Proposed ISA 220 (Revised) – Issues and Recommendations

Objective of the IESBA discussion
The objective of this agenda paper is to provide an overview of matters discussed with ISA 220 TF.

NOTE: This IAASB issues paper contain extracts of paragraphs relevant to IESBA.

Introduction

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

1. 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.

2. 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

3. 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). 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.

4. 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

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1 See also Section 1.D below.
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 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…”

5. 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

6. 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.

7. 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.

8. 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).

9. 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\(^2\) 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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**Matter for IAASB Consideration**

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

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

**Proposed ISA 600 (Revised)**

10. 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)).

11. 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\(^3\)**

12. 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.

13. 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**

14. In July 2019, the IESBA issued an **ED**\(^4\) 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.

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\(^2\) *International Code of Ethics for Professional Accountants (including International Independence Standards)*

\(^3\) *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*

\(^4\) *ED, Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*
15. 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.

16. 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.
APPENDIX

[Proposed] International Standard on Auditing (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements – Marked

[Note: This is latest draft of proposed ISA 220 to be discussed at the March 2020 IAASB meeting. In relation to relevant ethical and independence matters, the changes shown in yellow highlight are changes from the December 2019 draft text of proposed ISA 600 as considered by IESBA reps]

Note for IAASB
Words highlighted in grey are subject to change from proposed ISQM 1, proposed ISQM 2 or proposed ED-600.

At the December 2019 IAASB meeting, limited changes were proposed to the paragraphs in grey to respond to issues raised by respondents to the exposure draft and to align with the latest text of other standards. To avoid misalignment while these standards are still being developed, these paragraphs have reverted back to the ED-220 wording, except when necessary to respond to comments on ED-220. As noted in Agenda Item 2, the Task Force will fully align these paragraphs in Q2 of 2020.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. This ISA is to be read in conjunction with relevant ethical requirements. (Ref: Para. A1–A2)

The Firm’s System of Quality Management and Role of Engagement Teams

2. The firm is responsible for the system of quality management. Under [proposed] ISQM 1, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that: (Ref: Para. A14–A15)

   a. The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and

   b. Engagement reports issued by the firm or engagement partners are appropriate in the circumstances. (Ref: Para. A14–A15)

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5 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
6 Proposed ISQM 2, Engagement Quality Reviews
7 Proposed ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
8 Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements
9 Proposed ISQM 1, paragraph 21
3. This ISA is premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding. (Ref: Para. A3–A4)

4. The engagement team, led by the engagement partner, is responsible, within the context of the firm’s system of quality management and through complying with the requirements of this ISA, for:

   (a) Implementing the firm’s responses to quality risks (i.e., the firm’s policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm; (Ref: Para. A5–A7)

   (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those set forth in the firm’s policies or procedures; and (Ref: Para. A8–A10)

   (c) Providing the firm with information from the audit engagement required to be communicated to support the design, implementation and operation of the firm’s system of quality management that is required to be communicated in accordance with the firm’s policies or procedures. (Ref: Para. A10–A12)

5. Complying with the requirements in other ISAs may provide information that is relevant to quality management at the engagement level. (Ref: Para. A13)

6. The public interest is served by the consistent performance of quality audit engagements through achieving the objective of this standard and other ISAs for each engagement. A quality audit engagement is achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those professional standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and exercising professional skepticism.

7. In accordance with ISA 200, the engagement partner and other members of the engagement team are required to plan and perform an audit with professional skepticism and to exercise professional judgment. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional skepticism may be demonstrated through the actions and communications of the engagement partner and other members of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism, such as unconscious bias or resource constraints. (Ref: Para. A14–A17)

[Paragraphs 8–9 relocated from paragraphs A29A–A30]

A29A.8 The requirements of this ISA are intended to be applied in the context of the nature and circumstances of each audit. For example:

   (a) When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this ISA are not relevant because they are
conditional on the involvement of other members of the engagement team. (Ref: Para. A14–A15)

(b) In an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks or actions to other members of the engagement team.

9. When this ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “the engagement partner shall ...” is used. In fulfilling such requirements, the engagement partner may need to obtain information from the firm or other members of the engagement team to fulfil the requirement. For example, the engagement partner may need to gather information from engagement team members in respect of suspected breaches of relevant ethical requirements in accordance with paragraph 17.

19. 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, the term “the engagement partner shall take responsibility for...” is used. Nevertheless, the engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA. (Ref: Para. A23–A25)

[Note: former paragraph A30 is now incorporated into paragraph 8]

A30. However, as noted in paragraph 7A, it will generally not be possible or practical for all of the requirements in this ISA to be fulfilled solely by the engagement partner (e.g., due to the nature and complexity of the entity, or the need for specialized skills or expertise). Accordingly, certain paragraphs of this ISA require the engagement partner, in managing quality at the engagement level, to take responsibility for an action. In these requirements, the engagement partner may assign the design or performance of procedures, tasks or other actions to appropriately skilled or suitably experienced members of the engagement team to assist the engagement partner in fulfilling their responsibility and complying with the requirements of this ISA. However, the engagement partner remains ultimately responsible, and therefore accountable, for managing and achieving quality on the audit engagement and being sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 11.

Effective Date

810. This ISA is effective for audits of financial statements for periods beginning on or after [Date].

Objective

911. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:

(a) The auditor has fulfilled the auditor’s responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and

(b) The auditor’s report issued is appropriate in the circumstances.

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44--- See paragraphs 27, 32(a) and 35(a)
Definitions

For purposes of the ISAs, the following terms have the meanings attributed below:

(a) Engagement partner\(^{12}\) – The partner, or other individual appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal, or regulatory body. (Ref: Para. A15A)

(b) Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.

(c) Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

(d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm,\(^{13}\) and internal auditors who provide direct assistance on an engagement.\(^{14}\) (Ref: Para. A16–A19A25)

(e) Firm – A sole practitioner, partnership, or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A20A26)

(f) Network firm – A firm or entity that belongs to a network. (Ref: Para. A21A27)

(g) Network – A larger structure: (Ref: Para. A21A27)

(i) That is aimed at cooperation, and

(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control, or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

(h) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

(i) Personnel – Partners and staff.

(j) Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.

(k) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audits of financial statements, together with national requirements that are more restrictive.

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\(^{12}\) “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

\(^{13}\) ISA 620, Using the Work of an Auditor’s Expert, paragraph 6(a), defines the term “auditor’s expert.”

\(^{14}\) ISA 610 (Revised 2013), Using the Work of Internal Auditors, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.
Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address a quality risk:

(i) Policies are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.

(ii) Procedures are actions to implement policies.

Staff – Professionals, other than partners, including any experts the firm employs.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

4413. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm’s culture and expected behavior of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A22–A29, A28–A38)

4414. In creating the environment described in paragraph 4413, the engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm’s commitment to quality and establish and communicate the expected behavior of engagement team members, including emphasizing: (Ref: Para. A31–A37)

(a) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;

(b) The importance of professional ethics, values and attitudes to the members of the engagement team;

(c) The importance of, and encouraging open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and

(d) The importance of each engagement team member exercising professional skepticism throughout the audit engagement.

4415. If the engagement partner assigns the design or performance of procedures, tasks or actions related to a requirement of this ISA to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work, as required by paragraph 27. (Ref: Para. A29A–A309, A38)

Relevant Ethical Requirements, Including Those Related to Independence

4416. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A31–A35, A41A39–A43, A49)
1517. The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including those that address: (Ref: Para. A32A–A37A23–A25, A41–A45)

(a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;

(b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of actual or suspected breaches; and

(c) Their responsibilities of members of the engagement team when they become aware of an instance of actual or suspected non-compliance with laws and regulations.  

4618. If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate the threats through complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A36–A37A44–A45)

4719. The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team. (Ref: Para. A38A46)

4820. If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A39A47)

4921. Prior to dating the auditor’s report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A34A39 and A40A48)

Acceptance and Continuance of Client Relationships and Audit Engagements

2022. The engagement partner shall determine that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A42–A45, A51A50–A53, A59)

2123. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs and complying with the requirements of this ISA. (Ref: Para. A46–A49A54–A57)

2224. If the engagement partner or other members of the engagement team obtain information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A50A58)

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Engagement Resources

2325. The engagement partner shall determine that, given the nature and circumstances of the audit engagement and any changes that may arise during the engagement, sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm in a timely manner. (Ref: Para. A52–A61, A63–A64, A67A60–A69, A71–A72, A76)

2426. The engagement partner shall determine that members of the engagement team, and any auditor’s external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A54, A62–A64, A70–A72)

2527. If, as a result of complying with the requirements in paragraphs 2325 and 2426, the engagement partner determines that resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate personnel in the firm about the need to allocate or assign additional or alternative resources to the engagement. (Ref: Para. A65–A66A73–A75)

2628. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A58A65)

Engagement Performance

Direction, Supervision and Review

2729. The engagement partner shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work.

27A–30. The engagement partner shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A68–A76, A81–A83A77–A85, A90–A93)

(a) Planned16 and performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements;

(b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm; and

(c) Planned and performed on the basis that the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.

2831. The engagement partner shall review audit documentation at appropriate points in time throughout the audit engagement, including audit documentation relating to: (Ref: Para. A77–A80A86–A89)

(a) Significant matters;17

(b) Significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and

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16 ISA 300, Planning an Audit of Financial Statements, paragraph 11
17 ISA 230, Audit Documentation, paragraph 8
(c) Other matters that, in the engagement partner’s professional judgment, are relevant to the engagement partner’s responsibilities.

2932. On or before the date of the auditor’s report, the engagement partner shall determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. (Ref: Para. A77–A80A86–A90)

3033. Prior to dating the auditor’s report, and to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the financial statements and the auditor’s report, including, if applicable, the description of the key audit matters and related audit documentation. To determine that the report to be issued will be appropriate in the circumstances.

3434. The engagement partner shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A83A–A83BA94)

Consultation

3235. The engagement partner shall: (Ref: Para. A84–A87A95–A98)

(a) Take responsibility for the engagement team undertaking consultation on:

(i) Matters whereon which the firm’s policies or procedures require consultation, including on-difficult or contentious matters; and

(ii) Other matters that, in the engagement partner’s professional judgment, require consultation;

(b) Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;

(c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and

(d) Determine that conclusions resulting from such consultations have been implemented.

Engagement Quality Review

3336. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A88A99)

(a) Determine that an engagement quality reviewer has been appointed;

(b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so;

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18 ISA 700, Forming an Opinion and Reporting on Financial Statements or ISA 705, Modifications to the Opinion in the Independent Auditor’s Report

19 ISA 701, Communicating Key Audit Matters in the Auditor’s Report

20 ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements or ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor’s Report
(c) Discuss significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and

(d) Not date the auditor’s report until the completion of the engagement quality review. (Ref: Para. A89–A92A100–A103)

Differences of Opinion

3437. If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm’s system of quality management, including those who provide consultation, the engagement team shall follow the firm’s policies or procedures for dealing with and resolving such differences of opinion. (Ref: Para. A93–A94A104–A105)

3538. The engagement partner shall:

(a) Take responsibility for differences of opinion being addressed and resolved in accordance with the firm’s policies or procedures;

(b) Determine that conclusions reached are documented and implemented; and

(c) Not date the auditor’s report until any differences of opinion are resolved.

Monitoring and Remediation

3639. The engagement partner shall take responsibility for: (Ref: Para. A95–A98A106–A109)

(a) Obtaining an understanding of the results of the firm’s monitoring and remediation process, as communicated by the firm including, as applicable, the results of the monitoring and remediation process of the network or network firms;

(b) Determining the relevance and effect on the audit engagement of the information referred to in paragraph 3639(a) and take appropriate action; and

(c) Remaining alert throughout the audit engagement for information that may be relevant to the firm’s monitoring and remediation process and communicate such information to those responsible for the process.

Taking Overall Responsibility for Managing and Achieving Quality

3740. Prior to dating the auditor’s report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement in accordance with paragraph 11. In doing so, the engagement partner shall determine that: (Ref: Para. A99–A103A110–A115)

(a) The engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and

(b) The nature and circumstances of the audit engagement, any changes thereto, and the firm’s related policies or procedures, have been taken into account in complying with the requirements of this ISA.
3841. The auditor shall include in the audit documentation:21 (Ref: Para. A102–A104A113–A116)

(a) Matters identified, relevant discussions with firm personnel, and conclusions reached with respect to:

(i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.

(ii) The acceptance and continuance of the client relationship and audit engagement.

(b) The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented.

(c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor’s report.

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Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

A1. This ISA applies to all audits of financial statements, including audits of group financial statements. ISA 600,22 deals with special considerations that apply to group audits, in particular those that involve component auditors. ISA 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from a network firm or from a firm that is not a network firm. For example, ISA 600 may be useful when involving such an individual to attend a physical inventory count or inspect property, plant and equipment at a remote location.

A2. ISA 200 requires the auditor to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements.23 Paragraphs 14–1916–18 and A31–A41A39–A49 of this ISA include requirements and guidance that address complying with relevant ethical requirements that are applicable given the nature and circumstances of the engagement, including those related to independence.

The Firm’s System of Quality Management and Role of Engagement Teams (Ref: Para. 2–5)

A3. Proposed ISQM 1 deals with a firm’s responsibilities for its system of quality management.

A4. Firms or national requirements may use different terminology or frameworks to describe components of a system of quality management. National requirements that deal with the firm’s responsibilities to design, implement and operate a system of quality management are at least as demanding as [proposed] ISQM 1 when they address the requirements of ISQM 1 and impose obligations on the firm to achieve the objective set out in [proposed] ISQM 1.

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21 ISA 230, paragraphs 8–11 and A6
22 ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
23 ISA 200, paragraph 14
Implementing the Firm’s Responses to Quality Risks That Are Applicable to the Audit Engagement (Ref: Para. 4(a))

A5. Quality management at the engagement level is supported by the firm’s system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with [proposed] ISQM 1, the firm is responsible for communicating to relevant personnel, including the engagement team, about their responsibilities for implementing the firm’s responses that are applicable at the engagement level. For example, such firm-level responses may include policies or procedures to undertake consultations with designated personnel in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to perform audit procedures related to particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing expected credit loss allowances in all audits of financial institutions).

A6. Firm-level responses may include policies or procedures established by a network, or by another a firm or a group of firms within the same network (network requirements or network services are described further in [proposed] ISQM 1 within the “Network Requirements or Network Services” section). The requirements of this ISA are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network resources or services or the work of network resources or services on the audit engagement.

A7. Some firm-level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ISA. For example, when determining whether the members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement, the engagement partner may be able to depend on the firm’s policies or procedures dealing with personnel recruitment and professional training. Other examples of firm-level responses that the engagement team may be able to depend on when complying with the requirements of this ISA include:

- Information systems that support the firm’s monitoring of independence;
- Information systems that support the acceptance and continuance of client relationships and audit engagements; and
- Audit methodologies and related implementation tools and guidance.

A8. [Not used]

A9. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement team exercises professional judgment in determining whether to design and implement responses, beyond those set forth in the firm’s policies or procedures, at the engagement level to meet the objective of this ISA.24

A9A9. The engagement partner’s determination of whether engagement level responses are required (and if so, what those responses are) is influenced by the requirements of this ISA, and the engagement partner’s understanding of the nature and circumstances of the engagement and any changes during the audit engagement. For example, unanticipated circumstances may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available by the firm in accordance with paragraph 27.

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24 ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.
A10. The relative balance of the engagement partner's efforts to comply with the requirements of this ISA (i.e., between implementing the firm’s responses, and designing and implementing engagement specific responses beyond those set forth in the firm’s policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement partner’s actions in complying with the engagement performance requirements of this ISA may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm’s audit programs).

Providing the Firm with Information from the Audit Engagement (Ref: Para 4(c))

A10AA11. Ordinarily, the engagement partner may depend on the firm’s policies or procedures in complying with the requirements of this ISA, unless:

- The engagement partner’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
- Information provided by the firm, engagement team or other parties, about the effectiveness of such policies or procedures suggests otherwise (e.g., information provided by the firm's monitoring and remediation processes or an external inspection process indicates that the firm's policies or procedures are not operating effectively).

A11A12. If the engagement partner becomes aware (including through being informed by other members of the engagement team) that the firm’s responses to quality risks are deficient in the context of the specific engagement or the engagement partner is unable to depend on the firm’s policies or procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph 3639(c) as such information is relevant to the firm’s monitoring and remediation process. For example, if an engagement team member identifies that an audit software program has a security weakness, timely communication of such information to the appropriate individuals within the firm enables the firm to take steps to update and reissue the audit program. See also paragraph A58A65 in respect of sufficient and appropriate resources.

Information Relevant to Quality Management at the Engagement Level (Ref: Para. 5)

A12A13. Complying with the requirements in other ISAs may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under ISA 315 (Revised 2019) provides information that may be relevant to complying with the requirements of this ISA. Such information may be relevant to the determination of:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to deal with complex matters;
The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;

- The nature, timing and extent of review of the work performed by members of the team based on the number and significance of the assessed risks of material misstatement; or

- The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher.

A13. [Not used]

Considerations Specific to Smaller Firms (Ref: Para. 2–4, 7A8)

A14. In a smaller firm, the design and implementation of many responses to the firm's quality risks, may be most effectively addressed by the engagement partner at the engagement level (i.e., given the nature and circumstances of the firm and the engagements it performs, there may be less need for firm—level responses to many of the firm’s quality risks). Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm wide system to monitor independence, and rather, independence will be monitored at the individual engagement level by the engagement partner.

A15. The requirements relating to direction, supervision and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

Definitions

Engagement Partner (Ref: Para. 10(a))

A15A. When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the “engagement partner” and “engagement team” for the purposes of the ISAs. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

Engagement Team (Ref: Para. 4012(d))

A16. Engagement teams may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations, and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures on the audit engagement is a member of the engagement team.

A16AA17. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit procedures include Audit evidence, which is necessary to support the auditor’s opinion and report, is primarily obtained from audit procedures performed during the course of the audit. Audit procedures comprise risk assessment procedures and further audit

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26 ISA 500, Audit Evidence, paragraph A10

27 ISA 200, paragraph A30

28 ISA 315 (Revised 2019) provides requirements related to risk assessment procedures

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procedures. As explained in ISA 500, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination. As explained in ISA 330, audit evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence where the auditor performs audit procedures to establish its continuing relevance. Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.

Engagement teams include individuals from the firm who perform audit procedures and may include individuals who perform audit procedures from:

(a) The firm or a network firm.
(b) A firm that is not a network firm.
(c) A service provider.

For example, such individuals may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.

Engagement teams may also include individuals from service delivery centers who perform audit procedures. For example, the firm may determine that specific tasks that are repetitive or specialized in nature can be performed by a group of appropriately skilled personnel and the engagement team may therefore include such individuals. Service delivery centers may be established at the firm level, at the network level, or by another firm or a group of firms from within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.

Engagement teams may include individuals with expertise in a specialized area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analyzing complex information technology or in using automated tools to analyze complex data and techniques for the purpose of identifying unusual or unexpected relationships. An individual with such expertise is not a member of the engagement team if that individual’s involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs A14–A25 and A84–A87A95–A98.

If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.

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29 ISA 330, The Auditor’s Responses to Assessed Risks, provides requirements related to further audit procedures, including tests of controls and substantive procedures
30 ISA 500, Audit Evidence, paragraphs A14–A25
31 ISA 330, paragraph A35
32 ISA 520, Analytical Procedures
An internal auditor providing direct assistance and an auditor’s external expert whose work is used in the engagement and an internal auditor providing direct assistance are not members of the engagement team. ISA 610 (Revised 2013) and ISA 620 provide requirements and guidance for the auditor when using the work of an external expert or when using the work of internal auditors in a direct assistance capacity or when using the work of an external expert. Compliance with these ISAs requires the auditor to perform audit procedures on the work of an auditor’s expert and obtain sufficient appropriate audit evidence on the work performed by an internal auditor providing direct assistance.

[Paragraphs A23–A25 relocated from A32A–A32C]

The Application of Firm Policies or Procedures to Members of the Engagement Team (Ref: Para. 9, 17)

Under proposed ISQM 1, the firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses (i.e., policies or procedures). That identification and assessment of quality risks takes into account the nature and circumstances of the firm, including whether the firm is part of a network as well as the nature and circumstances of engagements. Accordingly, firm policies or procedures may also vary depending on how the engagement team is organized. In particular, the firm’s policies or procedures relevant to the firm’s personnel will, in certain circumstances, be different from those that address the interaction of the firm’s personnel with individuals who are part of the network firm or another firm.

As described in paragraph 4, within the context of the firm’s system of quality management, the engagement team is responsible for implementing the firm’s policies or procedures that are applicable to the audit engagement. If the engagement team includes individuals who are from a network firm or a firm that is not a network 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.

In particular, firm policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel within the firm when obtaining an understanding of whether an individual from a network firm or another firm:

- Has the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. For example, the individual would not be subject to the firm’s recruitment and training processes and therefore the firm’s policies or procedures may state that this determination can be made through other actions such as obtaining information about the individual’s professional body or from group management in the case of a group audit. Paragraphs {19 and A38} of ISA 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.

- Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm’s training in respect of the firm’s policies or procedures for relevant ethical requirements. The firm’s policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement directly to the individual concerned.

See ISA 620, paragraphs 12–13 and ISA 610 (Revised 2013), paragraphs 21–25.
Will comply with relevant ethical requirements, and, in particular, is independent of the group engagement confirm independence. For example, individuals from another network firm may not be able to complete independence declarations directly on the firm’s independence systems. The firm’s policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A32C. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., in relation to an audit engagement where the firm’s policies or procedures require consultation on specific matters matter), it may be necessary for the firm’s policies or procedures to be communicated to individuals who are not firm personnel so that such individuals are able to alert the engagement partner about the matter circumstance if it arises, and the engagement partner is able to follow the firm’s policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements and subject to consultation under the group auditor’s policies or procedures, the component auditor is able to alert the group engagement team about the matter.

Firm (Ref: Para. 12(e))

A20 A26. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ISA. For example, the IESBA Code defines the “firm” as:

(a) A sole practitioner, partnership or corporation of professional accountants;
(b) An entity that controls such parties through ownership, management or other means; and
(c) An entity controlled by such parties through ownership, management or other means.

In complying with the requirements in this ISA, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

“Network” and “Network Firm” (Ref: Para. 4012(f)–4012(g))

A21 A27. The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. The IESBA Code also provides guidance in relation to the terms “network” and “network firm.” Networks and the firms within the network may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ISA in relation to networks apply to any structures or organizations that do not form part of the firm, but that exist within the network.

Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 41–13–15)

Taking Overall Responsibility for Managing and Achieving Quality

A22 A28. Proposed ISQM 1 requires the firm to establish quality objectives that address the aspects of the firm’s environment including the firm’s culture, decision-making process, actions, organizational structure and leadership. The engagement partner’s responsibility for managing and achieving quality is supported by a firm culture that promotes the conduct of quality audit engagements. In addressing the requirements in paragraphs 413 and 4214 of this ISA, the engagement partner may communicate directly and reinforce this communication through personal conduct and actions (e.g.,

See paragraph 32.
leading by example). A commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement.

A23A29. The nature and extent of the actions of the engagement partner to reflect the firm’s commitment to quality may depend on a variety factors including the size, structure, geographical dispersion and complexity of the firm, and the nature and circumstances of the audit engagement. With a smaller engagement team, with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

Sufficient and Appropriate Involvement

A24A30. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including:

- Taking responsibility for the nature, timing and extent of the direction and supervision of members of the engagement team, and the review of their work in complying with the requirements of this ISA; and
- Varying the nature, timing and extent of such direction, supervision and review in the context of the nature and circumstances of the engagement.

Communication

A25A31. Communication is the means through which the engagement partner and the other members of the engagement team share relevant information on a timely basis to comply with the requirements of this ISA, thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team, or with:

- The firm, (e.g., personnel performing activities within the firm’s system of quality management, including those assigned ultimate or operational responsibility for the firm’s system of quality management);
- Others involved in the audit (e.g., an auditor’s external expert or internal auditors who provide direct assistance); and
- Parties that are external to the firm (e.g., management, those charged with governance or regulatory authorities).

A25A32. The firm may use technology to facilitate more effective communication between different parties. For example, to support appropriate direction, supervision and review, the firm may use technological resources in the form of information technology applications to facilitate the communication between the engagement partner and members of the engagement team when they are performing work across different geographical locations.

A26A33. The nature and circumstances of the audit engagement may affect the engagement partner’s decisions regarding the most appropriate means of effective communication with the members of the engagement team. For example, in-person and more frequent interactions
are likely to be a more effective way to direct and supervise less experienced members of the engagement team.

Professional Skepticism

A26A34. The engagement partner is responsible for emphasizing to other members of the engagement team the importance of each engagement team member exercising professional skepticism throughout the audit engagement. However, conditions inherent in some audits can create pressures on the engagement team members that may impede the appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with ISA 300, the engagement partner and other members of the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.

A27A35. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities where technical expertise or specialized skills are needed for effective understanding, assessment of and responses to risks and informed questioning of management.

- Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review. For example, external time pressures may create restrictions to analyzing complex information effectively.

- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team’s ability to resolve complex or contentious issues.

- Insufficient understanding of the entity and its environment, its system of internal control and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate judgments and an informed questioning of management’s assertions.

- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.

- Overreliance on tools and templates, which may undermine the exercise of professional skepticism by the engagement team and automated tools.

A28A36. Unconscious or conscious auditor biases may affect the engagement team’s professional judgments, including for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional skepticism, and therefore the reasonableness of the professional judgments made by the engagement partner and other members of the engagement team in complying with the requirements of this ISA, may include:

- Availability bias, which involves considering information that is easily retrievable from memory as being more likely, more relevant and more important for a judgment; a tendency to place
more weight on events or experiences that immediately come to mind or are readily available than on those that are not.

- Confirmation bias, which involves seeking and treating as a tendency to place more persuasive weight on information that is consistent with initial beliefs or corroborates an existing belief than information that contradicts or preferences cast doubt on that belief.

- Overconfidence bias, which involves overestimating one's own abilities to perform tasks or make accurate assessments of risk or other judgments and decisions.

- Anchoring bias, which involves making assessments by starting with an initial piece of information as an anchor against which subsequent information is inadequately assessed an initial numerical value and then adjusting insufficiently away from that initial value in forming a final judgment.

- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

Possible actions that the engagement partner and other members of the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement.

- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgment) and emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures.

- Changing the composition of the engagement team, for example, requesting that more experienced individuals are assigned to the engagement to obtain greater skills or knowledge.

- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with.

- Involving members of the engagement team with specialized skills and knowledge, or an auditor’s expert to assist the engagement team with complex or subjective areas of the audit.

- Modifying the nature, timing and extent of direction, supervision and review for complex or subjective areas of the audit, areas that posed risks to achieving quality on the audit engagement, areas with a fraud risk or a risk of noncompliance with laws or regulations, including by involving more experienced engagement team members, more in-person oversight on a more frequent basis and more in-depth reviews of certain working papers.

- Complex or subjective areas of the audit;
- Areas that pose risks to achieving quality on the audit engagement; and
Areas with a fraud risk or a risk of non-compliance with laws or regulations.

- Setting expectations for:
  - Less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner; and
  - More experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice or assistance; and.

- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom audit evidence may be sought.

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: Para. 4315)

[Paragraphs A29–A30 relocated to paragraphs 8–9]

A30

Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information;
- Direction and supervision of the assignees; and
- Review of the assignees’ work to evaluate the conclusions reached, in addition to the requirements in paragraphs 27–34.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 44–1916–21)

Relevant Ethical Requirements

A31

ISA 200 requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of listed entities. ISA 600 includes additional requirements and guidance to those in this ISA regarding communications about relevant ethical requirements with component auditors.

Based on the nature and circumstances of the audit engagement, certain relevant ethical requirements, or aspects of law or regulation, may be significant to the engagement, for example law or regulation dealing with money laundering, corruption or bribery.

[Paragraphs A32A–A32C relocated to paragraphs A23–A25]
The Application of Firm Policies or Procedures to Members of the Engagement Team

A41A33. The information and communication component of the firm’s system of quality management and the resources provided by the firm may assist the engagement partner and other members of the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement in accordance with paragraphs 14–19. For example:

- Communicating the independence requirements to all engagement team members subject to independence requirements, as applicable.
- Providing training for engagement team members on relevant ethical requirements.
- Establishing manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.
- Assigning personnel (i.e., human resources) to manage and monitor compliance with relevant ethical requirements (e.g., ISQM 1 requires that the firm obtain, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or to provide consultation on matters related to relevant ethical requirements.
- Establishing policies or procedures for engagement team members to communicate relevant information to appropriate parties within the firm or to the engagement partner, such as requirements for engagement team members to:
  - Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
  - Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
  - Promptly communicate any breaches of the relevant ethical requirements, including those related to independence.

A34A42. The engagement partner may take into account the information, communication, and resources described in paragraph A33A41 when determining whether, and if so, the degree to which, the engagement partner may depend on the firm’s policies or procedures in complying with relevant ethical requirements.

A35A43. Open and robust communication between the engagement partner and the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and
- Keeping the engagement partner informed about matters relevant to the engagement team’s understanding and fulfillment of relevant ethical requirements and the firm’s related policies or procedures.
Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements (Ref: Para. 15–16, 17–18)

A36A44. In accordance with [proposed] ISQM 1, the firm’s responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures that address the identification and evaluation of threats to compliance with the relevant ethical requirements and how identified threats should be addressed.

A37A45. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be dealt with. For example, the IESBA Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.38

Actual or Suspected Breaches of Relevant Ethical Requirements (Ref: Para. 17, 19)

A38A46. In accordance with [proposed] ISQM 1, the firm is required to establish policies or procedures that address the identification, communication, evaluation and reporting of breaches and actions to address the causes and consequences of the breaches.

Taking Appropriate Action (Ref: Para. 48, 20)

A39A47. Appropriate actions may include, for example:

- Following the firm’s policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate personnel within the firm so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor’s Report (Ref: Para. 49, 21)

A40A48. ISA 700 (Revised) requires that the auditor’s report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.39 Performing the procedures required by paragraphs 14–19 of this ISA provides the basis for these statements in the auditor’s report.

Considerations Specific to Public Sector Entities

A41A49. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of

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38 IESBA Code, paragraph 330.3, A2
39 ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, paragraph 28(c)
the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with the underlying principles of paragraph 1416. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

**Acceptance and Continuance of Client Relationships and Audit Engagements**

(Ref: Para. 20–22–24)

A42A50. Proposed ISQM 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances.

A43A51. Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
- Whether sufficient and appropriate resources are available to perform the engagement;
- Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement;
- Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement; and
- Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.

A44A52. Under [proposed] ISQM 1, for acceptance and continuance decisions, the firm is required to make appropriate judgments about whether it will have access to information to perform the engagement, or to the persons who provide such information. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

A45A53. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained, or used by the firm, in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A46A54. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ISA and making informed decisions about appropriate courses of action. For example, such information may include:

- Information about the size, complexity and nature of the entity, including whether it is a group audit, the industry in which it operates and the applicable financial reporting framework;
The entity’s timetable for reporting, such as at interim and final stages;

In relation to group audits, the nature of the control relationships between the parent and its components; and

Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement which may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs, as well as this ISA, for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by ISA 210;
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA 315 (Revised 2019) and ISA 240;
- Understanding the group, its components and their environments, in the case of an audit of group financial statements in accordance with ISA 600, and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor’s expert in accordance with ISA 620; and
- The entity’s governance structure in accordance with ISA 260 and ISA 265.

Law, regulation, or relevant ethical requirements may require the predecessor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor’s judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code requires that the predecessor auditor, on request by a proposed successor auditor, provide all such facts and other information concerning such non-compliance that, in the predecessor auditor’s opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.

In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement in complying with the requirement in paragraph 22.

In deciding on the necessary action in accordance with paragraph 22, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement, and if so, what additional steps are necessary at the engagement level (e.g., the assignment of more staff, or staff with particular expertise). If the engagement partner has further concerns or is

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40 ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
41 ISA 260 (Revised), Communication with Those Charged with Governance
42 ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
Considerations Specific to Public Sector Entities (Ref: Para. 20–22–24)

A54A59. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 20–22–24 and A42–A47A50–A55 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: Para. 23–2625–28)

A52A60. Under [proposed] ISQM 1, the resources assigned, allocated or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources.

A53A61. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 2325 and 24, is whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

Human Resources

A54A62. Human resources assigned or made available by the firm include members of the engagement team (see also paragraphs A16–A19A22) and, where applicable, an auditor’s external expert and individuals from within the entity’s internal audit function to provide direct assistance on the audit.

Technological Resources

A56A63. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technology may allow the auditor to more effectively and efficiently manage the audit. Technology may also allow the auditor to evaluate large amounts of data more easily, for example, provide deeper insights, identify unusual trends or more effectively challenge management’s assertions, which enhances the ability of the auditor to exercise professional skepticism. Technology may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of such technological resources may, however, increase the risk of overreliance on the information produced for decision making purposes, or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.

A57A64. The firm’s policies or procedures may set forth required considerations or responsibilities for the engagement team when using firm approved technology to perform audit procedures and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.
The firm’s policies or procedures may specifically prohibit the use of certain technological resources (e.g., software that has not yet been specifically approved for use by the firm) or may include requirements to seek approval to use a new technological resource. In some circumstances, the firm’s policies or procedures may not specifically deal with the use of a specific technological resource (e.g., a spreadsheet developed by the firm). In these circumstances, the engagement team or obtained from outside the firm may be required to take certain actions before using a technological resource that is not firm approved to determine it is appropriate for use, for example by requiring:

- The engagement team to have appropriate competence and capabilities to use the technological resource.
- Specific documentation to be included in the audit file.
- Testing the firm. In these circumstances, operation and security of the technological resource.

The engagement partner may exercise professional judgment in considering whether the use of the resource on the audit engagement is appropriate in the context of the engagement, and if so, how the technological resource is to be used. Factors that may be considered in determining whether a particular technological resource, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement may include whether:

- Use and security of the technological resource complies with the firm’s policies or procedures, including policies or procedures related to data handling and security.
- The technological resource operates as intended.
- Personnel have the competence and capabilities required to use the technological resource.

### Intellectual Resources

Intellectual resources include, for example, firm, network firm or network audit methodologies, implementation tools, auditing guides, model programs, templates, checklists or forms.

The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, laws and regulations, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm’s policies or procedures, to use the firm’s audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry-specific methodology or related guides and performance aids.

### Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 2325)

In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team by the firm, ordinarily the engagement partner may depend on the firm’s related policies or procedures (including resources) as described in paragraph A7. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm’s technological development and maintenance programs when using firm-approved technology to perform audit procedures.
When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team’s:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Expertise in specialized areas of accounting or auditing.
- Expertise in information technology used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
- Knowledge of relevant industries in which the entity being audited operates.
- Ability to exercise professional skepticism and professional judgment.
- Understanding of the firm’s policies or procedures.

### Project Management

In situations where there are many engagement team members, for example on larger, or more complex, audit engagements, the engagement partner may involve an individual from firm personnel who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for an audit of a smaller engagement team, less complex entity with fewer engagement team members, project management may be achieved by a member of the engagement team through less formal means.

Project management techniques and tools may support the engagement partner and the other members of the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team’s ability to exercise professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism;
- Facilitating timely performance of audit work to more effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan, including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources; or
- Assisting the engagement partner in taking responsibility for the direction and supervision of engagement team members and the review of their work (see paragraph 27); or
- Facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor’s experts.

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43 See ISA 300, Planning an Audit of Financial Statements, paragraph 9.
Proposed ISA 220 (Revised) — Issues Paper
IESBA Meeting (March 2020)

Insufficient or Inappropriate Resources (Ref: Para. 2527)

A65A73. Proposed ISQM 1 requires that the firm’s quality objectives include that the firm’s strategic decisions and actions, including financial and operational priorities, reflect the firm’s commitment to quality and do not undermine the firm’s role in serving the public interest by consistently performing quality engagements. However, in certain circumstances, the firm’s financial and operational priorities may place constraints on the resources assigned or made available to the engagement team.44 (see also paragraph A45). In such circumstances, these constraints do not override the engagement partner’s responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.

A66A74. The engagement partner’s determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this ISA and the nature and circumstances of the audit engagement. As described in paragraph A11A12, in certain circumstances, the engagement partner may determine that the firm’s responses to quality risks are deficient in the context of the specific engagement, including that certain resources assigned to the engagement team are insufficient. In those circumstances, the engagement partner takes appropriate action, including communicating such information to the appropriate individuals within the firm in accordance with paragraph 2527 and paragraph 3639(a). For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures in respect of recently issued industry regulation, timely communication of such information to the appropriate individuals within the firm enables the firm to take steps to update and reissue the software promptly, or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.

A66A-A75. If the engagement partner determines that the resources assigned or made available are insufficient or inappropriate given the nature and circumstances of the engagement and additional or alternative resources have not been made available by the firm, the engagement partner is required to take appropriate action. In such cases, appropriate actions may include:

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph A92).
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm’s policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
- Following the firm’s policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.
- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph A71A).

44 See also paragraph A37
Considerations Specific to Public Sector Entities (Ref: Para. 23–2625–28)

A67A76. In the public sector, specialized skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or reporting in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

Engagement Performance

Direction, Supervision and Review (Ref: Para. 27A30)

A68—A77. Under [proposed] ISQM 1, the firm is required to establish policies or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed in a timely manner by more experienced engagement team members.

A69A78. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm’s policies or procedures and engagement specific responses.

A70A79. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this ISA, and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 3740.

A71A80. Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision and review in accordance with paragraph 27A30(c).

[Relocated to A92]A71A80. Timely identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of the engagement partner’s direction, supervision or review. For example, if the assessed risk related to a particular financial statement item increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

Direction

A72A81. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:

- The responsibility for all engagement team members for contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
• **The importance of maintaining** a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional skepticism in gathering and evaluating audit evidence (see paragraph A29A37).

• **Their responsibilities to fulfill** relevant ethical requirements.

• **Responsibilities** of respective partners when more than one partner is involved in the conduct of an audit engagement.

• **Respective roles and** responsibilities of respective engagement team members in performing audit procedures and the roles of more experienced engagement team members in directing, supervising and reviewing the work of less experienced engagement team members.

• **Understanding the objectives** of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.

• **Addressing threats** to the achievement of quality, and the engagement team’s expected response in this regard. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

**Supervision**

A73A82. Supervision includes matters such as:

• Tracking the progress of the audit engagement, which includes monitoring:
  o Monitoring the progress against the audit plan;
  o Monitoring whether the objective of work performed has been achieved; and
  o Monitoring the ongoing adequacy of assigned resources.

• Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated.

• Addressing matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.

• Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.

• Providing coaching and on-the-job training to help engagement team members develop skills or competencies.

• Creating an environment where engagement team members raise concerns without fear of reprisals.

**Review**

A74A83. Review of the engagement team’s work provides support for the conclusion that the requirements of this ISA have been addressed.
A75A84. Review of the engagement team’s work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the auditor’s report; and
- The objectives of the audit procedures have been achieved.

A76A85. The firm’s policies or procedures may contain specific requirements regarding:

- The nature, timing and extent of review of audit documentation;
- Different types of review that may be appropriate in different situations (e.g., detailed review of each individual working paper or a high-level review of selected working papers); and
- Which members of the engagement team are required to perform the different types of review.

The Engagement Partner’s Review (Ref: Para. 28–31–34)

[Relocated to A90] A77. The firm’s policies or procedures may specify the nature, timing and extent of the engagement partner’s review. For example, the firm’s policies may include a requirement for certain matters to be reviewed by the engagement partner and the specific circumstances or engagements in which such matters are expected to be reviewed.

A77A86. As required by ISA 300, the engagement partner reviews the planned nature, timing and extent of the direction and supervision of engagement team members and review of their work overall audit strategy and audit plan. As required by ISA 230, the engagement partner documents the date and extent and timing of the review.

A78A87. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner’s satisfaction on or before the date of the auditor’s report. The engagement partner need not review all audit documentation.

A79A88. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm’s policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement such as matters related to determining materiality.

45 ISA 300, paragraph 111A
46 ISA 230, Audit Documentation, paragraph 9(c)
• The composition of the engagement team, including:
  o Personnel using expertise in a specialized area of accounting or auditing;
  o The use of personnel from service delivery centers;
• The decision to involve an auditor’s expert, including the decision to involve an external expert;
• The engagement team’s consideration of risks identified through the acceptance and continuance process and proposed responses to those risks;
• The engagement team’s risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team;
• The engagement team’s consideration of related party relationships and transactions and disclosures;
• Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations;
• The engagement team’s evaluation of the work performed by experts and conclusions drawn therefrom;
• In group audit situations:
  o The proposed overall group audit strategy and group audit plan, including the identification of significant components;
  o Decisions about the involvement of component auditors, including how to direct and supervise them and review their work. For example, if a component auditor is located in a jurisdiction or is from a firm with significant audit inspection findings, then judgments about their involvement in the engagement and the direction and supervision of component auditors and review of their work are likely to be more significant; and
  o The evaluation of work performed by component auditors and the conclusions drawn therefrom.
• How matters affecting the overall audit strategy and audit plan have been addressed;
• The significance and disposition of corrected and uncorrected misstatements identified during the engagement;
• The proposed audit opinion and matters to be communicated in the auditor’s report, for example, key audit matters, or a “Material Uncertainty Related to Going Concern” paragraph.

The engagement partner exercises professional judgment in determining other matters to review, for example based on:
• The nature and circumstances of the audit engagement.
• Which engagement team member performed the work.
• Matters relating to recent inspection findings.
• The requirements of the firm’s policies or procedures.
**Nature, Timing and Extent (Ref: Para. 27A30)**

A81A90. The nature, timing and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm’s policies or procedures. For example, the firm may require that:

- Work planned to be performed at an interim date be directed, supervised and reviewed at the same time as the performance of the procedures rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.

- A82. Certain matters are to be reviewed by the engagement partner is responsible for the nature, timing and extent of direction and supervision of members of the engagement team and the review of their work. circumstances or engagements in which such matters are expected to be reviewed.

A91. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member’s previous experience with the entity and the area to be audited. For example, if the work related to the entity’s information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.

- The complexity of the entity. For example, if significant events have occurred at the entity or in the industry in which the entity operates since the previous audit engagement or during the current engagement, the extent and frequency of the direction and supervision of the engagement team member may be greater and the review of the related working papers may be more detailed.

- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.

- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.

- The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.

- The structure of the engagement team and the location of engagement team members, including auditors from outside the firm’s network or service delivery centers are used. For example, direction and supervision of individuals located at remote service delivery centers and the review of their work may need to be more formalized and structured than when members of the engagement team are all situated in the same location.

A83A92. Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of direction, supervision or review. For example, if the assessed risk at the financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.
A93. In accordance with paragraph 27A30(b), the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Review of Communications to Management, Those Charged with Governance, or Regulatory Authorities (Ref: Para. 3134)

A83A A94. The engagement partner may exercise professional judgement in determining which formal written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

A83B. On a group audit engagement, the group engagement partner is not expected to review, prior to their issuance, all communications between a component auditor and component management unless the communications are relevant to the audit of the group financial statements. The engagement partner may inform component auditors of their responsibilities in identifying communications that may be significant to the group audit engagement. For example, ISA 250 requires communication if the auditor suspects that management or those charged with governance are involved in non-compliance.

Consultation (Ref: Para. 3235)

A84A A95. Proposed ISQM 1 requires the firm to establish policies or procedures addressing consultation on difficult or contentious matters, including the engagement team’s responsibilities for consultation, the matters on which to consult, and how the conclusions should be agreed and implemented. Consultation may be appropriate or required, for example for:

- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
- Significant risks;
- Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
- Limitations imposed by management; and
- Non-compliance with law or regulation.

A85A A96. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.

A86A A97. It may be appropriate for the engagement team, in the context of the firm’s policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources.

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47 ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements, paragraph 24
The engagement team may take advantage of advisory services provided by other firms, professional and regulatory bodies or commercial organizations that provide relevant quality control services.

The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.

**Engagement Quality Review (Ref: Para. 3336)**

Proposed ISQM 1 requires that the firm establish policies or procedures that require an engagement quality review for certain types of engagements. Proposed ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review. National requirements that deal with the appointment and eligibility of an engagement quality reviewer and the responsibilities of the engagement quality reviewer are at least as demanding as proposed ISQM 2 when they address all of the requirements in proposed ISQM 2.

Completion of the Engagement Quality Review before Dating of the Auditor’s Report (Ref: Para. 3336(d))

ISA 700 (Revised) requires the auditor’s report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements. If applicable to the audit engagement, proposed ISQM 2 requires that the engagement quality review be completed on or before the date of the auditor’s report.

The auditor’s report cannot be dated until the completion of the engagement quality review. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgments made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.

An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer’s satisfaction on or before the date of the auditor’s report.

Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.

**Differences of Opinion (Ref: Para. 34–3537–38)**

Proposed ISQM 1 sets out requirements for the firm to establish policies or procedures to address differences of opinion that arise within the engagement team, or between the engagement...
team and the engagement quality reviewer or personnel performing activities within the firm’s system of quality management, including those who provide consultation.

A94A105. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example:

- Seeking legal advice; or
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

### Monitoring and Remediation (Ref: Para. 3639)

A95A106. Under [proposed] ISQM 1, the firm is required to establish quality objectives and responses that address the firm’s monitoring and remediation process that enable the evaluation of the design, implementation and operation of the components of the system of quality management and whether the quality objectives have been achieved. In addition, the firm is required to communicate to personnel information about the firm’s monitoring and remediation process to the extent that it is relevant to their responsibilities and to enable the personnel to take prompt and appropriate action in accordance with their responsibilities. The results of the firm’s monitoring and remediation activities are based on an evaluation of findings from the firm’s monitoring activities, the results of external inspections and other relevant information that the firm obtains or of which the firm becomes aware. Information provided by members of the engagement team to the firm is part of the other relevant information for the firm’s monitoring and remediation process, and exercising professional judgment and professional skepticism while conducting the audit may assist the auditor in remaining alert for information that may be relevant to that process.

A96A107. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings identified on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office or previous inspection results of audits of the entity.

A97A108. In considering relevant information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to deal with identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor’s expert should be used; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

A98A109. A deficiency in the firm’s system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor’s report was not appropriate in the circumstances.
Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 3740)

A99A110. Under [proposed] ISQM 1, the firm is required to establish objectives relating to the engagement partner’s overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the audit engagement.

A100A111. Relevant considerations in addressing the requirement in paragraph 3740 include determining how the engagement partner has complied with the requirements of this ISA, given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner’s involvement throughout the audit engagement, as described in paragraph A102A114.

A103A112. If the engagement partner’s involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 3740. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:

- Reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
- Consulting with firm personnel assigned operational responsibility for the relevant aspect of the firm’s system of quality management.

Documentation (Ref: Para. 37–3841)

A102A113. In accordance with ISA 230, audit documentation provides evidence that the audit complies with the ISAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A102A.A114. Documentation of the performance of the requirements of this ISA, including evidencing the involvement of the engagement partner, the direction and supervision of members of the engagement team and review of their work, and the engagement partner’s determination in accordance with paragraph 3740, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
- Minutes from meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement partner’s communications and other actions in respect of culture and expected behaviors that reflect the firm’s commitment to quality;
- Agendas from discussions between the engagement partner and other members of the engagement team, and where applicable the engagement quality reviewer, and related time signoffs and records of the time the engagement partner spent on the engagement, may provide evidence

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53 ISA 230, paragraph A7
of the engagement partner’s involvement throughout the audit engagement and supervision of other members of the engagement team; and

- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A103A115. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional skepticism, and the documentation of the auditor’s consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 2224), the documentation may include explanations of how the engagement team dealt with the circumstance.

A116. A404. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.