

## Proposed Approach—Conforming Amendments to the IAASB’s Other Standards<sup>1</sup> and the International Framework for Assurance Engagements<sup>2</sup> Arising from the Quality Management Standards

### Objective

To discuss the approach to making conforming and consequential amendments to the IAASB’s Other Standards and the International Framework for Assurance Engagements (Assurance Framework) arising from the quality management standards.

### I. Prior Board Discussion

1. A two-part proposed approach to making conforming and consequential amendments to the IAASB’s Other Standards was presented at the [March 2019 IAASB meeting](#). As described in the [minutes](#) to that meeting, Board Members were generally supportive of the proposed approach to making the conforming changes, which involved:
  - (a) **Quality Management (QM) standards** – Limiting the conforming amendments to the IAASB’s Other Standards and the Assurance Framework to those arising from the QM standards, which comprise proposed ISQM 1,<sup>3</sup> ISQM 2<sup>4</sup> and ISA 220 (Revised).<sup>5</sup> With a planned effective date of December 15, 2022 for the QM standards, there is urgency to completing these changes to become effective at the same time as the QM standards.
  - (b) **Other recent standards** – Separately considering the need for changes to the Other Standards arising from other recent projects, including the impact of ISA 540 (Revised)<sup>6</sup> on IAPN 1000.<sup>7</sup>

### II. Objective and Scope of Proposed Changes

2. This project addresses only the changes for the QM standards. Scoping this project appropriately is vital to completing it so that the changes can become effective with the QM standards.
3. The conforming and consequential amendments address existing material in a standard that requires a change due to changes in other standards directly linked to that material. They do not involve re-consideration of the objectives, requirements and application material of the standard subject to

<sup>1</sup> The IAASB’s Other Standards comprise the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs) and the International Standards on Related Services (ISRSs).

<sup>2</sup> The *International Framework for Assurance Engagements* (Assurance Framework) is included in the Supplement to the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (Volume III).

<sup>3</sup> Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1) (Revised), *Quality Control for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>4</sup> Proposed ISQM 2, *Engagement Quality Reviews*

<sup>5</sup> Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>6</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>7</sup> International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*

change in their own right. The conforming and consequential amendments are limited to, for example, updating titles of standards, updating references to the new standards, and aligning terminology.

4. **Appendix 1** sets out Staff's views about how the QM standards may affect the Other Standards and Staff's proposals about how to deal with these changes, along with certain examples of changes proposed.

#### *Firm-level Quality Management – Changes Related to Proposed ISQM 1 and ISQM 2*

5. Proposed ISQM 1 and ISQM 2 apply to all of a firm's engagements (i.e., to audits of financial statements covered by the ISAs and those engagements covered by the Other Standards). The proposed ISQMs are intended to interact with all of the Other Standards. Thus, certain conforming and consequential amendments need to be made to the Other Standards to retain current links to ISQC 1,<sup>8</sup> as they are essential to appropriately applying the Other Standards once proposed ISQM 1 and ISQM 2 become effective.
6. Further, proposed ISQM 2 is a specified response—implemented at the engagement level—to address one or more quality risk(s) in proposed ISQM 1. It is specifically referred to in proposed ISQM 1. Thus, certain changes also need to be made to the Other Standards to address proposed ISQM 2.

#### Proposal

7. This project will deal with the conforming changes to the Other Standards arising from the proposed ISQMs to maintain linkages to ISQC 1, and, where appropriate, refer to proposed ISQM 2.

#### *Engagement-level Quality Management – Changes Related to Proposed ISA 220 (Revised)*

8. Staff considered the need to align the Other Standards with the new and enhanced engagement-level requirements in proposed ISA 220 (Revised). With respect to how much of the “new” ISA 220 (Revised) thinking should be introduced to the Other Standards, Staff considered the advantages (i.e., consistency with the ISAs) and disadvantages (i.e., much longer standards, challenges in making such significant changes to the Other Standards without reopening each standard for a more holistic review).

#### Proposal

9. Staff concluded that the changes should be limited to updating the material currently in the Other Standards that parallels extant ISA 220.<sup>9</sup> For example, paragraphs 32–35 of ISAE 3000<sup>10</sup> are similar in content and intent to paragraphs 8, 9, 12, 14, 15, 18 and 23 of extant ISA 220 and therefore will be updated to reflect the changes to those paragraphs when approved by the Board.
10. Staff proposes that further changes should not be made to the Other Standards to align with proposed ISA 220 (Revised) until the Other Standards can be holistically revised. This is because incorporating these changes would involve holistic reviews of those standards – which would duplicate the effort needed to consider the implications of the other recent standards as further described in paragraphs 11-12 below.

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<sup>8</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

<sup>9</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>10</sup> ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Accordingly, additional changes that may be warranted to bring in the “new” ISA 220 (Revised) thinking will be noted for the IAASB’s future consideration in setting its priorities.

### Framework for Activities

11. The processes in the IAASB’s Framework for Activities (“Framework” – under development) will guide the IAASB in identifying issues for consideration and in setting priorities for its projects and activities going forward.

### Proposal

12. Staff proposes that the following matters be addressed by the processes set out in the Framework:
- Additional changes that go beyond conforming amendments in this project (e.g., the need for further alignment of the Other Standards with new concepts introduced in proposed ISA 220 (Revised)).
  - Changes arising from other recent projects. For example, since 2012, when several of the Other Standards were completed, the IAASB has completed the following projects to revise the ISAs, for which conforming and consequential changes were not made to the Other Standards:<sup>11</sup>
    - ISA 610 (Revised 2013).<sup>12</sup>
    - The new and revised auditor reporting standards.<sup>13</sup>
    - ISA 720 (Revised).<sup>14</sup>
    - Disclosures (this affected multiple standards).
    - Amendments to ISA 800 (Revised),<sup>15</sup> ISA 805 (Revised)<sup>16</sup> and ISA 810 (Revised)<sup>17</sup> to deal with the revisions to the auditor reporting standards.
    - Non-compliance with laws and regulations (ISA 250 (Revised)<sup>18</sup>).
    - ISA 540 (Revised).

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<sup>11</sup> Of those changes, only conforming and consequential changes resulting from Non-compliance with Laws and Regulations (NOCLAR) were made to the Other Standards.

<sup>12</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

<sup>13</sup> The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

<sup>14</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

<sup>15</sup> ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>16</sup> ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

<sup>17</sup> ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

<sup>18</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

- ISA 315 (Revised 2019).<sup>19</sup>

### III. Proposed Timing

13. The following table sets out Staff’s proposed timeline for a project to develop and consult on conforming and consequential changes arising from the revised and new QM standards. Staff believes that the conforming and consequential amendments to the Other Standards would need to have the same effective date as the QM standards. The timeline below has been prepared on that basis.
14. Staff notes that given the timeframe, the implementation period for the conforming and consequential amendments to the Other Standards would be less than for the three QM standards. Staff also notes that the commentary period of 90 days is less than the ordinary 120-day commentary period, and that this is consistent with the approach for the recently completed project to provide [Conforming Amendments to the IAASB International Standards as a Result of the Revised IESBA Code](#) and complies with the IAASB’s [Due Process and Working Procedures](#).

<b>QM Conforming and Consequential Amendments to the Other Standards</b>	
<b>Project Milestones</b>	<b>Proposed Dates</b>
Board discussion of approach	September 2020
Approval of project proposal and exposure draft	November 11 Board Call
Issuance of exposure draft	January 2021
Closure of commentary period	April 2021 (90 days)
Board discussions	June 2021, September 2021
Approval of final conforming amendments	September 2021
Approval by PIOB <sup>20</sup>	December 2021
Effective date	Same as for QM standards

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

1. IAASB Members are asked whether they support the proposed approach described above.

<sup>19</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>20</sup> Public Interest Oversight Board

## Proposed Categories of Changes to the IAASB’s Other Standards

Staff performed a preliminary analysis of the possible conforming and consequential amendments that will be needed to the IAASB’s Other Standards arising from proposed ISQM 1, ISQM 2 and ISA 220 (Revised).

Proposed categories for analyzing possible changes are as follows:

Type of Amendment	Examples	Possible Conforming Amendment
<p><b>Category 1:</b> Update links to the structure and concepts in proposed ISQM 1, ISQM 2 and ISA 220 (Revised). When necessary and appropriate (e.g., when wording was previously aligned with ISA 220), the amended wording in the Other Standard may be aligned with analogous wording in ISA 220 (Revised).</p>	<p><u>Engagement team definition</u></p> <p>(a) Some of the Other Standards (e.g., ISAE 3000 (Revised)) contain a definition of “engagement team” that is consistent with the definition in ISA 220. Proposed ISQM 1 and ISA 220 (Revised) have clarified the engagement team to include any individual who performs audit procedures. Changes may be needed to align with the principle underlying the definition in ISA 220 (Revised), which is also being used as the basis for changes to the definition of an engagement team in the IESBA Code.<sup>21</sup></p>	<p><u>ISAE 3000 (Revised), paragraph 12(h)</u></p> <p><b>Definitions</b> ... Engagement team—All partners and staff performing the engagement, and any <del>other</del> individuals <del>engaged by the firm or a network firm</del> who perform procedures on the engagement. <del>This excludes</del> <u>excluding</u> a practitioner’s external expert engaged by the firm or a network firm.</p>
	<p><u>Components of a system of quality management</u></p> <p>(b) The Other Standards are premised on the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding. Similar to proposed ISA 220 (Revised), these paragraphs will need to be updated to reflect proposed ISQM 1’s structure.</p>	<p><u>ISAE 3000 (Revised), paragraph A61</u></p> <p><i>Firm Level Quality Control</i><del>Management</del> (Ref: Para. 3(b), 31(a))</p> <p><u>ISQM 1</u> deals with the firm’s responsibilities to <del>establish and maintain</del> <u>design, implement and operate</u> <del>a its system of quality control</del><u>management</u> for</p>

<sup>21</sup> International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

Type of Amendment	Examples	Possible Conforming Amendment
		<p>assurance engagements.<sup>3A</sup> It sets out the responsibilities of the firm for establishing <del>policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply</del> <u>quality objectives that address the fulfillment of responsibilities in accordance</u> with relevant ethical requirements, including those <u>related</u> to independence. ISQM 1 also deals with the firm’s <u>responsibility to establish policies and procedure for which engagements are required to be subject to engagement quality reviews.</u><sup>3B</sup> ISQM 2 addresses the <u>engagement quality reviewer’s responsibilities.</u><sup>3C</sup></p> <p><u>A system of quality management is continual, iterative and responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of ISQM 1, a system of quality management addresses the following eight component:</u><sup>3D</sup></p> <ul style="list-style-type: none"> <li>(a) <u>The firm’s risk assessment process</u><del>Leadership responsibilities for quality within the firm;</del></li> <li>(b) <u>Governance and leadership;</u></li> <li>(c) Relevant ethical requirements;</li> <li>(ed) Acceptance and continuance of client relationships and specific engagements;</li> <li>(e) <u>Engagement performance; and</u></li> <li>(df) <del>Human Resources;</del></li> <li>(g) <u>Information and communication; and</u></li> <li>(fh) <del>M</del><u>The monitoring and remediation process.</u></li> </ul> <p><sup>3A</sup> <u>ISQM 1, paragraph 1</u></p>

Type of Amendment	Examples	Possible Conforming Amendment
	<p><u>Depending on the firm’s system of quality management</u></p> <p>(c) The Other Standards explain that the engagement team is entitled to rely on the firm’s system of quality control. This is consistent with extant ISA 220. The wording of the Other Standards will need to be aligned with the updated approach in paragraph A10 of proposed ISA 220 (Revised).</p>	<p><sup>3B</sup> ISQM 1, paragraph 2 <sup>3C</sup> ISQM 2, <i>Engagement Quality Reviews</i> <sup>3D</sup> ISQM 1, paragraph 6</p> <p><u>ISRE 2400 (Revised),<sup>22</sup> paragraph A29</u></p> <p><del>Unless information provided by the firm or other parties suggests otherwise</del> Ordinarily, the engagement team <del>is entitled to rely</del> <u>may depend</u> on the firm’s system of quality <del>control</del> <u>management unless:</u></p> <ul style="list-style-type: none"> <li>• <u>The engagement team’s understanding or practical experience indicates that the firm’s policies or procedures will not effectively address the nature and circumstances of the engagement; or</u></li> <li>• <u>Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise.</u></li> </ul> <p>For example, the engagement team may <del>rely</del> <u>depend</u> on the firm’s system of quality <del>control</del> <u>management</u> in relation to:</p> <ul style="list-style-type: none"> <li>• Personnel recruitment and professional training programs.</li> <li>• <u>The Information Technology (IT) applications that support the firm’s monitoring of independence through the accumulation and communication of relevant independence information.</u></li> </ul>

<sup>22</sup> ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

Type of Amendment	Examples	Possible Conforming Amendment
		<ul style="list-style-type: none"> <li>• <del>The IT applications that support the Maintenance of client relationships through acceptance and continuance of client relationships and engagements systems.</del></li> <li>• Adherence to regulatory and legal requirements through the <u>firm’s monitoring and remediation process.</u></li> </ul> <p>In considering <del>information deficiencies identified in</del> <u>information deficiencies identified and remediation process,</u> <del>system of quality control that may affect the review engagement,</del> the engagement partner may consider <del>measures</del> <u>the remedial actions taken</u> <del>designed and implemented by the firm to rectify</del> <u>address these deficiencies and may determine whether additional remedial actions are needed at the engagement level.</u></p>
	<p><u>Engagement quality (EQ) reviews</u></p> <p>(d) ISAE 3000 (Revised) and ISAE 3410<sup>23</sup> include material addressing the responsibilities of the engagement partner and the EQ reviewer in relation to an EQ review. Consistent with proposed ISA 220 (Revised), consideration will be given to replacing the material related to the EQ reviewer with a link to proposed ISQM 2.</p> <p>(e) Some of the Other Standards (e.g., ISRE 2400 (Revised)) do not contain similar material for EQ reviews. Consideration will be given to providing a link</p>	<p><u>ISRE 2400 (Revised), paragraph 92</u></p> <p><i>Date of the Practitioner’s Report</i></p> <p>The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner’s conclusion on the financial statements, including being satisfied that: (Ref: Para. A144–A147)</p> <p>(a) All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; <del>and,</del></p>

<sup>23</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

Type of Amendment	Examples	Possible Conforming Amendment
	<p>to proposed ISQM 1, which establishes the engagements subject to EQ reviews and a link to proposed ISQM 2, which describes the EQ reviewer’s responsibilities to allow for cases when such engagements are subject to an EQ review based on the firm’s quality risk assessment.</p>	<p>(b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.</p> <p>(c) <u>When an engagement quality review is required in accordance with ISQM 1,<sup>5A</sup> the engagement quality review has been completed in accordance with ISQM 2.<sup>5B</sup></u></p> <p><sup>5A</sup> <u>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</u></p> <p><sup>5B</sup> <u>ISQM 2, Engagement Quality Reviews</u></p>
<p><b>Category 2:</b> Update to references and other terminology in ISQC 1 to align with proposed ISQM 1 and ISQM 2. When appropriate (e.g., when wording is aligned with ISA 220), the amended wording in the Other Standards may be aligned with analogous wording in ISA 220 (Revised).</p>	<p>(f) ISAE 3000 (Revised) and some of the Other Standards include statements in the illustrative assurance reports that indicate that the firm has applied ISQC 1, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. These need to be updated, consistent with how it is addressed in proposed ISQM 1.</p> <p>(g) The Other Standards include various references to the firm’s quality control policies and procedures in general. New terminology in proposed ISQM 1 refers to “policies or procedures” or “system of quality management.” This terminology needs to be updated.</p>	<p><u>ISAE 3000 (Revised), paragraph A172</u></p> <p><b>Preparing the Assurance Report</b></p> <p>Applicable Quality <del>Control</del><u>Management</u> Requirements (Ref: Para. 69(i))</p> <p>The following is an illustration of a statement in the assurance report regarding applicable quality <del>control</del><u>management</u> requirements:</p> <p>The firm applies International Standard on Quality <del>Control</del><u>Management</u> 1 and, accordingly, maintains a comprehensive system of quality <del>control</del><u>management</u> including documented policies <del>and</del><u>or</u> procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>