

Proposed ISA 220 (Revised):¹ Analysis of Due Process Related to Re-Exposure

Overview

1. If the Board votes to approve proposed ISA 220 (Revised), then a separate affirmative vote of the Board is required on whether the standard needs to be re-exposed. Based on the changes proposed in **Agenda Item 4-B**, and prior to any changes proposed at the September 2020 IAASB meeting, the ISA 220 Task Force (Task Force) is of the view that proposed ISA 220 (Revised) does not warrant re-exposure.
2. This paper sets out the Task Force's analysis of the provisions of the due process related to whether an approved standard needs to be re-exposed.

What Does the Due Process Require?

3. **Appendix A** to this paper includes relevant extracts from the IAASB's due process. The main consideration in the due process is "whether there has been substantial change to the exposed document such that re-exposure is necessary." The related working procedures, which support the due process, include three examples of situations that may constitute potential grounds for a decision to re-expose:
 - (a) Substantial change to a proposal arising from matters not aired in the exposure draft (ED) such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion;
 - (b) Substantial change arising from matters not previously deliberated by the IAASB; or
 - (c) Substantial change to the substance of a proposed international pronouncement.
4. The Task Force notes that there will almost always be changes to standards between an ED and the final standard to appropriately respond to comments received on exposure—this is true for proposed ISA 220 (Revised). In forming its view on re-exposure, the Task Force has considered the reasons for re-exposure set out above and focused on these in determining its views for the purpose of this paper.

Considerations Relevant to the Development of the Task Force's View on Re-Exposure

Key Elements Addressed in ED-220²

5. The explanatory memorandum included with ED-220 highlighted the key matters addressed in ED-220, including:
 - (a) Emphasizing the public interest matter;
 - (b) Making the engagement partner's overall responsibility for monitoring and achieving quality on the audit clearer;
 - (c) Strengthening requirements regarding relevant ethical requirements and the engagement partner's role in dealing with relevant ethical requirements;

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

² [Exposure Draft of Proposed ISA 220 \(Revised\), Quality Management for an Audit of Financial Statements](#) (ED-220)

- (d) Emphasizing the important of sufficient time and resources being available to the engagement team.

Responses to ED-220 and Consideration of Nature and Extent of Changes since ED-220

6. In general, there was strong support across all stakeholder groups and across all jurisdictions for the new quality management approach (QMA) as it applies to individual audit engagements and with how ED-220 enhances audit quality. In particular, there was strong support for professional skepticism; documentation; and scalability for audits of less complex entities (LCEs). Respondents also supported the way in which ED-220 clarified the role of the engagement partner and the engagement partner’s overall responsibility for managing and achieving audit quality, how ED-220 dealt with the modern audit environment, and the clarification of the engagement partner’s responsibilities for the direction and supervision of all engagement team members and the review of their work.
7. While the overall tone of the comment letters was positive, there were some areas of concern. The changes made in response to those concerns are outlined below, and **Agenda Item 4-E** compares, in a tabular form, the requirements in ED-220 with those in the final draft of proposed IS 220 (Revised), as presented in **Agenda Item 4-A**.

Significant Matters from Comment Letters	IAASB/Task Force Response
<p>The engagement partner’s role and overall responsibility for managing quality on an audit engagement</p> <p>Scalability for larger, more complex audits, including direction, supervision and review</p>	<ul style="list-style-type: none"> • Clarified the requirement dealing with the engagement partner’s assignment of procedures, tasks and actions to other members of the engagement team • Clarified when 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, and when a requirement or responsibility is to be fulfilled by the engagement partner, including when information may be obtained from the firm or other members of the engagement team • Added application material to explain how the firm’s policies or procedures may be applied when the engagement team contains members from another firm • Added a conforming amendment to ISA 300³ to require the planning process to include the planned level of direction, supervision and review

³ ISA 300, *Planning an Audit of Financial Statements*

The “Engagement team” definition	<ul style="list-style-type: none"> In coordination with IESBA,⁴ clarified the meaning of the definition, including making clear that component auditors from a non-network firm are members of the engagement team
Dependence on the Firm’s Policies or Procedures	<ul style="list-style-type: none"> Clarified when the engagement team may depend on the firm’s policies or procedures in complying with the requirements of this ISA.
Relationships with ISQM 1 and ISA 600	<ul style="list-style-type: none"> Improved linkages through the application material to ISQM 1, including greater alignment of material, and ISA 600 (see, for example paragraphs A1, A3–A5, A24, A39 of Agenda Item 4-B).

8. The Task Force also made changes to align:

- With changes made in proposed ISQM 1 and proposed ISQM 2.
- The ED-220 material on professional skepticism and bias with the International Ethics Standards Board for Accountants (IESBA) ED to revise the IESBA Code,⁵ [Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#) (“role and mindset”).

Task Force Views on Whether the Changes Necessitate Re-Exposure

9. The Task Force considered the major changes in the relevant requirements since ED (as shown in the tabular comparisons in **Agenda Item 4-E**) and noted that:

- There are no substantial changes to the key elements of the project. All the key elements presented in ED-220 have been retained. Some of these elements have been modified and clarified in response to comments received on exposure or to coordinate, as required, with the other quality management ⁶ projects or with IESBA (i.e., on matters related to the engagement team definition⁷). These changes have not altered the key elements of the proposed ISA, nor have they resulted in a departure from the project objectives.
- No new concepts have been introduced.
- The changes to the text post-exposure are in response to feedback from respondents to the ED and to address alignment issues with the other quality management projects, and do not fundamentally or substantively change the proposals in the ED.

⁴ International Ethics Standards Board for Accountants (IESBA)

⁵ IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

⁶ The other two QM projects are 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* and ISQM 2, *Engagement Quality Reviews*

⁷ IESBA’s [Engagement Team – Group Audits Independence](#) project

10. Further, the Task Force is of the view that re-exposing proposed ISA 220 (Revised) will not result in new information or concerns that have not been aired already through the comment letters on ED-220 or the subsequent outreach and consultation activities as presented in **Appendix B** to this paper.
11. On the basis of the above, the Task Force considers that re-exposure is not necessary. All of the members of the Task Force are in agreement with this conclusion.

Appendix A

Relevant Extracts from the IAASB's Due Process

The matter of re-exposure is addressed in the IAASB's [Due Process and Working Procedures](#), paragraphs 23 and A40-A42.

23. After approving the final revised content of an exposed international pronouncement, the PIAC⁸ votes on whether there has been substantial change to the exposed document such that re-exposure is necessary. An affirmative vote in accordance with the PIAC's terms of reference that re-exposure is necessary is required to issue a re-exposure draft. The basis of the PIAC's decisions with respect to re-exposure is recorded in the minutes of the PIAC meeting at which the related project is discussed. (Ref: Para. A40-A42)

...

Re-Exposure (Ref: Para. 23)

- A40. When an exposure draft has been subject to many changes, a summary comparative analysis is presented to the PIAC. This analysis shows, to the extent practicable, the differences between the exposure draft and the proposed final international pronouncement.
- A41. The senior staff member of the PIAC, in consultation with the Chair of the PIAC and chair of the Project Task Force, advises the PIAC on whether a draft international pronouncement, or part thereof, needs to be re-exposed.
- A42. Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement.

⁸ Public Interest Activity Committee, i.e., the IAASB.

Appendix B

Outreach and Consultation Activities After Closure of Comment Period on ED-220

In addition to regular updates to the IAASB's Consultative Advisory Group (September 2019, March 2020 and September 2020), the following outreach was undertaken after the closure of the comment period on ED-220 (i.e., since July 1, 2019):

Q3 of 2019:

- Presentation at the DFK International and Asia Pacific Annual Conference
- Presentation at the South African Institute of Professional Accountants'
- Presentation to the Basel Committee on Banking Supervision's Audit Subgroup Members
- Meeting with U.S. Public Company Accounting Oversight Board Representatives
- Meeting with Center for Audit Quality Representatives
- Meeting with U.S. Securities and Exchange Commission Representatives
- Meeting with the International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure
- Presentation at Crowe's Americas Regional Conference
- Presentation at the Quarterly Accountancy Europe Audit and Assurance Policy Group Meeting

Q4 of 2019

- Meeting with the U.S. Auditing Standards Coordinating Forum at the Government Accountability Office
- Presentation at the Small and Medium Practices Committee Meeting
- Presentation at the Russell Bedford International Annual Global Conference
- Participation at the Hong Kong Institute of Certified Public Accountants' Annual Auditing Update Conference
- Presentation at the PFK Conference
- Presentation at the Committee of European Auditing Oversight Bodies' SSG ISG Meeting
- Meeting with Shanghai Securities Regulatory Bureau and Shanghai Stock Exchange Representatives
- Meeting with China Securities Regulatory Commission Representatives
- Observer at the China Securities Regulatory Commission Meeting
- Panel Participation at the U.S. Public Company Accounting Oversight Board Annual International Institute on Audit Regulation Conference
- Meeting with Chinese Institute of Certified Public Accountants Representatives

Q1 of 2020

- Meeting with Chinese Institute of Certified Public Accountants Representatives
- Presentation to Malaysian Members of CPA Australia
- Meeting with Chinese Ministry of Finance Representatives
- Presentation at the International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure Meeting

- Meeting with the Committee In-charge of Responding to the IAASB's Exposure Drafts at the Compagnie Nationale des Commissaires Aux Comptes
- Presentation to Small and Medium Practices Committee Representatives
- Presentation for Forum of Firms and Global Public Policy Committee Representatives

Q2 of 2020

- Meeting with National Auditing Standards Setters
- Meeting with Global Public Policy Committee Representatives
- Meeting with Representatives from Crowe Global – Americas Region
- Meeting with KPMG's Global Audit Leadership
- Meeting with International Forum of Independent Audit Regulators' Standards Coordination Working Group and Global Audit Quality Working Group Representatives