

Agenda Item 4-C

Discussion of Changes to the Requirements and Related Application Material

This paper presents the rationales for changes to the requirements and related application material in proposed ISA 220 (Revised)¹ since the April 1, 2020 and June 2020 IAASB meetings (as reflected in **Agenda Item 4-A**).

Reference	Changes and the Rationale for Those Changes
Introduction	
Scope of this ISA	
Paragraph 1	<p><i>Introduction</i></p> <ul style="list-style-type: none"> No change in requirements; <p><i>Application Material</i></p> <ul style="list-style-type: none"> Change to Application Material in paragraph A1 to clarify relationship with ISA 600²
The Firm's System of Quality Management and Role of Engagement Teams	
Paragraph 2	<p><i>Introduction</i></p> <ul style="list-style-type: none"> Change arising from the alignment of words and phrases across the three quality management standards <p><i>Application Material</i></p> <ul style="list-style-type: none"> Amended paragraph A2 for consistency with ISQM 1 terminology
Paragraph 4	<p><i>Introduction</i></p> <ul style="list-style-type: none"> Change arising from the alignment of words and phrases across the three quality management standards

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

² ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Reference	Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Amended paragraph A4 for consistency with proposed ISQM 1,³ paragraph 33(c) • Amended paragraph A5 for consistency with proposed ISQM 1, paragraph 49 and paragraph A19 • Relocated some material in paragraph A6 to paragraph A71 to remove redundancy; remaining material amended for consistency with proposed ISQM 1, paragraphs 33(a) and A90 • Amended wording in paragraph A10 to align with definition of “findings” in proposed ISQM 1 paragraph 16(h) • Amended wording in paragraph A11 to align with proposed ISQM 1 paragraph 16(u) • Simplified reference to assessed risks of material misstatement in paragraph A12 in response to offline comment • Clarified paragraph A13 that smaller firms’ responses may be designed by the engagement partner and may operate at the engagement level
Paragraph 5	<p><i>Requirements</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Deleted text in paragraph A12 that is inconsistent with how assessed risks of material misstatement is described in other ISAs
Paragraph 6	<p><i>Introduction</i></p> <ul style="list-style-type: none"> • See paragraphs 11–12 of Agenda Item 4-A
Paragraph 8	<p><i>Introduction</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards and in response to Board comments
Objective	
Paragraph 11	<p><i>Objective</i></p> <ul style="list-style-type: none"> • See paragraphs 11–12 of Agenda Item 4-A

³ 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*

Reference	Changes and the Rationale for Those Changes
Definitions	
Paragraph 12	<p><i>Definitions</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards <p><i>Application Material</i></p> <ul style="list-style-type: none"> • In paragraph A17, simplified reference to firm’s other than the engagement partner’s firm • Amended paragraph A18 for consistency with paragraph A5 and ISQM 1, paragraph A59 • Amended paragraph A19 for consistency with paragraph A6 of ISA 220 (Revised) • In paragraph A22, clarified how the firm’s policies or procedures apply to engagement team members from another firm • Amended paragraphs A23 and A24 for consistency with proposed ISQM 1 terminology • Deleted examples from paragraph A25 for consistency with proposed ISQM 1, paragraph A18
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on Audits	
Paragraph 14	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards <ul style="list-style-type: none"> ○ Added a reference to the public interest in new subparagraph (a), consistent with proposed ISQM 1, paragraph 28(a)(i) <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A27 with proposed ISQM 1, paragraph 28 • Amended paragraph A28 to align with proposed ISQM 1 terminology • Amended paragraph A31 to align with proposed ISQM 1 terminology
Relevant Ethical Requirements, Including Those Related to Independence	
Paragraph 16	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • No change in requirements

Reference	Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Minor editorials to paragraph A38 • Amended paragraph A39 to align with proposed ISQM 1 terminology, as well as minor editorials • Aligned paragraph A42 with proposed ISQM 1, paragraph 34(a) • Aligned paragraph A44 with proposed ISQM 1, paragraph 34(a) • Amended paragraph A45 to align with proposed ISQM 1 terminology
Acceptance and Continuance of Client Relationships and Audit Engagements	
Paragraph 22	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A48 with proposed ISQM 1, paragraph 30
Paragraph 23	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A50 with proposed ISQM 1, paragraph 30(a)(ii) • Minor editorial to paragraph A54 to align with Section 360, paragraph 22 of the IESBA Code⁴ • Deleted internal cross-references in paragraphs A55–A56
Paragraph 24	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards <ul style="list-style-type: none"> ○ Changed wording to align with proposed ISQM 1, paragraph 34(d)(i)
Engagement Resources	
Paragraph 25	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • See paragraph 10 of Agenda Item 4

⁴ International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

Reference	Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • In paragraph A59, in response to board comments, added an example of what may be a “different action” • Simplified reference to human resources in paragraph A61 • Amended paragraphs A62, A63, A65, A69 and A71 with proposed ISQM 1 terminology • Relocated material from paragraph A6 to paragraph A71 • Clarified reference in paragraph A71 to paragraph 26
Paragraph 27	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards <ul style="list-style-type: none"> ○ Changed wording to align with proposed ISQM 1, paragraph 32(d) <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A75 with proposed ISQM 1, paragraph 28(a) • Deleted reference in paragraph A76 to component management to address Board concerns that this would not ordinarily be done • Amended paragraph A77 to align with proposed ISQM 1 terminology
Engagement Performance	
<i>Direction, Supervision and Review</i>	
Paragraph 29	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards • Amended paragraph A80 to align with proposed ISQM 1 terminology
Paragraph 30	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A81 with proposed ISQM 1, paragraph 31(b)

Reference	Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> • In paragraph A82, deleted reference to more experienced engagement team members direction, supervision and review of less experienced engagement team members' work as it repeats paragraph A81 • Aligned paragraph A88 with proposed ISQM 1, paragraph A93 and with ISA 5005 • Amended paragraph A94 to align with proposed ISQM 1 terminology • In paragraph A95, changed reference to “complexity of the audit engagement” from “complexity of the entity” and other minor editorial changes in response to Board comments • Minor editorials to paragraph A96
Paragraph 31	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Amended paragraph A92 to align with paragraph 23
<i>Consultation</i>	
Paragraph 35	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Changes arising from the alignment of words and phrases across the three quality management standards <ul style="list-style-type: none"> ○ Changed wording in (a)(i) to align with proposed ISQM 1, paragraph 31(d) ○ Changed wording in (d) to align with proposed ISQM 1, paragraph 31(d) <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A99 with proposed ISQM 1, paragraph 31(d)
<i>Engagement Quality Review</i>	
Paragraph 36	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A103 with proposed ISQM 1, paragraph 34 • Aligned paragraphs A104 and A105 with proposed ISQM 2, paragraph A25 (including combining paragraph A104

⁵ ISA 500, *Audit Evidence*

Reference	Changes and the Rationale for Those Changes
	with former paragraph A101)
<i>Differences of Opinion</i>	
Paragraph 37	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards <ul style="list-style-type: none"> ○ Changed wording to align with proposed ISQM 1, paragraph 31(e) <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A107 with proposed ISQM 1, paragraph 31(e)
Monitoring and Remediation	
Paragraph 39(a)	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Change arising from the alignment of words and phrases across the three quality management standards <ul style="list-style-type: none"> ○ Changed wording to align with proposed ISQM 1, paragraph 51 <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A109 with proposed ISQM 1, paragraphs 46 and 47 • Amended paragraphs A110 and A111 to align with proposed ISQM 1 terminology

Reference	Changes and the Rationale for Those Changes
Taking Overall Responsibility for Managing and Achieving Quality	
Paragraph 40	<p><i>Requirements</i></p> <ul style="list-style-type: none"> • No change in requirements <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Aligned paragraph A113 with proposed ISQM 1, paragraph 31 • Minor editorial in paragraph A114 • Amended indicators in paragraph A115 for when the engagement partner may not have been sufficiently and appropriately involved in response to board comments • In paragraph A116, added as an action to take when the engagement partner’s involvement does not provide the basis for the engagement partner’s stand back, which is aligned with the proposed conforming amendments to ISA 300)
Documentation	
Paragraph 41(aa)	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Deleted a proposed additional documentation matter in response to Board comments <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Amended paragraph A118 to align with proposed ISQM 1 terminology