Proposed ISA 220 (Revised) – Issues and Recommendations

Objective of the IAASB Discussion

The objective of this Agenda Item is to provide direction on the ISA 220 Task Force’s proposals to address the key issues raised in response to the Exposure Draft (ED) of ISA 220 (Revised)\(^1\) (ED-220).

Section I. Introduction

A. Overview

1. This paper should be read in conjunction with Agenda Item 9-B, an updated draft of proposed ISA 220 (Revised) marked with the Task Force’s proposed changes to address respondents’ comments on ED-220 and CAG and Board input.

2. Although the full draft is presented for reference purposes (in both clean and markup format – see Agenda Item 9-A and Agenda Item 9-B respectively), the Task Force Chair will focus the Board discussion at the December 2019 IAASB meeting on the issues identified in Section II and Section III of this issues paper. If time permits, the Task Force also will seek feedback from the IAASB on the draft of proposed ISA 220 (Revised) in Agenda Item 9-B.

3. The Task Force plans to address matters including the editorial comments as well as those requiring ongoing coordination with the ISQM 1,\(^2\) ISQM 2\(^3\) and ISA 600\(^4\) Task Forces, in quarter 1 of 2020 and include them in the first read of the proposed final standard in March 2020.

4. In addition, ongoing coordination is expected to occur with IESBA\(^5\) on the engagement team definition. See Section III.A and Appendix 1.

5. The Task Force welcomes any offline comments on the updated proposed ISA 220 (Revised).

B. Update on Responses Received

6. The total number of comment letters received in response to ED-220 has been updated to include the comment letter received from the Committee of European Auditing Oversight Bodies (CEAOB), a regulator, which brings the total number of comment letters to 92. The Task Force has considered this letter in developing this issues paper and in the proposed changes to ED-220 in Agenda Item 9-B.

\(^{1}\) Proposed International Standard on Auditing (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements

\(^{2}\) Proposed International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

\(^{3}\) Proposed ISQM 2, Engagement Quality Reviews

\(^{4}\) ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors

\(^{5}\) International Ethics Standards Board for Accountants
C. Overview of Key Changes Proposed for ED-220

7. Based on respondents’ comments and the discussions of the key issues at the September 2019 CAG and IAASB meetings, the Task Force proposes the following changes to ED-220 to address the key issues:

- **Engagement team definition:** Simplified the definition and clarified that component auditors are included in the engagement team definition through enhanced application material.
- **Upward scalability:** Revised certain requirement to clarify how they are operable in larger audits where the engagement partner cannot perform all the allotted requirements without assistance. The Task Force has clarified which requirements need to be performed by the engagement partner alone, and for which requirements other engagement team members may perform procedures, tasks or actions to assist the engagement partner in fulfilling the requirement.
- **Dependence on the firm’s system of quality management:** Further clarified when the engagement partner may depend upon the firm’s system of quality management.
- **Provide additional guidance on the exercise of professional skepticism and on documentation.**

8. Section II of this paper addresses the following additional issues respondents raised on ED-220 that were not discussed at the September 2019 IAASB meeting:

(a) Public interest matters - see Section II.A
(b) Objective of the standard – see Section II.B
(c) Professional skepticism – see Section II.C
(d) Stand-back provision – see Section II.D
(e) Technology – see Section II.E
(f) Documentation – see Section II.F

9. Section III of this paper further addresses the following key issues that were discussed at the September 2019 IAASB meeting:

(a) The engagement team definition – see Section III.A
(b) Role and responsibility of the engagement partner (other than the stand-back provision) – see Section III.B
(c) Direction, supervision and review – see Section III.C
(d) Dependence on the firm’s system of quality management – see Section III.D
(e) Scalability – see Section III.E

10. The remainder of this paper addresses the Task Force’s next steps.

11. This paper includes the following appendices:

- **Appendix 1** provides an overview of the ISA 220 Task Force’s coordination activities with the other QM Task Forces, ISA 600 and IESBA in the fourth quarter of 2019 and plans for ongoing coordination in the first and second quarters of 2020.
- **Appendix 2** contains an extract of the draft Minutes of the September 2019 IAASB meeting.
Appendix 3 contains an alternative differentiating between requirements that must be fulfilled solely by the engagement partner and those for which other engagement team members may assist the engagement partner.

D. Other Agenda Items

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Section II. New Matters (Not Discussed at the September 2019 IAASB Meeting)

A. Overview of Public Interest Matters (See NVivo Report 9-D.4)

What We Heard

Monitoring Group

12. A Monitoring Group member commented that the explanatory memorandum to the draft standard put significant emphasis on addressing public interest considerations by encouraging proactive management of quality at the engagement level. That respondent asked the IAASB to reflect upon whether public interest considerations should be more prominent in the proposed standard and whether references to the public interest framework to be developed by the Public Interest Oversight Board (PIOB) or the existing International Federation of Accountants (IFAC) Policy Position 5 are appropriate to better understand which public interest considerations are addressed and how they are taken into account.

Other Respondents

13. Other respondents who commented on the public interest supported how the public interest was addressed in ED-220, noting that the proposed revisions to ED-220 have been made with the public interest at the forefront and will generate improvements in the quality of the engagements, but also the need to address public interest needs when appropriate.

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6 [IFAC Policy Position 5, A Definition of the Public Interest (June 2012)] defines the public interest and explains what is meant by the terms “public” and “interest” in the context of the IFAC’s activities.
**Task Force’s Recommendations**

14. The Task Force agreed with respondents who noted that ED-220 addresses key matters of public interest and enhances audit quality in response to the relevant issues identified in the project proposal. Further, the Task Force notes the ongoing work of the PIOB in establishing a public interest framework. However, the Task Force also noted that public interest matters may be further highlighted in proposed ISA 220 (Revised), and proposes the following key enhancements to address the public interest in response to the comments received:

- As discussed in Section III.B, paragraph 11 of Agenda Item 9-B provides the foundation for a quality engagement by clarifying the engagement partner’s leadership role and overall responsibility for managing and achieving audit quality. Consistent with the proposal in the September 2019 IAASB meeting papers, the Task Force has proposed amendments to the clarify the requirements that the engagement partner has sole responsibility to fulfill and those for which the engagement partner takes responsibility, but for which other engagement team members may assist the engagement partner by designing or performing certain procedures, tasks or actions to fulfil a requirement.

- As discussed in Section III.A, the engagement team definition has been clarified to include all individuals performing audit procedures on the engagement, such that, regardless of where they are located, or how they are related to the firm, they are appropriately directed and supervised and their work reviewed in accordance with proposed ISA 220 (Revised). The Task Force has proposed adding guidance to clarify that the engagement team definition includes component auditors.

- Proposed ISA 220 (Revised) is designed to operate as part of the firm’s system of quality management established in proposed ISQM 1, and therefore takes into account the interaction of the firm’s system of quality management with managing quality at the engagement level, for example in relation to engagement quality reviews. The Task Force has proposed amendments to application material in respect of the engagement team’s determination of when it is appropriate to depend on the firm’s system of quality management (see Section III.D).

- The Task Force has also proposed enhancements to the application material to take into account that firm policies or procedures may need to be actioned in a different manner when the engagement team includes other auditors, as firm policies or procedures may vary depending on how the engagement team is organized. This is further explained in Section III.A.

**B. Objective of the Standard (See NVivo Report 9-D.5)**

*What We Heard*

Monitoring Group

15. A Monitoring Group member suggested that a clear differentiation of the various objectives of the three standards as well as an explanation of their interrelationship would add value.

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*Footnote: The public interest issues are adapted from and expand upon the issues identified in the project proposal addressing the revisions of the IAASB’s quality control standards (proposed ISQM 1, ISQM 2 and ISA 220 (Revised)) and group audits (ISA 600).*
16. That Monitoring Group member also suggested that the objective be changed to “the objective of the auditor is to ensure that the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements.

Other Respondents
17. While there was no question in ED-220 on the objective itself, respondents supported the objective. Some regulator respondents suggested that the standard should clearly state that the objective is to ensure the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements. Other respondents that thought that extant wording is more concise and measurable, and suggested alternative wording to remove perceived circularity in the objective, or noted that the focus should not be on compliance with individual requirements.

Task Force Recommendations
18. The Task Force noted the support from respondents for the proposed objective. In considering the comments from the Monitoring Group member and others about having a more aspirational objective, the Task Force explored whether such an objective was feasible, but continues to believe that the objective needs to be measurable. The Task Force also notes that the difference between “quality” and “high quality” may be difficult to define and may result in inconsistencies in practice. In addition, the Task Force noted that differentiating between “quality” and “high” quality is hard to define and potentially confusing. The Task Force also noted that the ISAs are structured such that compliance with the requirements of an ISA should, in most cases, result in achieving the objective of that ISA. The Task Force also concluded that the objective was not circular and.

19. In light of the low number of comments on this issue and the link to the objective in ISQM1, the Task Force concluded that no change was needed.

20. The Task Force notes that coordination will be required to address any changes that may be made to the objective in ISQM 1.

Matter for IAASB Consideration
1. Does the IAASB agree that no change is required to the objective?

C. Professional Skepticism (See NVivo Reports 9-C.1 and 9-D.1)
21. Question 3 of the Explanatory Memorandum to ED-220 asked:

Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level?

What We Heard
Monitoring Group
22. Although members of the Monitoring Group who commented supported the material in ED-220 on professional skepticism, they asked for additional examples in a number of areas.
Other Respondents

23. Certain respondents asked for a cross-reference to the requirements and guidance on professional skepticism in ISA 200\(^8\) or moving the professional skepticism material in proposed ISA 220 (Revised) to ISA 200.

24. Other respondents also asked for more examples to be provided on, among other matters, how professional skepticism is applied in ISA 220, how it is documented and how impediments to the exercise of professional skepticism are mitigated.

Task Force Recommendations

25. The Task Force discussed the respective roles of ISA 200 and proposed ISA 220 (Revised) on the exercise of professional skepticism. In the Task Force’s view, the role of ISA 200 is to establish the requirement to plan and perform an audit with professional skepticism.\(^9\) The role of proposed ISA 220 (Revised) is two-fold. First, it emphasizes the relationship between the exercise of professional skepticism and achieving audit quality. Second, in managing risks to audit quality, i.e., “what could go wrong,” it emphasizes the importance of looking for circumstances that might impede the appropriate exercise of professional skepticism when performing the audit and taking action to mitigate such impediments. Although not drafted yet, the Task Force is considering including guidance to clarify the interrelationship between ISA 200 and proposed ISA 220 (Revised) in relation to professional skepticism.

26. The Task Force considers the reference in paragraph 7 to ISA 200 to be sufficient to provide the link to planning and performing audit engagements and to the importance of the actions and communications of the engagement partner and other members of the engagement team in supporting the appropriate exercise of professional skepticism. Accordingly, no changes are proposed to that paragraph.

27. The Task Force has proposed changes in paragraphs A26A–A29 in Agenda Item 9-B to emphasize the importance to quality management of all engagement team members exercising professional skepticism and explain in greater detail how conditions inherent in some audits can create pressures on engagement team members that impede the appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence, as well as the need to take appropriate action to mitigate those impediments. The Task Force has also made some minor and editorial changes in respect of suggested editorials respondents have proposed.

28. The Task Force will consider in more detail the need for implementation guidance (e.g., examples or frequently asked questions) on threats to, and the exercise of, professional skepticism. In doing so, it will coordinate with the Professional Skepticism Working Group. As noted in Section II.F, the Task Force has also proposed additional guidance on documenting professional skepticism as it relates to engagement level quality management).

\(^8\) ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

\(^9\) ISA 200, paragraph 15
Matter for IAASB Consideration

2. Does the IAASB agree with the Task Force’s proposed changes to address respondents’ comments on how proposed ISA 220 (Revised) deals with professional skepticism?

D. Stand-Back Requirement (See NVivo reports 8-A.1 and 8-B.1 from the September 2019 agenda papers)

29. Question 1 of the Explanatory Memorandum to ED-220 asked:

Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement?...

What We Heard

Monitoring Group

30. Monitoring Group representatives who commented on the stand-back provision supported the stand back as it increases the focus on the importance of the partner’s involvement and has the potential to improve audit quality. One, however, questioned why an explicit step for engagement partners to set out their planned level of direction, supervision and review at the onset of the audit had not been included to aid engagement partners in assessing their subsequent involvement during the audit.

Other Respondents

31. Other commenters who also supported the stand-back provision made the following suggestions:

- Making the requirement more prominent, including improving links to other related requirements in the standard.
- Clarify the stand-back requirement, including linking the stand-back requirement to paragraph 11, which sets out the engagement partner’s overall responsibility for managing and achieving audit quality.

Task Force Recommendations

32. Noting support for the stand-back requirement in paragraph 37 of Agenda Item 9-B, the Task Force is proposing only limited changes to that requirement. The Task Force agreed with the respondents who asked for further clarity and has proposed adding a link to paragraph 11 from paragraph 37 of Agenda Item 9-B. In addition, as noted in Section II.F, the Task Force is proposing additional guidance in paragraph A102A to address documentation regarding the stand-back requirement.
Matter for IAASB Consideration

3. Does the IAASB agree with the Task Force’s proposed changes to address respondents’ comments on the stand-back provision (paragraph 37 of Agenda Item 9-B)?

E. Technology/Resources (See NVivo Reports 9-C.2 and 9-D.2)

33. Question 4 of the Explanatory Memorandum to ED-220 asked:

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

34. The Task Force presented respondents comments related to part of this question dealing with audit delivery models (i.e., the engagement team definition) at the September 2019 IAASB meeting. Accordingly, this section focusses on the comments related to technology.

What We Heard

35. Respondents expressed varied views on the adequacy of how ED-220 addressed technology, including that:

   - The nature and extent of guidance throughout ED-220 was appropriate. For example, it was noted that the Application Material in paragraphs A56–A58 explains how such resources may be deployed on an audit engagement, including that they may assist with engagement management, as well as with enhancing the auditor’s ability to exercise professional skepticism.

   - ED-220 did not go far enough in addressing “disruptive technologies.”

   - There was too much specificity and that it was important for any material to be principles based. For example, they noted that detailed material on technology could rapidly become outdated.

36. Respondents also noted the need for additional factors that an engagement partner may take into account in determining whether a particular technological resource is appropriate for use in the audit (when not addressed by the firm’s policies or procedures). Another did not think it is appropriate for the engagement partner to use new technologies if these specific technologies are not allowed by firm policies or procedures.

37. It was also noted that proposed ISA 220 (Revised) is not the appropriate location for guidance on different audit delivery models and suggested that the matter be addressed in some form of implementation guidance.

Task Force Recommendations

38. The Task Force agreed with those respondents suggesting:

   - The need to remain principles based so the material would not become outdated; and

   - That additional guidance might be better provided outside of the proposed standard, for example, through implementation guidance.

39. The Task Force believes that the balance between respondents supporting the material on technological resources and those asking for more guidance indicates that an appropriate balance
had been achieved overall. However, in response to the specific requests, the Task Force proposes additional application material in paragraph A58 of Agenda Item 9-B on factors to be taken into account in determining whether a technological resource is appropriate.

40. The Task Force will coordinate with the Audit Evidence Working Group and the Technology Working Group to consider in more detail the need for implementation guidance (e.g., specific examples or FAQs) on the use of audit delivery models and technology, including whether their use is “performing audit procedures.” Performing audit procedures is a critical part of the engagement team definition (see Section III.A).

### Matter for IAASB Consideration

4. Does the IAASB agree with the Task Force’s proposals to address respondents’ comments on technology?

### F. Documentation (See NVivo Reports 9-C.3 and 9-D.3)

41. Question 6 of the Explanatory Memorandum to ED-220 asked:

> Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?

### What We Heard

42. Overall, respondents were supportive of the documentation requirements; however, there were some calls for specific documentation requirements or guidance, including the following matters:

- The engagement partner’s reasoning on why a matter was not considered to be a significant matter or a significant judgment.
- The planning and evidence of direction, supervision and review and the stand-back provision.
- Elevating paragraph A103 to a requirement to consider whether matters that may pose risks to achieving audit quality, the exercise of professional skepticism and the auditor’s conclusion thereon have been appropriately documented.
- Differences of opinion.

43. In addition, a respondent noted the need to review the consistency of the documentation requirements holistically and to avoid “quick fixes” that could impair understandability. Another respondent noted the need to consider the interaction between the documentation requirements in paragraph 38 of ED-220 and those in ISA 600.

44. It was also noted that further consideration needs to be given to whether it is practical to require the engagement quality review to be completed by the report date (as required in paragraph 38), rather than the release date.

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10 ISA 230, Audit Documentation
11 ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
**Task Force Recommendations**

45. The Task Force considered the need to provide additional documentation requirements in ED-220. In particular, the Task Force focused on the importance of supporting the overarching documentation requirements in ISA 230, the general support expressed for the requirements overall and the need to maintain scalability. The Task Force also noted that there may be merit in issuing targeted implementation guidance.

46. Based on consideration of the matters noted above, the Task Force does not propose to provide detailed guidance on, or examples of, matters that would be expected to be covered by the overarching documentation requirements in ISA 230, or in other ISAs when appropriate. Enhanced application material is also proposed relating to documentation, in particular to demonstrate how documentation related to planning and performing the engagement under the ISAs can provide evidence of the achievement of the requirements in ISA 220 (e.g., direction, supervision and review and the stand-back provision in paragraph 37). The Task Force also proposes a conforming amendment to ISA 300 to require the Audit Plan to include a description of the nature, timing and extent of the direction and supervision of engagement team members and the review of their work. This proposed conforming amendment is included together with the conforming changes to ISA 300 arising from the revision of ISA 600 (see Agenda Item 2-D). Paragraph A77A of Agenda Item 9-B provides a link to that proposed new requirement.

47. The Task Force will also consider in more detail the need for specific implementation guidance on documentation of the exercise of professional skepticism, in coordination with the Professional Skepticism Working Group.

**Matter for IAASB Consideration**

5. Does the IAASB agree with the Task Force’s proposals to address respondents’ comments on documentation?

**Section III. Further Discussion of Key Issues**

48. The following sections deal with the Task Force’s further actions to address the IAASB’s comments on key issues presented in Agenda Item 8 for the September 2019 IAASB meeting. The draft minutes for that item of the meeting are in Appendix 2. At that meeting, Board Members agreed with the Task Force that the key issues were linked. The Task Force’s proposals set forth below for each issue take into account the other issues.

49. NVivo reports supporting the key issues presented at the September 2019 IAASB meeting, and discussed in Section III, are available at [https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-0](https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-0).

**A. Engagement Team Definition (See NVivo reports 8-A.2 and 8-B.2 from the September 2019 agenda papers)**

**What We Heard**

50. The Board agreed that the engagement team definition in ED-220 should be retained and supported the premise of ED-220 that, regardless of where individuals are located, or how they are related to
the firm, if they are performing audit procedures then they are to be appropriately directed and supervised and their work reviewed in accordance with proposed ISA 220 (Revised).

51. The Board agreed with respondents who asked for greater clarity that engagement team includes component auditors, but did not specify whether this should be done in the definition itself or in application material.

52. The Board also asked the Task Force to clarify what is meant by “audit procedures” and address different audit delivery models.

Coordination Activities Supporting the Task Force’s Proposals

53. As the Task Force Chair informed the Board at the September 2019 IAASB meeting, the IESBA’s representative raised concerns with how ED-220 included component auditors in the scope of the engagement team. Chairs of both the ISA 220 and ISA 600 task forces and IAASB staff have coordinated\(^\text{12}\) with the IESBA representatives to develop a proposal that may be acceptable to both Boards.

54. The IESBA’s representatives have informed the IAASB’s representatives that changing the definition of engagement team was not their preferred approach to meeting the IAASB’s objectives in this project given that such a change would require consequential amendments to the definition of the same term and other provisions in the IESBA’s International Independence Standards. However, the IESBA’s representatives accepted the view of the IAASB’s representatives that the change to the definition is necessary for the IAASB for the various reasons previously articulated, provided that proposed ISA 220 (Revised) appropriately “decouples” the quality management considerations that apply to component auditors from the independence requirements that apply to them (recognizing that those considerations overlap to a degree).

55. The IESBA’s representatives have provided comments on both the requirement and the application material, and are supportive of the IAASB clarifying that all component auditors, whether they are part of the group auditor’s network or not, are part of the engagement team. The IESBA’s representatives will propose\(^\text{13}\) at the December 2019 IESBA meeting that the IESBA consider taking up the proposed revised engagement team definition in the IESBA Code\(^\text{14}\) but address the implications for component auditors’ independence as part of a broader project linked to coordination with the ISA 600 project. In this regard, the IESBA’s representatives will recommend that the IESBA consider and approve a project proposal at its March 2020 meeting. This means that the IAASB can focus on the audit quality implications of including component auditors in the engagement team, which are within the IAASB’s terms of reference, and the IESBA can focus on the ethical implications, which are within the IESBA’s terms of reference. Both the IAASB and IESBA representatives recognize the importance of close and active coordination on this issue.

56. The Task Force Chair will update the Board on any further input received from IESBA representatives before the December 2019 IAASB meeting.

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\(^\text{12}\) See Appendix 1 for details of the coordination activities undertaken.

\(^\text{13}\) See Agenda Item 6-D in the December 2019 IESBA meeting material.

\(^\text{14}\) International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*
Task Force Recommendations

57. In light of the matters above, the changes proposed by the ISA 220 Task Force are based on the following premises:

- The key element of the definition is that it includes individuals who perform audit procedures, so it was not necessary to specifically identify component auditors in the definition.

- The engagement partner’s responsibility for audit quality necessarily includes the independence of all individuals who perform audit procedures, including component auditors because this is required by ISA 200, ISA 220 and ISA 600 and is required to be covered in the auditor’s report in accordance with ISA 700.\footnote{ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, paragraph 28(c)}

- The firm’s policies or procedures relevant to firm’s personnel will, in certain circumstances, be different from those that address the interaction of the firm with individuals who are part of the network firm or non-network firm. Accordingly, the firm will likely have different policies or procedures for determining matters such as the independence of individuals who are part of the firm, network firm or non-network firm. For example, while a firm may establish an information system for monitoring independence of its personnel, engagement team members who are not part of the firm or its network would not report their independence on that system. In that circumstance, the firm’s policies or procedures may specify a different process that the engagement partner is required to follow to determine the independence of such individuals.

- Proposed revisions to ISA 600 (see Agenda Item 2) are based on the engagement partner’s compliance with proposed ISA 220 (Revised) as well as the special considerations in ISA 600.

58. The Task Force therefore proposes simplifying the definition of an engagement team and including the following new application material supporting the definition:

- Paragraph A16A – explains the meaning of “audit procedures” to supplement the reference to ISA 500 in the definition.

- Paragraph A16B – clarifies that the definition includes “other auditors” who perform audit procedures. The Task Force is also considering providing further guidance on audit delivery models through implementation guidance to address other auditors that are not component auditors.

- Paragraph A17A – clarifies that an individual with expertise is not a member of the engagement team if that individual’s involvement with the engagement is limited to consultation.

59. The Task Force also proposes new guidance in paragraphs A32A–A32C that the firm’s policies or procedures regarding identifying and evaluating threats to the independence of members of the engagement team may require specific actions in relation to the independence of component auditors.

60. Ongoing coordination is planned with the ISA 600 Task Force so that issues related to the engagement team definition\footnote{See Appendix 1 for planned coordination activities on other matters} are appropriately addressed in proposed ISA 220 (Revised) and ISA 600, and with IESBA on independence and relevant ethical requirements in relation to the engagement team definition. (See also Appendix 1)
Matters for IAASB Consideration

6. Does the IAASB support the Task Force’s proposals:
   (a) In paragraphs 10(d) and A16–A19A of Agenda Item 9-B to clarify the definition of an engagement team?
   (b) In paragraphs A31–A40 to recognize the special implications of including non-network component auditors in the engagement team and the implications for the firm’s policies or procedures?

B. The Engagement Partner’s Role and Overall Responsibility for Managing Quality on an Audit Engagement (See NVivo reports 8-A.1 and 8-B.1 from the September 2019 agenda papers)

What We Heard

61. The Board continued to support the fundamental principle in paragraph 11 that the engagement partner is responsible for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement. The Board also asked that paragraph 12 of ED-220 be amended to clarify that it is the engagement partner’s sole responsibility to fulfill the requirement. Generally, the Board agreed with proposed changes to paragraph 13 and related application material permitting the engagement partner to be assisted by other engagement team members. However, the Task Force was asked to give further consideration to how to best articulate the balance required between the engagement partner’s overall responsibility and accountability and the need and ability to assign certain procedures, tasks or actions to other engagement team members to assist the engagement partner in fulfilling the requirements in ED-220 to address “upward scalability” of the requirements to audits of entities whose nature and circumstances are more complex.

62. It was suggested that the Task Force could develop a framework to articulate more clearly the requirements that are the sole responsibility of the engagement partner and those for which the engagement partner may receive assistance from other engagement team members. In determining whether changes were needed to certain requirements to achieve that balance, the Task Force was cautioned to not imply that assigning certain procedures, tasks or actions to other engagement team members may undermine the general principle of the engagement partner’s overall responsibility for quality.

Task Force Recommendations

63. In deciding which requirements should be for the engagement partner alone, the Task Force looked at extant ISA 220 as a benchmark maintain the robustness of extant ISA 220. The Task Force also considered how the requirements would be applied in audits of entities whose nature and circumstances are more complex as a test of the practicality of the engagement partner having sole responsibility for carrying out the requirements.

64. The Task Force agreed that where the engagement partner is required to “take responsibility”, the engagement partner is still required to comply with the requirement, but can assign the design and performance of procedures, tasks or actions to others in achieving the requirement. In Agenda Item 9-B, this is signaled by use of the phrase “the engagement partner shall take responsibility for…”
other cases, the engagement partner is required to perform the requirement themselves, which is signaled by the phrase “the engagement partner shall...”. However, even when the engagement partner is required to perform the requirement themselves, the engagement partner may need to obtain information from the firm or other members of the engagement team members to fulfill the requirement, and the proposals recognize this fact (see paragraph A29A of Agenda Item 9-B).

65. The Task Force has drafted new introductory and guidance material to make clear that the engagement partner needs to involve others in many audits, particularly those which are large or complex. This is introduced in new paragraph 7A and explained further under paragraphs A29A–A30A of Agenda Item 9-B. The Task Force also agreed that, in carrying out a requirement, information may need to be obtained from the engagement team to achieve the requirement.

Alternative Considered

66. The Task Force also discussed whether the approach of differentiating the requirements by the use of “shall” vs “shall take responsibility for” was clear enough, even with the new application material to support it. An alternative suggestion is to instead use the phrase “the engagement partner and other members of the engagement team assisting the engagement partner shall” would be used for requirements for which other engagement team members may design or perform procedures, tasks or other actions to assist the engagement partner in fulfilling the requirement. Appendix 3 illustrates how the affected requirements would appear if this option were chosen. There would also need to be changes to the application material in paragraphs A29A–A30A of Agenda Item 9-B. This alternative has the merit in that it highlights the involvement of other engagement team members in the requirement itself, without the need for application material to explain how and when other engagement team members may be used. It does, however, complicate the requirements until readers become accustomed to the longer term. The Task Force did not support shortening the phrase to “the engagement team shall” as that would undermine the robustness of those requirements as they are presented in extant ISA 220.

IAASB Input Sought

68. The Task Force considers that either of the proposed clarifications will also help resolve certain issues discussed in Section III.C related to direction, supervision and review and in Section III.E related to upward scalability. However, most Task Force members have a preference for the approach taken in Agenda Item 9-B.

Other Matters

69. The Task Force also proposes changing “be satisfied” to “determine” in paragraphs 20 and 33 and restructuring paragraph 36 of Agenda Item 9-B to clarify the engagement partner’s responsibilities for the performance of those requirements. Although the distinction between the two phrases was explained in the Explanatory Memorandum to ED-220, the Task Force agreed with respondents’ views that the difference is subtle, and considers the change will further strengthen the engagement partner’s responsibilities.

70. The definition of a group engagement partner in paragraph 9(h) of extant ISA 600 includes a reference to joint audits, and states that “When joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and group engagement team.” It further explains that ISA 600 does not deal with the
relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor. The ISA 600 Task Force and ISA 220 Task Force believe that these statements, amended as appropriate, are best located in proposed ISA 220, as joint audits can exist in both single entity audits and group audits. Accordingly, the ISA 220 Task Force proposes adding application material supporting the definition of the engagement partner (see paragraph A15A of Agenda Item 9-B).

Matter for IAASB Consideration

7. Does the IAASB prefer the approach to addressing scalability for audits of entities whose nature and circumstances are more complex as described in paragraphs 64–65 above and Agenda Item 9-B or the alternative described in paragraphs 66–67 above and in Appendix 3?

C. Direction, Supervision and Review (See NVivo reports 8-A.4 and 8-B.4 from the September 2019 agenda papers)

What We Heard

71. As mentioned in Section III.B above, it was noted at the September 2019 IAASB meeting that it was necessary to consider how to address respondents’ concerns that ED-220 may not be practical for audits of entities whose nature and circumstances are more complex, as one individual may struggle to perform all the requirements. The Task Force was asked to address this also in the direction, supervision and review section and also to:

- Clarify the nature, timing and extent of the direction, supervision and review of the audits of entities whose nature and circumstances are more complex, including differences between what is required for individuals from the firm’s network and those from outside.
- Clarify that areas of the audit requiring increased professional judgment also require greater involvement by the engagement partner in direction, supervision and review.
- Clarify whether the engagement partner in a group audit is responsible to review communications at the statutory audit level as part of fulfilling the requirement in paragraph 27 of ED-220.

Task Force Recommendations

72. The following changes are proposed to address practical issues related to direction, supervision and review of component auditors:

- New paragraph A32A clarifies that the firm may have different requirements for different members of the engagement team.
- New paragraph A32B provides examples of where firm policies or procedures may differ.
- New paragraph A32C deals with communication of relevant aspects of the firm’s policies or procedures to component auditors.

73. In addition, certain of the requirements for engagement performance related to direction, supervision and review have been changed as a result of the Task Force’s proposals to clarify which procedures, tasks or actions may be assigned to other members of the engagement team, as described in
Section III.B. In addition to minor amendments, the Task Force is also proposing amending the order of the requirements to improve the flow.

Matter for IAASB Consideration

8. Does the IAASB agree with the Task Force’s proposals to address the Board’s comments highlighted in paragraphs 72–73 related to direction, supervision and review?

D. Depending on the Firm’s System of Quality Management (See NVivo reports 8-A.5 and 8-B.5 from the September 2019 agenda papers)

What We Heard

74. At the September 2019 IAASB meeting, the IAASB agreed with respondents who asked for clarity on what the engagement partner needs to do to depend on the firm’s system of quality management. The Board also cautioned that it would not be appropriate to use language that could imply that the engagement partner has a choice in following the firm’s policies or procedures.

Task Force Recommendations

75. The Task Force proposes amending paragraph A10A to clarify that ordinarily, the engagement partner may depend on the firm’s system of quality management, except when the engagement partner’s understanding or experience indicates that the firm’s policies or procedures would not be effective or when information provided by the firm or others indicates that the firms’ policies or procedures are not operating effectively.

76. In addition, the Task Force has amended and reorganized the material in paragraphs A10A and A11 of Agenda Item 9-B to improve the sequence in which such matters are considered by the engagement partner.

E. Scalability (See NVivo reports 8-A.3 and 8-B.3 from the September 2019 agenda papers)

What We Heard

77. The Board was generally supportive of the proposals to address scalability for audits of less complex entities (LCEs), such as issuing the appendix in the explanatory memorandum to ED-220 that highlights how the proposed ISA is scalable as implementation guidance and retaining the application material on “Considerations Specific to Smaller Firms.”

78. As discussed in Section III.B, the Board recommended that more consideration is needed to address the ability of the engagement partner to assign the design or performance of certain procedures, tasks or actions to achieve scalability for audits of entities whose nature and circumstances are more complex, as the totality of the requirements may not be achievable by the engagement partner alone in audits of entities whose nature and circumstances are more complex.

79. It was also suggested that the Task Force consider providing implementation guidance, such as examples for audits of LCEs and audits of entities whose nature and circumstances are more complex.
Task Force Recommendations

80. As discussed in Section III.B, the Task Force proposes clarifications to certain requirements to improve scalability for large and complex audits.

81. The Task Force also proposes to further consider examples, either as application material within proposed ISA 220 (Revised) or as implementation guidance, to illustrate how the requirements could be fulfilled in audits of both LCEs and of entities whose nature and circumstances are more complex.

Matters for IAASB Consideration

9. Does the IAASB support the Task Force’s proposals:

(a) In paragraph 10A of Agenda Item 9-B to highlight that, ordinarily, the engagement partner may depend on the firm’s policies or procedures?

(b) To address scalability throughout the ISA and, particularly, whether more needs to be done in this respect?

Section IV. Additional Feedback on the Proposed ISA 220 (Revised)

82. As noted in paragraph 2 of this paper, the Task Force plans to use any time that may be available after covering the matters in questions 1-9 above to obtain IAASB feedback on the draft of proposed ISA 220 in Agenda Item 9-B. Respondents’ comments on the matters raised on ED-220 have been summarized in the September 2019 meeting papers, in this paper and in Agenda Item 9-C.1–9.C.3 and Agenda Item 9-D.1–9-D.6.

Matter for IAASB Consideration

10. The IAASB is asked whether there are issues raised by respondents, in addition to those summarized in the September and December meeting papers, that the Task Force should bring to the Board’s attention.

Section V. Way Forward

83. The Task Force is working toward a final draft for the Board’s review at the March 2020 IAASB meeting. At this moment, it is the Task Force’s goal that proposed ISA 220 (Revised) can be largely settled at the March 2020 IAASB meeting, with only coordination matters to be addressed at the June 2020 IAASB meeting.
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 Third Quarter of 2019

3. In the third quarter of 2019, the ISA 220 Task Force met once in person and held two teleconferences to further 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 – ISQM 1, ISQM 2 Task Force and ISA 600 Task Force

4. In the fourth quarter of 2019, the Chairs of the QM Task Forces and staff held one teleconference and plans another. Further coordination has also been facilitated through staff liaison on specific matters, including that ISA 600 staff participated, via teleconference during the ISA 220 Task Force’s discussion of the engagement team definition at its meeting on October 28, 2019. Further coordination will be needed to achieve consistent wording across the standards.

IESBA

Engagement Team Definition

5. On the engagement team definition, given the significance of this issue in progressing both the ISA 220 and the ISA 600 projects, the ISA 600 Task Force Chair and staff participated in coordination matters with IESBA.

6. The following meetings were held in the fourth quarter of 2019:
   - October 16 – meeting between IAASB and IESBA staff
   - October 24 – meeting (via teleconference) between the ISA 220 and ISA 600 Task Force Chairs, IESBA representatives, IAASB staff and IESBA staff
   - November 7 – meeting between the Chair of the ISA 600 Task Force IESBA representatives and IAASB staff.

7. The ISA 220 Task Force also shared updated drafts of the proposed wording related to the engagement team definition with IESBA representatives and staff. The IESBA staff provided comments on the material
developed by the ISA 220 Task Force, which the Task Force considered in developing this paper and Agenda Item 9-B.

8. Further coordination on these matters is planned to be undertaken in the first quarter of 2020 as needed to finalize the exposure draft of ISA 600 and proposed ISA 220 (Revised) and to provide input to the planned IESBA project to consider changes to the IESBA Code\textsuperscript{17} to address the independence of component auditors in their role as members of a group engagement team.

IESBA Role and Mindset Project

9. Comments on the IESBA project on role and mindset\textsuperscript{18} ED were due October 31, 2019. The IESBA staff is analyzing the comments and plans to present them for discussion at the March 2020 IESBA meeting. Further coordination on these matters is planned to be undertaken in the first quarter of 2020.

\textsuperscript{17} IESBA’s Handbook of the International Code of Ethics for Professional Accountants (including International Independence Requirements)

\textsuperscript{18} See https://www.ethicsboard.org/publications-resources/exposure-draft-proposed-revisions-code-promote-role-and-mindset for more information
Appendix 2

Extract of the Draft Minutes of the September 2019 IAASB Meeting

8. Quality Control at the Engagement Level – Proposed ISA 220 (Revised)

Mrs. Provost provided a high-level overview of the ISA 220 Task Force’s initial analysis of the comment letters in response to the ED of proposed ISA 220 (Revised) (ED–220). She also highlighted the interrelated key issues the ISA 220 Task Force identified.

Engagement Partner’s Responsibility for Audit Quality

The Board supported the principle that the engagement partner has overall responsibility for managing and achieving quality on, and for being sufficiently involved in, the engagement. Members generally supported the proposed wording changes to clarify paragraph 13 and related application material. In addition to minor comments, members asked the Task Force to consider aligning the wording referring to procedures, tasks or actions the engagement partner must fulfill with the definition of “the auditor” in paragraph 13(d) of ISA 200.

Members cautioned that allowing the assignment of certain procedures, tasks or actions to other engagement team members may be perceived as weakening the general principle of the engagement partner’s overall responsibility for quality. Accordingly, the Task Force was asked to reconsider whether the suggested treatment of such requirements in Appendix 6 of Agenda Item 8 was appropriate in all cases.

Mrs. Provost noted that the Task Force would consider how to address concerns that it was not practical for one person to personally perform all procedures, tasks or actions on audits of entities whose nature and circumstances are more complex. She noted that, even in cases where the engagement partner must fulfill a requirement personally, information from others may be sought in doing so.

Engagement Team Definition

Mrs. Provost highlighted respondents’ comments on the engagement team definition and noted the Monitoring Group members’ comments supporting the revised definition in ED-220. She also highlighted that the definition is critical to not only this standard, but also to the ISA 600 project and the IESBA.

The Board supported the proposal to retain the current definition in ED-220, including component auditors because the practical challenges respondents identified exist today and are dealt with in practice. Members noted the importance of clarifying, in the definition, that the engagement team includes component auditors.

The Board also highlighted the importance of coordination with the IESBA given that the definition is used by both Boards and would affect how IESBA’s independence requirements apply to component auditors, particularly those who are not from the auditor’s own network. It was also noted that Implementation Guidance would be needed to explain how the revised standard would work with extant ISA 600.

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19 These draft minutes are still subject to review and may therefore change.
20 Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements
21 ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
22 International Ethics Standards Board for Accountants
SCALABILITY

Members were generally supportive of the Task Force’s proposals to address scalability for audits of Less Complex Entities (LCEs). It was also suggested that the ISA 220 Task Force consider how each requirement is “upwardly scalable” for audits of larger, more complex entities, and providing examples for audits of both LCEs and larger, more complex entities. The Task Force was also asked to consider how the engagement partner could be informed by other members of the engagement team to make the judgments required by the standard.

OTHER MATTERS

Members asked the Task Force to consider the following matters:

- Whether paragraph 11 of ISA 300 is necessary as requiring planning of the nature, timing and extent of the direction, supervision and review of the engagement may become a checklist rather than drive improved behavior. Members suggested a consequential amendment to paragraph 12 of ISA 300 to require documentation of that planning.
- The need to clarify what the engagement partner needs to do to depend on the firm’s system of quality management.
- Support for clarifying that areas of the audit requiring increased professional judgment also require greater involvement by the engagement partner in directing, supervising and reviewing the work of engagement team members.
- The need to clarify whether the engagement partner in a group audit is responsible for reviewing communications at the statutory audit level as part of fulfilling the requirement in paragraph 20 of ED-220.
- Whether the direction, supervision and review requirements can be better tailored for large audits where the engagement may be supervised via a partner taking responsibility for an area.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin highlighted the importance of clarifying that the engagement partner is ultimately responsible for quality on the engagement and noted that, realistically, an engagement partner needs to be able to delegate certain work but must take responsibility for the work assigned. He also noted the CAG’s support for the engagement team definition including component auditors and that the CAG supported the Task Force thinking strategically about the issue. Mr. Dalkin also noted that the Task Force should continue to focus on keeping the standard principles-based to ensure that the standard does not become too long or complex.

WAY FORWARD

The ISA 220 Task Force will continue to analyze the comment letters and will present its proposals to respond to the comments received to the December 2019 IAASB meeting.

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23 ISA 300, Planning an Audit of Financial Statements
Appendix 3

Alternative Presentation of Requirements to Distinguish those that are the Sole Responsibility of the Engagement Partner

1. This Appendix presents an alternative way of distinguishing between the responsibilities for which the engagement partner has sole responsibility and those for which other engagement team members may design or perform procedures, tasks or actions to assist the engagement partner in fulfilling a requirement.

2. For those paragraphs where the engagement partner may be assisted by other members of the engagement team, the phrase “and other engagement team members assigned the design or performance of procedures, tasks or actions…” is included instead of “the engagement partner shall take responsibility for”

3. The paragraphs from Agenda Item 9-B that would be affected are shown in markup below (additions in underline and deletions in strike-through).

12. In creating the environment described in paragraph 11, the engagement partner, and others to whom supervisory roles are assigned members of the engagement team assisting the engagement partner, shall take clear, consistent and effective actions that reflect the firm’s commitment to quality and establish and communicate the expected behavior of engagement team members, including:

   (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;
   (c) 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
   (d) Emphasizing the importance of each engagement team member exercising professional skepticism throughout the audit engagement.

15. The engagement partner and members of the engagement team assisting 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:

   (a) Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence;
   (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
   (c) Their responsibilities when they become aware of an instance of actual or suspected non-compliance with laws and regulations.

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 of the audit engagement have not been fulfilled, the engagement
partner and members of the engagement team assisting the engagement partner, in consultation with others in the firm, shall take appropriate action.

19. Prior to dating the auditor’s report, the engagement partner and members of the engagement team assisting the engagement partner shall determine whether relevant ethical requirements, including those related to independence, have been fulfilled.

20. The engagement partner and members of the engagement team assisting 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.

21. The engagement partner and members of the engagement team assisting 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.

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 and members of the engagement team assisting the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

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 and members of the engagement team assisting 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.

26. The engagement partner and members of the engagement team assisting 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.

27. The engagement partner and members of the engagement team assisting the engagement partner shall take responsibility for the direction and supervision of the other members of the engagement team and the review of their work and shall determine that such direction, supervision and review is:

(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 team by the firm; and

(c) Planned and performed on the basis that the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.
32. The engagement partner and members of the engagement team assisting the engagement partner shall:

   (a) Determine that the engagement team has undertaken consultation on:

      (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 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.

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 partner and other members of the engagement team assisting the engagement partner shall follow the firm’s policies or procedures for dealing with and resolving them.

35. The engagement partner and members of the engagement team assisting the engagement partner shall:

   (a) Determine that differences of opinion have been 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.

36. The engagement partner and members of the engagement team assisting the engagement partner shall:

   (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.