

### Proposed ISA 220 (Revised) – Issues and Recommendations

#### Objective of the IAASB Discussion

The objective of this Agenda Item is to obtain the Board's views on the recommendations of the ISA 220 Task Force (the 'Task Force') for the proposed revisions to ISA 220 as presented in **Agenda Item 2-C**.

## Introduction

### Organization of this Agenda Item

1. This Agenda Item is organized as follows:

- Section I describes the more significant proposed revisions;
- Section II sets out due process considerations; and
- Section III sets out the Task Force's views on the way forward.

**Appendix 1** summarizes recent Task Force activities, including outreach.

**Appendix 2** is an extract of the draft minutes of the December 2019 IAASB meeting.

2. The following materials are also provided for this Agenda Item:

**Agenda Item 2-A**      Discussion of Other Changes to Requirements and Application Material

**Agenda Item 2-B**      Draft of Proposed ISA 220 (Revised) – Clean

**Agenda Item 2-C**      Draft of Proposed ISA 220 (Revised) – Marked from December 2019

**Agenda Item 2-D**      Illustrative Example – Applying Proposed ISA 220 (Revised) in Larger or More Complex Audits

### Approach for the Discussion of the Agenda Items

3. At the September 2019 IAASB meeting, the Task Force Chair presented the key issues respondents raised to the February 2019 Exposure Draft (ED) of proposed ISA 220 (Revised) (ED-220).<sup>1</sup> At the December 2019 IAASB meeting, the Task Force Chair presented the remaining issues raised by respondents to the ED.
4. The Task Force and the IAASB have considered all the responses to ED-220 and the comments from Board Members, as well as Board Members' offline written comments, coordination with other IAASB Task Forces and with IESBA<sup>2</sup> representatives, and outreach activities.
5. The Task Force Chair will present the Agenda Items in the following order:
  - The revisions to the proposed standard, using **Agenda Item 2-C** as the basis for discussion. In walking through the standard, the Task Force Chair will refer to the matters highlighted in

<sup>1</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>2</sup> International Ethics Standards Board for Accountants

Section I of this Agenda Item. The Task Force Chair will take comments on the requirements together with the related application material for each section.

- The Illustrative Example in **Agenda Item 2-D**.
6. The Task Force believes that the Board will benefit from focusing on the marked version (**Agenda Item 2-C**) due to the limited extent of changes made since the December 2019 IAASB meeting.

#### *Status of Proposed ISA 220 (Revised) and Intended Q2 Activities*

7. The Task Force intends to update the document during the March 2020 Board meeting week for Board Members' comments. It is proposed that the document as presented on Friday, amended as appropriate for any final comments, be treated as the final text except for:
- Changes to align with changes made to ISQM 1, ISQM 2 and ISA 600; and
  - Any final coordination matters with IESBA representatives.

As such, Members will be asked to indicate their support for the text of proposed ISA 220 (Revised) at the end of the March 2020 IAASB meeting, with the understanding that only limited changes may be needed as described in the bullet points above.

8. **Agenda Item 2-A** is provided for information purposes. It sets forth the Task Force's rationale for the minor changes from the draft presented to the Board in December 2019 to address Board Members' comments. It also includes a brief summary of Members' comments that were not accepted, and the Task Force's rationale therefor.

## **I Proposed Revisions**

### **A Engagement Partner Responsibilities**

9. As previously discussed with the Board, certain respondents to the ED raised concerns that it would not be possible for the engagement partner alone to fulfill each of the requirements in proposed ISA 220 (Revised).<sup>3</sup> In the December 2019 IAASB agenda material, the Task Force sought to distinguish the requirements that are the sole responsibility of the engagement partner and those for which the engagement partner is permitted to assign the design or performance of procedures, tasks or actions to another individual.
10. In response to the Board's requests for clarification at the December 2019 meeting and offline comments, the Task Force proposes moving paragraph A29A to the Introduction to give it more prominence. In addition, the Task Force rationalized and clarified the wording in paragraphs 8 and 9 of **Agenda Item 2-C** as follows:
- Requirements that are the engagement partner's sole responsibility are worded, "the engagement partner shall [verb]." For example, the requirement in paragraph 16, which is the engagement partner's sole responsibility, states, "*The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable...*"
  - Requirements for which the engagement partner is permitted to assign the design or performance of procedures, tasks, or actions to appropriately skilled or suitably experienced members of the engagement team are worded, "The engagement partner shall take

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<sup>3</sup> See also Section I.D below.

responsibility for [verb].” For example, the requirement in paragraph 17, states, “*The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable...*”

11. In addition, the Task Force also discussed how paragraph 15 of ED-220 would operate in a large engagement team with layers of direction, supervision and review. The Task Force believes that the amendments made to paragraph 15 clarify that, while the engagement partner needs to continue to take overall responsibility, this is accomplished through direction, supervision and review of those members of the engagement team to which the engagement partner assigned work. That is, the engagement partner is not required to perform all the direction, supervision and review of all members of the engagement team, but still has overall responsibility for direction, supervision and review.

#### **Matter for IAASB Consideration**

1. The IAASB is asked for its views on whether the new placement of the material and clarification is sufficient to resolve any perceived uncertainty over the extent of the role of the engagement partner.

#### **B Engagement Team Definition**

12. At the December 2019 IAASB meeting, the Task Force presented proposed revisions to the definition, including new application material showing how the requirements of proposed ISA 220 (Revised) would be fulfilled when the engagement team includes individuals who are not from the firm (i.e., from a network firm or another firm). The application material, previously included in the “relevant ethical requirements” section (paragraphs A32A–A32C of [Agenda Item 9-A](#) of the December 2019 IAASB meeting), has been further clarified and moved to paragraphs A23–A25 of **Agenda Item 2-C** in response to Board Members’ comments.
13. In addition to an editorial change to the definition itself, the Task Force has expanded paragraph A17 to incorporate the important connection between audit evidence and audit procedures. The Task Force considered whether further explanation was possible of what comprises audit procedures, but concluded that this was outside the scope of the project to revise ISA 220.
14. In response to a Board Member’s comment, the Task Force has also amended paragraph A23 of **Agenda Item 2-C** to clarify that the firm’s personnel are responsible for implementation of the firm’s policies or procedures. Paragraph A23 highlights that if the engagement team includes individuals who are from a network firm or another firm, the firm’s policies or procedures may be different, or different actions may need to be taken by members of the engagement team to implement the firm’s policies or procedures relevant to the engagement (e.g., obtaining an understanding of the individual’s competence and capabilities, including sufficient time, and whether the individual will comply with relevant ethical requirements, including independence).
15. The material related to the engagement team definition in paragraphs 12(d) and A16–A25 of **Agenda Item 2-C** reflects comments received from IESBA representatives. In brief, IESBA representatives noted that the IESBA Code<sup>4</sup> does not use the term “actual or suspected breaches”. Accordingly, the Task Force has simplified the term by removing the reference to “actual or suspected” as the IESBA Code only refers to identified breaches.

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<sup>4</sup> *International Code of Ethics for Professional Accountants (including International Independence Standards)*

**Matter for IAASB Consideration**

2. The IAASB is asked for its views on paragraphs 12(d) and A16–A25 of **Agenda Item 2-C**.

**C Linkages with Other Standards Currently being Revised**

*Proposed ISA 600 (Revised)*

16. Given the close relationship between proposed ISA 220 (Revised) and proposed ISA 600 (Revised), the Task Force notes the importance of proper linkages between the standards (i.e., that the requirements and guidance in proposed ISA 600 (Revised) build on, and are consistent with, the foundational principles and requirements in proposed ISA 220 (Revised)).
17. In addition to the engagement team definition and related application material to address the inclusion of component auditors (i.e., paragraphs A18 and A23–A25), proposed ISA 220 (Revised) includes other references to group audits (i.e., paragraph A1, which establishes the initial link to ISA 600, and paragraphs A54, A55, and A88). The Task Force believes that these additional references to proposed ISA 600 (Revised), together with appropriate implementation material, are sufficient to show how proposed ISA 220 (Revised) and draft proposed ISA 600 (Revised) work together.

*Proposed ISQM 1<sup>5</sup>*

18. Paragraph 3 of **Agenda Item 2-C** notes that proposed ISA 220 (Revised) presumes that the firm is subject to the ISQMs or to national requirements that are at least as demanding as proposed ISQM 1. The Task Force has added new supporting application material to clarify that this means that the national standards need to address the requirements of ISQM 1 and impose an obligation to achieve the objective of proposed ISQM 1.
19. In addition, proposed ISA 220 (Revised) contains various references to the quality objectives and other material in proposed ISQM 1. The ISA 220 Task Force will continue to coordinate with the ISQM 1 Task Force to determine whether any changes will be needed to these references.

*IESBA “Role and Mindset” Project*

20. In July 2019, the IESBA issued an ED<sup>6</sup> that aims to ensure that the IESBA Code promotes the role, mindset, and behavioral characteristics expected of all professional accountants when performing their professional activities. Similar to ED-220, the IESBA ED included a list of common forms of bias.
21. The Task Force has compared the two lists of biases and noted that, while most of the examples of bias are consistent, there were minor wording differences in some, and the IESBA ED contained additional types of bias. Of these additional biases, the Task Force has added “automation bias” to the examples of bias in paragraph A36, as it is relevant to the objectives of revising ISA 220—to emphasize the importance of the exercise of professional skepticism to audit quality and to modernize ISA 220 for an evolving environment, including the use of technology. The Task Force did not add the other biases in the IESBA ED (“groupthink”, “representation bias” and “selective perception”) as they were not seen to be as generally applicable to audits as the other biases.

<sup>5</sup> 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*

<sup>6</sup> ED, *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*

22. The Task Force has made also some changes to the wording of the examples of bias in paragraph A36 to align with the IESBA wording.

**Matter for IAASB Consideration**

3. The IAASB is asked for its comments on how proposed ISA 220 (Revised) has addressed linkages with proposed ISA 600 (Revised) and proposed ISQM 1.
4. The IAASB is asked whether it agrees with proposed changes to the list of biases in paragraph A36 of **Agenda Item 2-C**.

**D Scalability**

*Audits of Less Complex Entities (LCE)*

23. Respondents to ED-220 generally agreed that the ED was appropriately scalable to audits of LCEs, but they questioned its application to larger or more complex audits (“upward scalability”).
24. Given the support for the scalability of standard for audits of LCEs, the Task Force has retained the heading preceding paragraph A14, as some respondents supported the clear signposting. In making this decision, the Task Force considered the approach of using boxes to denote examples but concluded that the high number of examples and the placement of the examples (e.g., in the middle of paragraphs) risks breaking the flow of the standard. In addition, there is specific material directed at audits of LCEs in paragraphs 8, A29, and A71 of **Agenda Item 2-C**.
25. To address concerns with upward scalability the Task Force has:
- Clarified engagement partner responsibilities for fulfilling the requirements (see Section I.A).
  - Developed an illustrative example (see Section I.E) to show how the requirements in proposed ISA 220 (Revised) could be applied in larger or more complex audits.

*Audits of Larger or More Complex Entities*

26. At the December 2019 IAASB meeting, the Task Force was asked to consider developing an example to demonstrate how the proposed ISA 220 (Revised) could be applied in a larger or more complex engagement. The Task Force agreed and has developed an illustrative example in **Agenda Item 2-D**.
27. In light of this, the Task Force discussed what features of a complex audit should be included. The Task Force considered making the example encompass a group audit, but concluded that such an example may be confusing. This is because the examples would need to be based on either extant ISA 600 or proposed ISA 600 (Revised) and would end up primarily as an illustration of the supplemental requirements in ISA 600. Accordingly, to keep the focus of the example on the requirements of proposed ISA 220 (Revised), the Task Force concluded that the application of the requirements in more complex engagements could be illustrated using an engagement team comprising:
- Firm personnel, including internal experts;
  - Individuals from a network firm;
  - Individuals from outside the network; and

- Use of an audit delivery model.

The example in **Agenda Item 2-D** describes how an engagement partner would fulfill the requirements for the various types of engagement team members.

#### **Matter for IAASB Consideration**

5. The IAASB is asked for its views on whether scalability is appropriately addressed in proposed ISA 220 (Revised).
6. The IAASB is asked for its views on the proposed illustrative example in **Agenda Item 2-D**.

## **II Due Process Considerations**

28. In the Task Force's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its conclusions and recommendations thereon, have been reflected in the agenda material presented to the IAASB at its meetings. In the Task Force's view, there are no significant matters discussed in the course of this project that have not been brought to the IAASB's attention.
29. The Task Force believes, therefore, that the draft standard presented in **Agenda Item 2-C** reflects all significant matters raised in the course of the project and that the only changes expected to be made in finalizing the proposed ISA 220 (Revised) for approval at the June 2020 IAASB meeting will be those arising from the Board discussion at this meeting and coordination with the ISQM 1, ISQM 2 and ISA 600 Task Forces and IESBA representatives on the matters identified in Section III below.

## **III Way Forward**

30. The Task Force is working towards the approval of ISA 220 (Revised) as planned at the June 2020 IAASB meeting.
31. After the March 2020 IAASB meeting, the Task Force will focus on:
  - Updating the draft ISA 220 (Revised) for comments from the Board discussion at this meeting and coordination with the ISQM 1, ISQM 2 and ISA 600 Task Forces and IESBA representatives.
  - Addressing comments received from the Board at this meeting on the draft illustrative example in **Agenda Item 2-D**.

### **Task Force Activities Including Outreach and Coordination**

1. The following sets out the activities of the Task Force, including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the ISA 220 project since December 2019.

#### **Task Force Members**

2. The ISA 220 Task Force consists of the following members:
  - Lyn Provost, Task Force Chair
  - Josephine Jackson
  - Len Jui
  - Melissa Bonsall

#### **Task Force Activities since the last IAASB Discussions**

3. Since the December 2019 IAASB meeting, the Task Force has met once in person and held 2 teleconferences.

#### **Outreach**

4. Since the December 2019 IAASB meeting, the Chair of the Task Force, individually or in conjunction with the other Quality Control projects, conducted outreach with the following groups:
  - International Organization of Securities Commissions;
  - International Federation of Accountants Small and Medium Practices Committee;
  - Global Public Policy Committee (in-person; including invitee from the International Forum of Independent Audit Regulators and Public Interest Oversight Board Observer); and
  - Presentation to CPA Australia.

Additionally, there have been various discussions related to proposed ISA 220 (Revised) in other outreach efforts conducted by the IAASB Chair, Deputy Chair, other Board Members, or staff. (See **Agenda Item 1**)

**Draft Minutes – December 2019 IAASB Meeting – Quality Management –  
Engagement Level (Proposed ISA 220 (Revised))<sup>7</sup>**

Mrs. Provost provided an overview of the remaining significant issues raised in comment letters in response to the ED of proposed ISA 220 (Revised) (ED-220). She also described the ISA 220 Task Force's proposals to address the IAASB's comments on the significant issues discussed at the September meeting.

**OBJECTIVE**

The IAASB agreed that the objective of proposed ISA 220 (Revised) presented in ED-220 was appropriate. However, the Board noted the importance of coordinating with the ISQM 1 Task Force on any changes it may propose to the objective of proposed ISQM 1.

**PROFESSIONAL SKEPTICISM**

The IAASB generally supported the ISA 220 Task Force's proposed amendments to ED-220 to address respondents' comments regarding professional skepticism. The Board asked the ISA 220 Task Force to consider aligning the list of biases in proposed ISA 220 (Revised) with the IESBA's Role and Mindset project. The ISA 220 Task Force was also asked to consider whether to include a reference to corroborative and contradictory evidence.

**MODERN AUDITING ENVIRONMENT**

The IAASB generally supported the ISA 220 Task Force's proposals to address respondents' comments on technology. It was suggested that additional clarification be provided regarding data handling and security.

**DEPENDING ON THE FIRM'S SYSTEM OF QUALITY MANAGEMENT**

The IAASB generally supported the amendments to ED-220 to clarify the ability to depend on a firm's system of quality management to address respondents' comments. However, the ISA 220 Task Force was asked to consider whether the proposed new reference to "ordinarily" in para. A10A creates an implied obligation.

**STAND-BACK PROVISION**

The IAASB generally supported the proposed amendments to ED-220 to clarify the stand-back provision. An IAASB member questioned whether it was possible for an engagement partner to critically assess their own performance (i.e., would an engagement partner ever conclude that he or she had not been sufficiently and appropriately involved in the audit). Mrs. Provost noted that the stand-back provision requires the engagement partner to reflect on their involvement and to take appropriate steps to remediate any deficiency.

**DOCUMENTATION**

The IAASB generally agreed with the ISA 220 Task Force's proposals to address respondents' comments on documentation. It was noted that it may be necessary to understand the scope of the planned

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<sup>7</sup> These draft minutes are still subject to IAASB review and approval and may therefore change.



implementation support material on documentation before concluding on the documentation material in proposed ISA 220.

#### ENGAGEMENT TEAM DEFINITION

Based on the IAASB's support at its September 2019 meeting for retaining the definition proposed in ED-220, Mrs. Provost highlighted the main features of the ISA 220 Task Force's proposed revised guidance regarding the inclusion of component auditors in the engagement team definition. She noted that the guidance was based on coordination with the ISA 600 Task Force and the IESBA since the September 2019 IAASB meeting.

The IAASB generally supported the proposed changes to clarify the engagement team definition, but suggested certain matters for the ISA 220 Task Force to further consider, including further clarifying that performing audit procedures does not include all individuals who provide information that is the subject of audit procedures and whether paragraphs A32A–A32C were appropriately positioned with relevant ethical requirements in proposed ISA 220 (Revised).

The IAASB highlighted the importance of continued coordination with the ISA 600 Task Force and the IESBA on matters related to the engagement team definition.

#### SCALABILITY

The IAASB generally agreed that scalability had been appropriately addressed both for LCEs and entities whose nature and circumstances are more complex. Board members suggested that the ISA 220 Task Force consider developing examples to illustrate upward scalability, particularly for paragraphs 23 and 24 related to engagement resources and paragraph 27A related to direction, supervision and review.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin supported reference to “perform audit procedures” in the engagement team definition. He suggested deleting the reference to individuals with expertise in information technology in paragraph A17A as such individuals are often members of the engagement team.

#### PIOB OBSERVER REMARKS

Prof. van Hulle suggested adding a reference to quality management in the public interest to the objective, as the public interest may require the auditor to do more than just applying standards, laws and regulations. Mrs. Provost noted that objectives of ISAs cannot be aspirational as the auditor is required to achieve the objectives of each ISA.

#### OTHER MATTERS

In addition to minor changes, the ISA 220 Task Force was asked to consider the format relating to examples used in ISA 315 (Revised 2019), to clearly highlight examples that illustrate scalability.

#### WAY FORWARD

The ISA 220 Task Force will present its proposals to respond to the Board's comments at the March 2020 IAASB meeting.