

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

Objective of the IAASB Discussion

The objective of this Agenda Item is to approve ISA 220 (Revised) presented in **Agenda Item 4-A**.

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, including the Task Force's recommendations for Approval of ISA 220 (Revised);
 - **Section III** describes next steps;
 - **Appendix 1** summarizes recent Task Force activities, including outreach; and
 - **Appendix 2** is an extract of the draft minutes of the June 2019 IAASB meeting.
2. The following materials are also provided for this Agenda Item:
 - Agenda Item 4-A** Draft of Proposed ISA 220 (Revised) – Clean
 - Agenda Item 4-B** Draft of Proposed ISA 220 (Revised) – Marked from April 1, 2020 and June 2020
 - Agenda Item 4-C** Summary of Changes from April 1, 2020 and June 2020
 - Agenda Item 4-D** Analysis of Due Process Related to Re-Exposure
 - Agenda Item 4-E** Comparison from ED to Final (Requirements)

Activities to Finalize Proposed ISA 220 (Revised)

3. At the [March 2020](#) and [April 1, 2020](#) IAASB videoconference meetings, the ISA 220 Task Force Chair presented revised drafts of proposed ISA 220 (Revised) that addressed key issues respondents raised to the February 2019 Exposure Draft (ED) of proposed ISA 220 (Revised) (ED-220).¹
4. At those meetings, the Board asked the Task Force to consider whether the Resources section of proposed ISA 220 (Revised) appropriately deals with component auditors who are not directly engaged by the firm. At the [June 2020](#) IAASB videoconference meeting, the Task Force Chair presented a revised Resources section of proposed ISA 220 (Revised) (see Section I).

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

5. In developing proposed ISA 220 (Revised) the Task Force has considered:
- The comments from Board Members at the Board three meetings noted above.
 - Offline comments from Board Members in Q2, both written and in bilateral discussions with certain Board Members and ISA 220 Task Force Members and Staff (see **Agenda Item 4-C** for a summary of the key issues raised and how the Task Force has addressed them).
 - Coordination with other IAASB Task Forces and with IESBA² representatives and outreach activities (see **Appendix 1** for details of the Task Force’s coordination and outreach activities).

Approach for the Discussion of the Agenda Items

6. The Task Force believes that the Board will benefit from focusing on the marked version of proposed ISA 220 (Revised) set out in **Agenda Item 4-B**, as the proposed changes made from the full draft presented on the April 1, 2020 videoconference are limited.
7. The Task Force Chair will present the Agenda Items in the following order:
- The revisions to the proposed standard, using **Agenda Item 4-B** as the basis for discussion. In walking through the standard, the Task Force Chair will refer to the matters highlighted in 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 due process considerations in **Section II** of this paper and **Agenda Item 4-D**.

Section I Key Changes

8. The Task Force notes that all substantive issues raised in respondents’ comments on ED-220 and Board and CAG discussions since exposure were addressed in the draft of proposed ISA 220 (Revised) presented at the April 1, 2020 Board videoconference.
9. **Agenda Item 4-B** and **Agenda Item 4-C** show the changes made to proposed ISA 220 (Revised) since the April 1, 2020 Board videoconference. Key changes are highlighted below.

Resources

10. The Board broadly supported the proposed revisions to address resources in paragraphs 25–28 and related application material discussed at the June 2020 Board videoconference. As a result of the comments made during the Board meeting, the Task Force has proposed the following changes:
- Paragraph 25 has been reorganized to clarify that , in making the determination that sufficient and appropriate resources are assigned or made available to the engagement team, the engagement partner “takes into account” the nature and circumstances of the engagement, the firm’s policies and procedures, and any changes that may arise, and not to any individual aspect of that determination.
 - The specific example previously included in paragraph A6 on determining the appropriateness of the competence and capabilities of engagement team members to perform the engagement has been relocated to the application material that specifically addresses this topic (see paragraph A71).

² International Ethical Standards Board for Accountants

- Additional material has been added to paragraph A22 to note that engagement team members from another firm are not subject to the firm's system of quality management or the firm's policies or procedures and that their legal system, language or culture may also be different from that of the firm.
- The reference to component auditor in the second bullet in A24 has been changed to 'individual' so as not to imply such situations only arise in group audits.
- An example has been added to paragraph A59 of how actions may differ when dealing with component auditors.

The Public Interest and the Objective

11. As noted in Section B.2 of **Agenda Item 2**, the ISQM 1 Task Force proposes moving an introductory paragraph dealing with the public interest to immediately follow the Objective of ISQM 1.³
12. The ISA 220 Task Force proposes moving former paragraph 6 to follow the Objective of proposed ISA 220 (Revised) (see new paragraph 11 of **Agenda Item 4-B**) because doing so provides an important public interest context to the objective.

Alignment Matters and Other Changes

13. Each of the quality management task forces provided volunteers to evaluate the consistency of the drafting of the three quality management standards and to propose changes where necessary. Accordingly, changes have been made throughout **Agenda Item 4-B** to align, where appropriate, with proposed ISQM 1 and proposed ISQM 2.⁴ Certain other changes were made throughout to remove duplication and improve clarity. The rationale for these changes is described in **Agenda Item 4-C**.

Matters for IAASB Consideration

1. The IAASB is asked for its views on changes made to proposed ISA 220 (Revised) since the April 1, 2020 and June 2020 IAASB meeting, as discussed in paragraphs 10–13 above.
2. The IAASB is asked to approve ISA 220 (Revised) for issuance.

Section II Due Process Considerations

14. 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.
15. The Task Force believes, therefore, that the draft standard presented in **Agenda Item 4-B** reflects all significant matters raised in the course of the project and that the only changes expected to be made in finalizing ISA 220 (Revised) for approval at the September 2020 IAASB meeting will be those

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*

⁴ ISQM 2, *Engagement Quality Reviews*

arising from the Board discussion at this meeting in relation to proposed ISQM 1, and proposed ISQM 2.

Need for Re-Exposure

16. Based on the draft presented to the Board for the September 2020 meeting in **Agenda Item 4-A** the Task Force does not recommend re-exposure. The rationale for the Task Force decision on this matter is set out in **Agenda Item 4-D**. For the Board's reference, **Agenda Item 4-E** shows a comparison of the requirements in Agenda Item 4-A with the requirements in ED-220.

Matter for IAASB Consideration

3. Does the IAASB agree with the ISA 220 Task Force's recommendation that it is not necessary to re-expose ISA 220 (Revised)?

Section III Next Steps

17. The ISA 220 Task Force will consider specific implementation needs related to ISA 220 (Revised) and develop an implementation plan, consistent in nature and scope with the [ISA 315 \(Revised 2019\) Implementation Plan](#).

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 and coordination with other IAASB Task Forces and working groups, and IESBA Task Forces.

Task Force Activities in the Second and Third Quarters of 2020

2. In the third quarter of 2020, the Task Force held a videoconference and liaised via email to obtain input on further changes reflected in proposed ISA 220 (Revised).

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

IAASB Quality Management Task Forces and ISA 600⁵ Task Force

3. In the third quarter of 2020, the following coordination activities took place:
 - Task Force Members and Staff representatives of each quality management Task Force⁶ cross-reviewed the drafts of the quality management standards to align the three standards.
 - Staff discussed coordination matters as needed between the three quality management projects.

⁵ Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁶ The quality management projects comprise those for proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised)

Draft Minutes⁷ – June 2020 IAASB Meeting

Proposed ISA 220 (Revised)

Quality Management at the Engagement Level – ISA 220 (Revised)⁸

Ms. Provost presented the ISA 220 Task Force’s proposals on certain paragraphs in proposed ISA 220 (Revised), as reflected in **Agenda Item 5-C**. She noted that the changes were necessary to align the treatment of engagement resources with the clarifications made in proposed ISQM 1 (see item 5 of these Minutes).

ENGAGEMENT RESOURCES

The Board broadly supported the proposed changes to paragraph 25 and 27 of proposed ISA 220 (Revised) and asked the ISA 220 Task Force to consider whether the following terms could be explained or removed:

- “Firm’s policies or procedures” in paragraph 25;
- “Different actions” in paragraph A60A; and
- “Component management” in paragraph A73A.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin noted that the ISA 220 Task Force had addressed the matters raised by the IAASB CAG representatives at the March 2020 IAASB CAG Meeting.

WAY FORWARD

The ISA 220 Task Force will present ISA 220 (Revised) for approval at the September 2020 IAASB videoconference. The ISA 220 Task Force will also continue its coordination activities with the ISQM 1, ISQM 2 and ISA 600 Task Forces and IESBA representatives.

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

⁸ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*