

Proposed ISA 220 (Revised) – Issues and Recommendations

Objectives of the IESBA discussion

The objectives of this Agenda Item are to:

- (a) Provide an overview of respondents' feedback on the Exposure Draft (ED) of ISA 220 (Revised)¹ (ED-220).
- (b) Obtain the Board's views about the ISA 220 Task Force's (TF) proposals on how to address definition of Engagement Team.

NOTE: This IAASB issues paper contain extracts of paragraphs relevant to facilitate IESBA discussion on the definition of Engagement Team only.

Section I. Introduction

Overview of Comment Letters Received

1. Ninety-one comment letters were received in response to ED-220, *Quality Management for an Audit of Financial Statements*, from a diverse group of stakeholder groups from all regions of the world.
2. The comments were from the following stakeholder groups:

| | |
|--|-----------|
| Monitoring Group | 4 |
| Investors and Analysts | 1 |
| Regulators and Audit Oversight Authorities | 5 |
| National Auditing Standard Setters | 12 |
| Accounting Firms | 24 |
| Public Sector Organizations | 9 |
| Member Bodies and Other Professional Organizations | 31 |
| Academics | 2 |
| Individuals and Others | 3 |
| Total | 91 |

3. The comments were received from the following regions:

| | |
|------------------------|----|
| Global | 22 |
| Asia Pacific | 13 |
| Europe | 26 |
| Middle East and Africa | 8 |
| North America | 17 |

¹ [Proposed International Standard on Auditing 220 \(Revised\), Quality Management for an Audit of Financial Statements](#)

| | |
|---------------|----|
| South America | 5 |
| Total | 91 |

Section II. Respondents' Views on Key Issues

B. Modern Auditing Environment – Engagement Team Definition

4. Question 4 asked:

Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

Issue

5. This issues paper addresses only respondents' comments related to the engagement team definition, many of which were made in response to Question 4 of ED-220. Other matters related to Question 4 will be considered at the December 2019 IAASB meeting.

6. ED-220 proposed changing the definition of an engagement team² as follows:

Engagement team – All partners and staff performing the audit engagement, and any individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm, who perform audit procedures on the engagement. ~~This~~ The engagement team excludes an auditor's external expert engaged by the firm or a network firm. ~~The term "engagement team" and~~ also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).

7. The Explanatory Memorandum (EM) accompanying ED-220 did not pose a specific question related to the proposed change to the engagement team definition; however, respondents commented on the change, specifically in response to the part of this question dealing with the use of different audit delivery models. They also raised practical concerns related to the definition in responding to other questions in this issues paper, including the role of the engagement partner and other members of the engagement team in paragraphs 17–25 of [Section II.A](#) and direction, supervision and review in paragraphs 67–75 of [Section III.A](#). These issues are closely linked to the engagement team definition and accordingly, some of the Task Force's initial thoughts and recommendations related to the engagement team definition will also address respondents' comments on those other questions.

What We Heard

8. **Agenda Item 8-B.2** contains the detailed analysis of the comments received on the part of Question 4 that address different audit delivery models, in particular, the proposed change to the engagement team definition.

² ED-220, paragraph 10(d)

Monitoring Group Members

9. All Monitoring Group members that commented on the engagement team definition were supportive of the proposed change in definition. Reasons cited include:
- The engagement partner should be responsible for quality management in respect of the engagement audit, as set out in paragraph 13 of ED-220.
 - The proposed revised definition serves the public interest—regardless of who performs the audit procedures or where the work is performed all individuals who perform audit procedures should be subject to the same independence requirements and direction, supervision and review by the engagement partner. In the case of a group audit, this applies to component auditors who are engaged by the firm or a network firm.

Other Respondents

10. Regulators also supported the change, with some citing, for example, that the change appropriately recognizes an evolving auditing environment while maintaining an emphasis on the attributes of a high-quality audit. It was also suggested that, regardless of where such individuals are located, or how they are related to the firm, if they are performing audit procedures then their work needs to be appropriately directed, supervised and reviewed by the engagement partner in accordance with ISA 220. Respondents also noted that this clarification is also consistent with the proposals in PCAOB Release No. 2016-002, on Supervision of Audits Involving Other Auditors.³
11. Other respondents generally expressed support for the proposed revised definition. However, it was noted that the following issues required clarification:
- (a) The impact on ethical behavior and independence in group audit situations, including:
- The IESBA Code does not address independence in respect of component auditors; and
 - It may be difficult to comply with group independence requirements because of possible conflicts between laws or regulations in different jurisdictions.
 - There may be cases where no component auditors with the appropriate competence in a particular jurisdiction may be able to comply with the same independence requirements applicable to the group engagement team and individuals from the group engagement team may not be able to legally enter that jurisdiction to perform work on the component needed.
- (b) Practical challenges, including:
- The requirements are onerous for the engagement partner to fulfil personally.
 - How the definition interacts with the requirements in ISA 220, particularly in large, complex group audits, for example:

General comments

³ See PCAOB Release No. 2016-002, Docket Matter 042 at <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/other-auditors.aspx>

- The nature and extent of the engagement partner’s responsibilities for the day-to-day direction, supervision and review of the work of the extended engagement team (“upward scalability”); and
- Responsibilities of the engagement partner at the component level in comparison to those of the group engagement partner for ISA 220 requirements related to relevant ethical requirements, engagement resources and engagement performance.

Comments specific to group audits

- How the group engagement partner:
 - Interacts and communicates with the component engagement partner and team.
 - Fulfils his/her responsibilities for the direction, supervision and review of the group audit as a whole, including the work of the component auditor.
 - The potential for inconsistent application of relevant ethical requirements in component audits.
 - Confusion as to whether component auditors are subject to the same policies or procedures that apply to firm personnel.
12. Respondents also noted the need for clarity about what is meant by “performs audit procedures” to address the concern that the reference to “perform audit procedures” may scope in too many individuals who would need to comply with ISA requirements (e.g., related to relevant ethical requirements including independence and engagement team communications).
13. Respondents who thought component auditors should not be part of the engagement team also noted the practical issues identified in paragraph 37(b) above. In addition, they noted that the IESBA Code does not currently address the independence requirements applicable to component auditors that are outside the group auditor’s network. It was noted that while practice has developed to address this issue, it is important to have clarity on this point. Respondents suggested the need to coordinate with IESBA on this issue.

Co-ordination with IESBA Representatives

14. A coordination meeting involving the IAASB ISA 600 Chair (who is also a member of the ISA 220 Task Force), the IESBA Liaison Member and IAASB and IESBA staff was held August 6, 2019 to start the dialogue on the comments on ED-220 about the definition on “engagement team.”
15. The IESBA Liaison Member and staff highlighted the following matters on the proposed change to the engagement team definition in ED-220:
- The definition of the engagement team in the IESBA Code was developed based on the engagement team definition in extant ISA 220. Accordingly, changing the definition in ISA 220 to include component auditors will have a number of practical implications with respect to compliance with the independence requirements of the Code. For example, for component auditors that do not belong to the group auditor’s network, it would not be practicable for the group auditor to implement the monitoring and disciplinary procedures necessary to ensure the component auditors’ compliance with all applicable independence requirements, as the

component auditors are outside the group auditor's control. These independence requirements apply to every member of the engagement team and include those relating to, for example, financial interests, business relationships and employment relationships. Many of the independence requirements also apply to immediate and close family members of the relevant individuals.

- The IESBA Liaison Member and IESBA staff supported the IAASB's goal of having consistent quality management principles apply to all individuals who perform audit procedures on the engagement. They noted, however that by dealing with quality management matters for group audits in ED-220 rather than in ISA 600,⁴ the definitions of engagement team would no longer align between the two boards. In light of this, the representatives suggested that the IAASB explore using ISA 600 to set the appropriate requirements about quality management with respect to component auditors.
 - Of particular concern to the IESBA representatives was the application of the independence requirements in the IESBA Code. The IESBA Code does not specifically address the need for component auditors who are not within the group auditor's network to be independent the group entity, so the change to the definition of the engagement team may be construed as the IAASB setting *de facto* independence requirements for such component auditors.
 - The IESBA representatives agreed that further coordination was needed in developing options for the way forward.
16. The ISA 220 Task Force's analysis of alternatives identified, including their advantages and disadvantages, is set out in [Appendix 7](#).

Relevant Background Material

17. The ITC recognized that as corporate and audit firm structures continue to evolve in the increasingly global environment and become more complex, the composition of the engagement team, including others outside the firm participating in the audit and where they are located, is changing. The ITC highlighted concerns expressed by regulators and audit oversight bodies about quality control in relation to different audit delivery models (ADMs), in particular about how an engagement team addresses requirements pertaining to responsibility for the direction, supervision, performance and review of the work performed at ADMs. It recognized the evolving nature of these arrangements and the potential need to clarify the following matters:
- The engagement partner retains responsibility for the direction, supervision, performance and review of the work performed, regardless of who performs the work and where it is performed.
 - How these centralized locations or other centralized resources are viewed in the context of the definition of engagement team set out in the ISAs.
18. In summarizing responses⁵ to the ITC, it was noted that there was agreement that the standard needs to be updated for various evolving circumstances of group audits or when other auditors are used. The project proposal to revise ISA 220 and ISA 600 considered the ITC responses and included in its scope the following matters related to ADMs:

⁴ ISA 600, *Special Considerations—Audits Of Group Financial Statements (Including The Work Of Component Auditors)*

⁵ See Agenda Item 6 for the June 2016 IAASB meeting at https://www.iaasb.org/system/files/meetings/files/6-A-20160621-IAASB_Agenda-Item_6-Updated-ITC-Update-final-tues-session.pdf

- Considering and demonstrating how the requirements for managing quality at the engagement level address evolving ADMs that result in engagement teams with different structures and involve other auditors.
 - Clarifying and reinforcing in ISA 600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular, to ISA 220. In making the changes to ISA 600, the IAASB will build on the principles in the revised ISA 220 and illustrate how these should be applied in a group audit.
19. In ED-220, the IAASB proposed changing the definition of the engagement team to recognize different and evolving engagement team structures to address the concerns identified in the ITC and the project proposal. Importantly, the proposed change in the definition recognizes that, regardless of the location or employment status of such individuals, if they are performing audit procedures, then they need to be independent for purposes of the audit engagement (and when relevant, the group audit engagement) and their work needs to be appropriately directed, supervised and reviewed. The change in the definition also allows the engagement partner in a group audit to appropriately respond to the proposed requirements in ED-220 regarding determining that the engagement team (including component auditors, if any) have been made aware of relevant ethical requirements and matters related to the engagement team's compliance with relevant ethical requirements, including independence.

Task Force's Initial Thoughts and Recommendations

20. The Task Force notes that respondents from many stakeholder groups expressed support for the proposed revised definition, although most called for clarifications around practical challenges. The Task Force also noted the IESBA representatives' concerns regarding the implications of the expanded definition on the application of the IESBA Code. In addition, the Task Force notes that on the IAASB's website there is a FAQ⁶ that states, "*the IAASB does not intend to extend or otherwise override the independence requirements of the IESBA Code.*" This FAQ will be considered as part of the ongoing Task Force discussions on the engagement team definition and its implications.
21. The Task Force's initial views were that the practical issues identified by respondents related to the engagement team definition could be overcome by clarifying certain aspects of ED-220 and providing additional guidance. In coming to that view, the Task Force looked at each of the requirements in ED-220 to determine if the application of the requirements to component auditors would be impractical or subject to different firm policies and procedures. Examples of guidance might include clarifying when an individual performs audit procedures, and how the definition applies to ADMs and other individuals who may be involved in the audit.
22. After further reflection the Task Force continues to believe that the principles behind the definition set out in ED-220 should continue to be in the definition for the following reasons:
- This is the approach generally supported by most respondents, including Monitoring Group and regulator respondents.
 - The Task Force's preliminary consideration of the analysis of the alternatives set out in [Appendix 7](#) supports retaining the proposed ED-220 definition (which is Alternative 1 in Appendix 7).

⁶ See <https://www.iaasb.org/clarity-center/faqs-and-other-clarity-resources>

- It is the same approach as the PCAOB is proposing in its project on Supervision of Audits Involving Other Auditors, which will reduce differences for firms that need to apply both sets of auditing standards.
 - It is preferable for the scope of the engagement team to be dealt with in proposed ISA 220 (Revised), as it is a foundational standard and the definitions are intended to apply to all audit engagements, regardless of their nature or circumstance.
 - In relation to the possible approach of dealing with quality management of component auditors in ISA 600, the Task Force believes that the practical issues identified by respondents to ED-220 identified would remain.
23. In addition to developing proposals to address specific practical matters the Task Force plans to:
- Further liaise with IESBA representatives to explore the way forward, taking into account the alternatives in [Appendix 7](#), and possibly develop application material to deal with the independence requirements of the IESBA Code if the definition proposed in ED-220 were to remain broadly consistent with that proposed in ED-220.
 - Better delineate the boundaries of who is part of the engagement team by developing application material on what it means to “perform audit procedures.” Develop examples to illustrate when individuals might be considered to be performing audit procedures under commonly-used ADMs. This will involve expanding references to ISA 500⁷ and ISA 200.⁸
 - Liaise with the ISQM 1 TF to discuss adding application material that explains that the firm’s policies and procedures are not all created equally for each individual engagement team member (e.g., component auditors, whether within or outside the network would not be subject to the same recruitment policies as individuals employed by the firm; however, the firm would establish policies or procedures to address how engagement partners would evaluate the competence of those individuals).
 - Coordinate with the ISA 600 Task Force on the need for guidance on the practical challenges respondents identified related to the definition. Since some of those practical challenges relate to component auditors, guidance on applying the ISA 220 requirements may need to reside in ISA 600.
24. The Task Force will further discuss these matters in Q4 and develop specific proposals for the December 2019 IAASB meeting.
25. The Task Force has the view that clear direction from the Board is necessary on the engagement team definition, so the Task Force can progress the proposed standard.

Matters for IAASB Consideration

3. Does the IAASB agree, in light of the responses and analysis in Appendix 7, and subject to further input from the IESBA representatives, that the engagement team definition should include component auditors as they perform audit procedures on the engagement?

⁷ ISA 500, *Audit Evidence*, paragraph A10

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A21

4. Does the IAASB agree with the Task Force's proposals to clarify the scope of the definition with additional application material?

Appendix 1

ISA 220 Task Force Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups

1. The following sets out the activities of the ISA 220 Task Force including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the [quality management at the engagement level](#) project.
2. The Members of the ISA 220 Task Force are:
 - Lyn Provost, Chair
 - Len Jui
 - Melissa Bonsall
 - Josephine Jackson

Task Force Activities in the Second Quarter of 2019

3. In Q2, the ISA 220 Task Force Chair presented jointly with the ISQM 2 Chair a [webcast](#) providing an overview of engagement quality reviews and quality management for audit engagements.

Task Force Activities in the Third Quarter of 2019

4. In Q3, the ISA 220 TF met once in person and held two teleconferences to consider responses to the ED and proposed recommendations on how to address the comments.

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

IAASB Task Forces – ISA 220 TF, ISQM 2 TF and ISA 600 TF

5. In Q3, the Chairs of the QM Task Forces and staff held two teleconferences. Further coordination has also been facilitated through staff liaison on specific matters. In light of the interaction between ISA 600 and the three quality management projects, the ISA 600 Task Force Chair has joined the QM Chairs coordination group.
6. The four Task Force Chairs will also meet during the September 2019 IAASB meeting.

IESBA

7. In respect of the engagement team definition, respondents' feedback on the engagement team definition was shared with IESBA Staff. In addition, in light of the significance of this issue in progressing both the ISA 220 and the ISA 600 projects, the ISA 600 Task Force Chair met, on behalf of both projects, with Sylvie Soulier an IESBA Member, and IAASB and IESBA staff via teleconference to discuss the ISA 220 Task Force's proposals to address respondents' comments. The IESBA staff provided comments on the material developed by the ISA 220 Task Force, which the Task Force considered in developing this paper. The results of that meeting have been reflected in this paper (see [Section II.B](#) and [Appendix 7](#)). The ISA 220 and ISA 600 Task Force Chairs and staff plans to meet again with IESBA representatives before the September 2019 IAASB meeting. Further coordination on these matters is planned to be undertaken in Q4 of 2019 as needed.

8. IESBA staff have indicated that the IESBA project on fees⁹ does “*not aim to determine the appropriate level of fees in the Code, but to ensure that the audit fee quoted will enable the firm to allocate and make available appropriate resources to perform the engagement in line with professional standards. As the proposed ISQM 1 and ISA 220 also deals with the same issue the [IESBA] Task Force would like to coordinate its proposals with the changes to the auditing standards.*” The Task Force has provided initial comments on certain draft wording provided by IESBA staff and the Task Force Chair will provide a verbal update at the September 2019 IAASB meeting. Further coordination on these matters is planned to be undertaken in quarter 4 of 2019.

⁹ See www.ethicsboard.org/projects/fees for more information

Appendix 2

List of Respondents to ISA 220 (Revised) Exposure Draft

| Nr | Acronym | Respondent | Region |
|---|------------|--|------------------------|
| Monitoring Group | | | Total: 4 |
| 1. | BCBS | Basel Committee on Banking Supervision | Global |
| 2. | IAIS | International Association of Insurance Supervisors | Global |
| 3. | IFIAR | International Forum of Independent Audit Regulators | Global |
| 4. | IOSCO | International Organization of Securities Commissions | Global |
| Investors and Analysts | | | Total: 1 |
| 5. | ICGN | International Corporate Governance Network | Global |
| Regulators and Oversight Authorities | | | Total: 5 |
| 6. | CPAB | Canadian Public Accountability Board | North America |
| 7. | FRC | Financial Reporting Council UK | Europe |
| 8. | IAASA | Irish Auditing & Accounting Supervisory Authority | Europe |
| 9. | IRBA | Independent Regulatory Board for Auditors | Middle East and Africa |
| 10. | NASBA | National Association of State Boards of Accountancy | North America |
| National Standard Setters | | | Total: 12 |
| 11. | AICPA | Auditing Standards Board of the American Institute of Certified Public Accountants | North America |
| 12. | AUASB | Australian Auditing and Assurance Standards Board | Asia Pacific |
| 13. | CAASB | Canadian Auditing and Assurance Standards Board | North America |
| 14. | CICPA | Chinese Institute of Certified Public Accountants | Asia Pacific |
| 15. | CNCC-CSOEC | Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables | Europe |
| 16. | HK-CPA | Hong Kong Institute of Certified Public Accountants | Asia Pacific |
| 17. | IDW | Institut Der Wirtschaftsprüfer | Europe |
| 18. | JICPA | Japanese Institute of Certified Public Accountants | Asia Pacific |
| 19. | KSW | Kammer der Steuerberater und Wirtschaftsprüfer | Europe |
| 20. | MAASB | Malaysian Institute of Accountants - Auditing and Assurance Standards Board | Asia Pacific |
| 21. | NBA | Royal Nederlandse Beroepsorganisatie van Accountants | Europe |
| 22. | NZAASB | New Zealand Auditing and Assurance Standards Board | Asia Pacific |

| Nr | Acronym | Respondent | Region |
|--------------------------------------|---------|---|------------------------|
| Accounting Firms¹⁰ | | | Total: 24 |
| 23. | BDO* | BDO International | Global |
| 24. | BT* | Baker Tilly International | Global |
| 25. | BTVK | Baker Tilly Virchow Krause, LLP | North America |
| 26. | CASI | CAS International | Asia Pacific |
| 27. | CG* | Crowe Global | Global |
| 28. | DTL | Duncan & Toplis Limited | Europe |
| 29. | DTTL* | Deloitte Touche Tohmatsu Limited | Global |
| 30. | ETY | ETY Global | Middle East and Africa |
| 31. | EYG* | Ernst & Young Global Limited | Global |
| 32. | GTI* | Grant Thornton International Limited | Global |
| 33. | HM | Haysmacintyre LLP | Europe |
| 34. | KI | Kreston International | Global |
| 35. | KPMG* | KPMG IFRG Limited | Global |
| 36. | MGIW | MGI Worldwide | Global |
| 37. | MNP | MNP LLP | North America |
| 38. | MSI | Moore Stephens International | Global |
| 39. | MZRS | Mazars | Global |
| 40. | MZRSUS | Mazars US LLP | North America |
| 41. | NI | Nexia International | Global |
| 42. | NSW | Nexia Smith & Williamson | Europe |
| 43. | PKFI | PKF International Limited | Global |
| 44. | PKFSA | PKF South Africa | Middle East and Africa |
| 45. | PwC* | PriceWaterhouseCoopers International | Global |
| 46. | RSMI* | RSM International | Global |
| Public Sector Organizations | | | Total: 9 |
| 47. | OAGA | Office of the Auditor General of Alberta | North America |
| 48. | OAGC | Office of the Auditor General of Canada | North America |
| 49. | OAGNZ | Office of the Auditor General New Zealand | Asia Pacific |
| 50. | AGSA | Auditor General South Africa | Middle East and Africa |
| 51. | ACAG | Australasian Council of Auditors General | Asia Pacific |

¹⁰ Forum of Firms members are indicated with an *. The Forum of Firms is an association of international networks of accounting firms that perform transnational audits.

| Nr | Acronym | Respondent | Region |
|---|-------------|---|------------------------|
| 52. | GAO | US Government Accountability Office | North America |
| 53. | NAO | National Audit Office of Malta | Europe |
| 54. | PAS | Provincial Auditor Saskatchewan | North America |
| 55. | SNAO | Swedish National Audit Office | Europe |
| Member Bodies and Other Professional Organizations | | | Total: 31 |
| 56. | ACCA- CAANZ | Association of Chartered Certified Accountants - Chartered Accountants Australia and New Zealand | Asia Pacific |
| 57. | AE | Accountancy Europe | Europe |
| 58. | CAI | Chartered Accountants Ireland | Europe |
| 59. | CaICPA | California Society of CPAs | North America |
| 60. | CAQ | Centre for Audit Quality | North America |
| 61. | CCC-ICPARD | Comite Control de Calidad del ICPARD | South America |
| 62. | CFC | Conselho Federal de Contabilidade - Federal Accounting Council – CFC | South America |
| 63. | CICC-AIC | Comision Interamericana de Control de Calidad de la AIC | South America |
| 64. | CNDCEC | Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili | Europe |
| 65. | CPAA | CPA Australia | Asia Pacific |
| 66. | ES | EXPERTsuisse | Europe |
| 67. | FAAPA | Finnish Association of Authorised Public Accountants | Europe |
| 68. | FAR | FAR (Institute for Accounting Profession in Sweden) | Europe |
| 69. | FSR | FSR Danske Revisorer (Danish Auditors) | Europe |
| 70. | IAB-IEC | Institut des Experts-Comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten | Europe |
| 71. | IBRACON | Instituto dos Auditores Independentes do Brasil | South America |
| 72. | IBR-IRE | Belgian Institute of Registered Auditors | Europe |
| 73. | ICAEW | Institute of Chartered Accountants in England and Wales | Europe |
| 74. | ICAP | Institute of Chartered Accountants of Pakistan | Middle East and Africa |
| 75. | ICAS | Institute of Chartered Accountants Scotland | Europe |
| 76. | ICJCE | Instituto de Censores Jurados de Cuentas de España | Europe |
| 77. | ICPAS | Illinois CPA Society | North America |
| 78. | ICPAU | Institute of CPAs of Uganda | Middle East and Africa |
| 79. | IMCP | Instituto Mexicano de Contadores Públicos | South America |
| 80. | ISCA | Institute of Singapore Chartered Accountants | Asia Pacific |

| Nr | Acronym | Respondent | Region |
|-------------------------------|----------------|--|------------------------|
| 81. | MICPA | Malaysian Institute of Certified Public Accountants | Asia Pacific |
| 82. | NYSS CPA | New York State Society of CPAs | North America |
| 83. | NRF | Nordic Federation of Public Accountants | Europe |
| 84. | SAICA | South African Institute of Chartered Accountants | Middle East and Africa |
| 85. | SMPC | IFAC Small and Medium Practices Committee | Global |
| 86. | WPK | Wirtschaftsprüferkammer | Europe |
| Academics | | | Total: 2 |
| 87. | AAA-ASC | American Accounting Association – Auditing Standards Committee | North America |
| 88. | UNSW | UNSW Research Network | Asia Pacific |
| Individuals and Others | | | Total: 3 |
| 89. | AFV | Álvaro Fonseca Vivas | South America |
| 90. | CAA-TAS | Training and Advisory Services and Chartered Accountants Academy | Middle East and Africa |
| 91. | VM | Vera Massarygina | Europe |

Appendix 7

Initial Alternatives Considered to Address Concerns on the Engagement Team Definition in the Context of Including Component Auditors

Purpose

1. This Appendix discusses alternative ways of dealing with the comments received from respondents to ED-220 and from IESBA representatives on the definition of “engagement team”

Background

2. As shown in the table below, the engagement team definitions in extant ISA 220 and in the IESBA Code are closely aligned with one difference, as highlighted in the underlined text below. The definition in extant ISA 220 applies only to audit procedures (as does the proposed definition in ED-220), while the definition in the IESBA Code applies to assurance procedures, as the Code applies to more types of engagements than audits of financial statements. In addition, ED-220 proposes that the any individual who performs audit procedures on the engagement be included as part of the engagement team, with the types of individuals providing further context around who those individuals might be.

| Extant ISA 220 | IESBA Code (Glossary) | ED-220 |
|--|---|--|
| <p>Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform <u>audit procedures</u> on the engagement. This excludes an auditor’s external expert engaged by the firm or a network firm.³ The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).⁴</p> <p>³ ISA 620, <i>Using the Work of an Auditor’s Expert</i>, paragraph 6(a), defines the term “auditor’s expert.”</p> <p>⁴ ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or</p> | <p>Engagement team: All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform <u>assurance procedures</u> on the engagement. This excludes external experts engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p> | <p>Engagement team – All partners and staff performing the audit engagement, and <u>any other individuals who perform audit procedures</u> on the engagement, <u>including individuals engaged by the firm or a network firm</u>. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm,¹³ and also excludes individuals within the client’s internal audit function who provide direct assistance on an engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).¹⁴</p> <p>¹⁴ ISA 620, <i>Using the Work of an Auditor’s Expert</i>, paragraph 6(a), defines the term “auditor’s expert.”</p> <p>¹³ ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or</p> |

| Extant ISA 220 | IESBA Code (Glossary) | ED-220 |
|--|-----------------------|--|
| regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted. | | regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted. |

Alternatives Considered

- The following alternatives were considered by the Task Force. Advantages and disadvantages of each alternative is included.
- Alternative 1 – ET Definition in ED-220 (ISA 220 Task Force Preferred Approach)*

Description

- The proposed definition in ED-220, subject to possible changes to improve clarity.
- Address practical concerns and solutions identified by respondents.
- Retract the Clarity project [FAQ](#) that addresses the following question:

Did the IAASB intend to extend or otherwise override the independence requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) or other ethical requirements to which the group engagement team is subject in a group audit situation, for example, by requiring that the component auditor in all cases be subject to the same specific independence rules applicable to the group engagement team?

Advantages

- The definition proposed in ED-220 addresses the public interest concerns raised by respondents to the ITC.
 - This is the approach supported by most respondents, including a Monitoring Group member and regulators. It is the same approach as the PCAOB is proposing in its project on Supervision of Audits Involving Other Auditors,¹¹ which would reduce the need for firms subject to regulation to operate under two different engagement team scopes in performing their audits.
- ISA 220 is a foundational standard; as such, the definitions are intended to apply to all audit engagements, regardless of their nature or circumstance.
- Addressing component auditors in ISA 600 (see Alternative 2) does not remove the practical concerns raised by respondents.
- Although this may create the perception that the IAASB is setting independence rules for group audits by setting an expectation that the independence rules that apply to the group audit engagement are applicable to the whole engagement team, that perception exists today. This is because, when performing work on the financial information of a component for a group

¹¹ See PCAOB Release No. 2016-002, Docket Matter 042 at <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/other-auditors.aspx>

audit, the component auditor is already subject to ethical requirements that are relevant to the group audit in accordance with ISA 600.¹²

Disadvantages

- The definition of engagement team in the ISAs would differ further from that in the IESBA Code. This would be a negative outcome from a coordination perspective and may also create inconsistencies in how the IESBA Code is applied. In addition, there may be a perception that the IAASB is setting *de facto* independence standards for group audits by setting an expectation that the independence requirements that apply to the group audit engagement are applicable to the whole engagement team. However, guidance jointly developed by the two Boards could address potential inconsistencies.
 - Smaller firms may not be part of networks that have a system of quality management that evaluates component auditors' competence/independence.
 - However, this occurs in practice today and would, as indicated above, still be a concern even if the definition and other requirements related to group audits are moved to ISA 600; and
 - The concern with including component auditors was related to “scalability up” (i.e., the application of relevant ethical requirements, including independence and direction, supervision and review in large, complex audits), and clarity can be provided to address that concern.
3. *Alternative 2 – Deal with the Quality Management of Component Auditors in ISA 600, Retain the definition of engagement team in extant ISA 220*

Description:

- ISA 600 would deal with the application of the ISAs to component auditors including:
 - Sufficient requirements and application material to set appropriate requirements for the quality management of the audit of components within a group audit engagement by the group auditors. This would mean that the requirements of the ISAs and ISQMs that apply to “engagement teams” would need to be extended to anyone performing audit procedures on the engagement outside of the extant definition of an engagement team (including component auditors) or duplicated to ensure that quality management is consistent across all aspects of the group audit engagement.
 - Further requirements for assessing the independence of component auditors in ISA 600.¹³ While ISA 600 addresses the need to do the assessment and its outcomes, it does not address how to do the assessment; therefore, there may be a need to provide additional requirements and/or guidance.

Advantages

- The engagement team definition in the IAASB's International Standards and the IESBA Code would remain functionally consistent.

¹² ISA 600, paragraphs 19(a) and A37

¹³ ISA 600, paragraphs .19 - .20

- This avoids the two boards using the same term (“engagement team”) to cover different groups.

Disadvantages

- Proposed ISA 220 (Revised) and several other ISAs would need to extend or duplicate a number of requirements in respect to individuals performing audit procedures that are not part of the engagement team (e.g. individuals in ADMs or component auditors), which was a key public interest element of the IAASB’s proposals to improve quality management. For example, if such individuals are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed (paragraphs 27–31 of ED-220). Further, such individuals need to be subject to the ethical requirements relevant to the engagement (paragraphs 14-19 of ED-220).
- There was overall support for the definition in ED-220 and from the respondents to the ITC. Although there were several who expressed disagreement with the proposed definition, reverting to the extant definition would not recognize the support.
- Reverting to the extant definition does not resolve practical issues respondents identified, and would risk delays in finalizing the standard.
- Moving the broader definition from the foundational ISA (i.e., ISA 220), which applies in all circumstances, to the “special circumstances” ISA 600 is intended to address may make the point about the EP exercising direction, supervision and review across the whole engagement team less clear, even if application material is added to ISA 220 to refer to the ISA 600 treatment of component auditors. As this is one of the issues raised in the ITC that this project was intended to address, it would not fulfill a critical objective of the project.