laws and regulations.¹⁷</p>		✓
<p>16. If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate such threats through complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team, or other sources and take appropriate action. (Ref: Para. A36–A37)</p>	✓	
<p>17. The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team. (Ref: Para. A38)</p>	✓	
<p>18. If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances</p>		✓

¹⁷ ISA 250 (Revised), *Considerations of Laws and Regulations in an Audit of Financial Statements*

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A39)		
19. Prior to dating the auditor's report, the engagement partner shall determine whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A40)		✓
Acceptance and Continuance of Client Relationships and Audit Engagements		
20. The engagement partner shall be satisfied that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A42–A45, A51)		✓
21. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs and complying with the requirements of this ISA. (Ref: Para. A46–A49)		✓
22. If the engagement partner obtains information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A50)		✓
Engagement Resources		
23. The engagement partner shall determine that, given the nature and circumstances of the audit engagement (and any changes that may arise during its course), sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm on a timely basis. (Ref: Para. A52–A61, A63–A64, A67)	✓	
24. The engagement partner shall determine that members of the engagement team, and any auditor's experts who	✓	

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A62–A64)		
25. If, as a result of complying with the requirement in paragraphs 23 and 24, the engagement partner determines that resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate personnel in the firm about the need to allocate or assign additional or alternative resources to the engagement. (Ref: Para. A65–A66)		✓
26. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A58)		✓
Engagement Performance		
<i>Direction, Supervision and Review</i>		
27. The engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and determine that such direction, supervision and review is: (Ref: Para A68–A76, A81–A83) (a) Planned and performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements; (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement; and (c) Planned and performed on the basis that the work performed by less experienced team members is directed, supervised, and reviewed by more experienced engagement team members.		✓

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
28. On or before the date of the auditor's report, the engagement partner shall, through review of audit documentation and discussion with the engagement team, determine that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A77–A80)	✓	
29. In complying with the requirements of paragraph 28, the engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A77–A80) <ul style="list-style-type: none"> (a) Significant matters;¹⁸ (b) Other areas involving significant judgments, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached; and (c) Other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities. 	✓	
30. Prior to dating the auditor's report, and in order to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters ¹⁹ and related audit documentation.	✓	
31. The engagement partner shall review, prior to their issuance, any formal written communications to management, those charged with governance, or regulatory authorities.	✓	

¹⁸ ISA 230, *Audit Documentation*, paragraph 8

¹⁹ ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
<i>Consultation</i>		
<p>32. The engagement partner shall: (Ref: Para. A84–A87)</p> <ul style="list-style-type: none"> (a) Take responsibility for the engagement team undertaking consultation on: <ul style="list-style-type: none"> (i) Matters where the firm’s policies or procedures require consultation, including on difficult or contentious matters; and (ii) Other matters that in the engagement partner’s professional judgment, require consultation; (b) Determine that members of the engagement team have undertaken appropriate consultation during the course of the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm; (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and (d) Determine that conclusions resulting from such consultations have been implemented. 		✓
<i>Engagement Quality Review</i>		
<p>33. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A88)</p> <ul style="list-style-type: none"> (a) Be satisfied that an engagement quality reviewer has been appointed; (b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so; (c) Discuss significant matters arising during the engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and (d) Not date the auditor’s report until the completion of the engagement quality review. (Ref: Para. A89–A92) 	✓	

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
<i>Differences of Opinion</i>		
<p><i>[Note: paragraph 34 is directed at the engagement team rather than the engagement partner]</i></p> <p>34. If differences of opinion arise, within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm’s system of quality management, including those who provide consultation, the engagement team shall follow the firm’s policies or procedures for dealing with and resolving them. (Ref: Para. A93–A94)</p>		✓
<p>35. The engagement partner shall:</p> <ul style="list-style-type: none"> (a) Take responsibility for differences of opinion being dealt with and resolved in accordance with the firm’s policies or procedures; (b) Determine that conclusions reached are documented and implemented; and (c) Not date the auditor’s report until any differences of opinion are resolved. 		✓
Monitoring and Remediation		
<p>36. The engagement partner shall: (Ref: Para. A97–A98)</p> <ul style="list-style-type: none"> (a) Be satisfied that the engagement team has been made aware of results of the firm’s monitoring and remediation process, as communicated by the firm including, as applicable, the results of the monitoring and remediation process of the network or network firms; (b) Determine the relevance and effect on the audit engagement of the information referred to in paragraph 36(a) and take appropriate action; and (c) Remain alert throughout the audit engagement for information that may be relevant to the firm’s monitoring and remediation process and communicate such information to those responsible for the process. 		✓
Taking Overall Responsibility for Managing and Achieving Quality		

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
<p>37. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. A99–A101)</p> <p>(a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and</p> <p>(b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures, have been taken into account in complying with the requirements of this ISA.</p>	✓	
Documentation		
<p><i>[Note: paragraph 38 is directed at the auditor rather than the engagement partner]</i></p> <p>38. The auditor shall include in the audit documentation:²⁰ (Ref: Para. A102–A104)</p> <p>(a) Matters identified, relevant discussions with firm personnel, and conclusions reached with respect to:</p> <p>(i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.</p> <p>(ii) The acceptance and continuance of the client relationship and audit engagement.</p> <p>(b) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement and how such conclusions were implemented.</p>		✓

²⁰ ISA 230, paragraphs 8-11 and A6

Paragraph Number	Must Be Performed by the Engagement Partner	Other Members of the Engagement Team May Assist
(c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.		

Appendix 7

Initial Alternatives Considered to Address Concerns on the Engagement Team Definition in the Context of Including Component Auditors

Purpose

1. This Appendix discusses alternative ways of dealing with the comments received from respondents to ED-220 and from IESBA representatives on the definition of “engagement team”

Background

2. As shown in the table below, the engagement team definitions in extant ISA 220 and in the IESBA Code are closely aligned with one difference, as highlighted in the underlined text below. The definition in extant ISA 220 applies only to audit procedures (as does the proposed definition in ED-220), while the definition in the IESBA Code applies to assurance procedures, as the Code applies to more types of engagements than audits of financial statements. In addition, ED-220 proposes that the any individual who performs audit procedures on the engagement be included as part of the engagement team, with the types of individuals providing further context around who those individuals might be.

Extant ISA 220	IESBA Code (Glossary)	ED-220
<p>Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform <u>audit procedures</u> on the engagement. This excludes an auditor’s external expert engaged by the firm or a network firm.³ The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).⁴</p> <p>³ ISA 620, <i>Using the Work of an Auditor’s Expert</i>, paragraph 6(a), defines the term “auditor’s expert.”</p> <p>⁴ ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or</p>	<p>Engagement team: All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform <u>assurance procedures</u> on the engagement. This excludes external experts engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>	<p>Engagement team – All partners and staff performing the audit engagement, and <u>any other individuals who perform audit procedures</u> on the engagement, <u>including individuals engaged by the firm or a network firm</u>. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm,¹³ 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).¹⁴</p> <p>¹⁴ ISA 620, <i>Using the Work of an Auditor’s Expert</i>, paragraph 6(a), defines the term “auditor’s expert.”</p> <p>¹³ ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or</p>

Extant ISA 220	IESBA Code (Glossary)	ED-220
regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.		regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

Alternatives Considered

- The following alternatives were considered by the Task Force. Advantages and disadvantages of each alternative is included.
- Alternative 1 – ET Definition in ED-220 (ISA 220 Task Force Preferred Approach)*

Description

- The proposed definition in ED-220, subject to possible changes to improve clarity.
- Address practical concerns and solutions identified by respondents.
- Retract the Clarity project [FAQ](#) that addresses the following question:

Did the IAASB intend to extend or otherwise override the independence requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) or other ethical requirements to which the group engagement team is subject in a group audit situation, for example, by requiring that the component auditor in all cases be subject to the same specific independence rules applicable to the group engagement team?

Advantages

- The definition proposed in ED-220 addresses the public interest concerns raised by respondents to the ITC.
 - This is the approach supported by most respondents, including a Monitoring Group member and regulators. It is the same approach as the PCAOB is proposing in its project on Supervision of Audits Involving Other Auditors,²¹ which would reduce the need for firms subject to regulation to operate under two different engagement team scopes in performing their audits.
- ISA 220 is a foundational standard; as such, the definitions are intended to apply to all audit engagements, regardless of their nature or circumstance.
- Addressing component auditors in ISA 600 (see Alternative 2) does not remove the practical concerns raised by respondents.
- Although this may create the perception that the IAASB is setting independence rules for group audits by setting an expectation that the independence rules that apply to the group audit engagement are applicable to the whole engagement team, that perception exists today. This is because, when performing work on the financial information of a component for a group

²¹ See PCAOB Release No. 2016-002, Docket Matter 042 at <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/other-auditors.aspx>

audit, the component auditor is already subject to ethical requirements that are relevant to the group audit in accordance with ISA 600.²²

Disadvantages

- The definition of engagement team in the ISAs would differ further from that in the IESBA Code. This would be a negative outcome from a coordination perspective and may also create inconsistencies in how the IESBA Code is applied. In addition, there may be a perception that the IAASB is setting *de facto* independence standards for group audits by setting an expectation that the independence requirements that apply to the group audit engagement are applicable to the whole engagement team. However, guidance jointly developed by the two Boards could address potential inconsistencies.
 - Smaller firms may not be part of networks that have a system of quality management that evaluates component auditors' competence/independence.
 - However, this occurs in practice today and would, as indicated above, still be a concern even if the definition and other requirements related to group audits are moved to ISA 600; and
 - The concern with including component auditors was related to “scalability up” (i.e., the application of relevant ethical requirements, including independence and direction, supervision and review in large, complex audits), and clarity can be provided to address that concern.
3. *Alternative 2 – Deal with the Quality Management of Component Auditors in ISA 600, Retain the definition of engagement team in extant ISA 220*

Description:

- ISA 600 would deal with the application of the ISAs to component auditors including:
 - Sufficient requirements and application material to set appropriate requirements for the quality management of the audit of components within a group audit engagement by the group auditors. This would mean that the requirements of the ISAs and ISQMs that apply to “engagement teams” would need to be extended to anyone performing audit procedures on the engagement outside of the extant definition of an engagement team (including component auditors) or duplicated to ensure that quality management is consistent across all aspects of the group audit engagement.
 - Further requirements for assessing the independence of component auditors in ISA 600.²³ While ISA 600 addresses the need to do the assessment and its outcomes, it does not address how to do the assessment; therefore, there may be a need to provide additional requirements and/or guidance.

Advantages

- The engagement team definition in the IAASB's International Standards and the IESBA Code would remain functionally consistent.

²² ISA 600, paragraphs 19(a) and A37

²³ ISA 600, paragraphs .19 - .20

- This avoids the two boards using the same term (“engagement team”) to cover different groups.

Disadvantages

- Proposed ISA 220 (Revised) and several other ISAs would need to extend or duplicate a number of requirements in respect to individuals performing audit procedures that are not part of the engagement team (e.g. individuals in ADMs or component auditors), which was a key public interest element of the IAASB’s proposals to improve quality management. For example, if such individuals are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed (paragraphs 27–31 of ED-220). Further, such individuals need to be subject to the ethical requirements relevant to the engagement (paragraphs 14-19 of ED-220).
- There was overall support for the definition in ED-220 and from the respondents to the ITC. Although there were several who expressed disagreement with the proposed definition, reverting to the extant definition would not recognize the support.
- Reverting to the extant definition does not resolve practical issues respondents identified, and would risk delays in finalizing the standard.
- Moving the broader definition from the foundational ISA (i.e., ISA 220), which applies in all circumstances, to the “special circumstances” ISA 600 is intended to address may make the point about the EP exercising direction, supervision and review across the whole engagement team less clear, even if application material is added to ISA 220 to refer to the ISA 600 treatment of component auditors. As this is one of the issues raised in the ITC that this project was intended to address, it would not fulfill a critical objective of the project.