



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **3(d)**

Meeting Date: 13 June 2018

Subject: ISA 220 – Quality Management at the Engagement Level

Date Prepared: 8 June 2018

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Action Required

For Information Purposes Only

IAASB Project Objective	AUASB SMEs
<p>The objectives of the project are to:</p> <p>(a) Propose revisions to ISA 220 to strengthen aspects of quality management for individual engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.</p> <p>(b) Propose consequential amendments to other standards that may be necessary as a result of revisions to ISA 220.</p> <p>(c) Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement the revisions or new standard(s).</p>	<p>Gareth Bird / Matthew Zappulla</p>

Agenda Item Objectives

1. To update the AUASB and receive feedback from members on the key matters arising from the IAASB June 2018 Board Papers for ISA 220 *Quality Management for an Audit of Financial Statements*.

Background to the revisions to ISA 220

2. A revised version of ISA 220 was originally presented to the IAASB at their June 2017 meeting, with IAASB members expressing concern with the direction and strategy taken to the revised standard.
3. The ISA 220 Task Force’s work on the proposed revision to ISA 220 in the second half of 2017 substantially revised the proposed standard from the original taskforce presentation at the June IAASB meeting, with the approach scaled back to be more of an update to the extant version of the standard and closely aligned to the ongoing work to update ISQC 1. Specifically, instead of taking a

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more broad-based approach to quality control and mirroring ISQC 1 requirements at the engagement level, there is greater emphasis in the standard on the role of the engagement leader/partner to have sufficient and appropriate involvement in the audit.

4. At its December 2017 teleconference the AUASB reviewed the previous version of the proposed ISA 220 and noted the substantial amendments made to the revised ISA 220 since the June 2017 IAASB meeting. Consequently the AUASB were advised at that time there were no significant concerns with the status or direction of ISA 220 and no other AUASB members raised any other concerns with the standard.

Changes to the proposed standard since the December 2017 IAASB meeting

5. This is the first time the standard has been reviewed by the board since December 2017. Much of the standard is still a work in progress as it needs to be consistent or derived from the Quality control standards for firms, specifically ISQC 1 and ISQC 2, and the revised ethical code.
6. A review of the new proposed standard against the extant version of ISA 220 notes that about 50% of the requirements have been redrafted, but there has been a wholesale revision of the application material. And, as we experienced with ISA 540, the devil is in the detail! Overall the changes made to the requirements and application material appear to be reasonable based on updated quality management principles and alignment with the proposed ISQC 1/ISQC 2.
7. Outreach and correspondence with stakeholders on ISA 220 has been limited to date and does not raise any major concerns, reflecting the approach to stick closely with the requirements of the extant version of the standard and where the ISA 220 Task Force are in the development of the standard. We would expect the level of critical feedback from practitioners to increase after this version of the proposed standard is discussed at the IAASB and the Task Force's outreach activities expand.
8. The ISA 220 Task Force's key changes when developing the latest draft of the ISA 220 ED for discussion at the June 2018 IAASB meeting are:
 - (a) A number of updates to the Introduction and Definitions;
 - (b) A revised objective (refer Para. 6 – “The objective of the auditor is to manage quality at the engagement level to provide the auditor with reasonable assurance that quality has been achieved such that: (a) The auditor has fulfilled its responsibilities in accordance with professional standards and applicable legal and regulatory requirements; and (b) The auditor's report issued is appropriate in the circumstances.”);
 - (c) Expanded and clarified requirements for leadership responsibilities in the standard; and
 - (d) Extensive updates have been made to the ethical requirements, acceptance and continuance considerations, resources, engagement performance and engagement leader stand back requirements in the standard.
9. Limited amendments to the requirements and related application material have been made to other sections of the proposed ISA 220 (Consultation, EQCR, Differences of Opinion and Monitoring and Remediation) as these areas will be updated to align with the revised proposed requirements within ISQC 1.

Key matters for consideration by the AUASB

10. A copy of the IAASB Meeting paper that includes a draft ED of Proposed ISA 220 (Revised) marked to extant ISA 220 (refer **Agenda Item 3(d)(i)**) has been included in the AUASB board papers for June 2018, as this paper best provides board members with a summary of the differences between the current requirements of ISA/ASA 220 versus the proposed updates requirements of the revised ISA 220 presented to the IAASB. To best capture an understanding of key changes being proposed in the revised version of this standard the AUASB Technical Group recommends AUASB members review this paper, with an emphasis at this stage on the requirements included in paragraphs 8 – 25 covered from pages 4 to 11. Note however, AUASB members do not need to review the text shaded in grey

within this document as it represents requirements and application material which will be further updated to align with ISQC 1/ISQC 2.

11. The AUASB Technical Group and AUASB member responsible for the review of this standard do not highlight any significant concerns with the requirements in this version of ISA 220 presented to the IAASB at their June 2018 meeting. Indeed the most recent edits to the requirements read well and are a sensible update to the extant requirements in ISA/ASA 220.
12. The proposed application material in the standard is extensive and a more difficult read which could certainly do with an editorial review. There is a lot of repetition from the requirements in the proposed application material and a solid rewrite would certainly make the material easier to digest and reduce its length and complexity. Notwithstanding this point, the AUASB Technical Group have not noted any concerns with the nature of the content included in the proposed application material in this version of ISA 220.
13. The only significant matter to highlight to AUASB members in respect of this proposed standard is that the elements of ISA 220 addressing the requirements relating to the Engagement Quality Control Reviewer (EQCR) are all subject to revision once the revised version of ISQC 2 is developed. The EQCR requirements and associated application material are a major element of this standard and until ISQC 2 is produced it is not possible to assess the validity of the EQCR requirements in ISA 220. Currently the IAASB's forward plans noted the first draft of ISQC 2 will be discussed at the IAASB's September 2018 meeting.

Next steps for ISA 220

14. The ISA 220 Task Force will continue to revise ISA 220 to address IAASB feedback and outreach activities, as well as ongoing revisions to ISQC 1 and ISQC 2.
15. An updated version of the standard will be presented at the IAASB's September 2018 meeting.

Action Required

No.	Action Item	Responsibility
1.	Feedback to the following questions raised by the AUASB Technical Group in respect of the current version of ISA 220: <ol style="list-style-type: none"> a. Based on their review of the proposed ISA 220 (Revised) marked to extant at Agenda Item 3(d)(i) and the summary provided by the AUASB Technical Group, are there any matters the AUASB would like to feed back to the IAASB about the current status and content of ISA 220? 	AUASB

Material Presented

Agenda Item 3(d)	AUASB Board Meeting Summary Paper
Agenda Item 3(d)(i)	IAASB Agenda Item 6-C – Draft ED of Proposed ISA 220 (Revised) - Marked to extant ISA 220
NB: Should AUASB members wish to review other papers associated with this project from the June 2018 IAASB meeting they are available at https://www.iaasb.org/meetings/new-york-usa-19 .	