

March 2019

Explanatory Memorandum

ISA 220 Quality Management at the Engagement Level

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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CONTENTS

	<i>Paragraphs</i>
Introduction	1-2
Overview	3-4
Request for Comments	5
IAASB Questions	
Australian Specific Questions	
Matters identified for further consideration by the AUASB	6
Consideration of Australian modifications from the extant ASA 220	7-8
Comment Date	9-10
Australian Proposed Outreach	11
APPENDIX 1: Australian Modifications to extant ASA 220	
ATTACHMENT 1: Proposed International Standard on Auditing 220 (Revised)	

EXPLANATORY MEMORANDUM

ISA 220 Quality Management at the Engagement Level

Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued for public comment three exposure drafts (EDs) on interrelated proposed auditing standards that address quality management at the engagement and firm level. This explanatory memorandum represents the Australian exposure of one of those standards, Proposed International Standard on Auditing 220 (Revised) *Quality Management for an Audit of Financial Statements* (ED-220).
2. This Explanatory Memorandum is to be read in conjunction with the overarching Explanatory Guide *Exposure of the IAASB's Proposed Quality Management Standards in Australia*. The Explanatory Guide provides stakeholders with an overview of the approach to exposing the proposed international quality management standards in Australia.

Overview

3. This Explanatory Memorandum gives Australian stakeholders an overview of:
 - (a) Request for comments – IAASB questions and additional Australian questions;
 - (b) Background to the matters identified for further consideration by the AUASB during the review of the proposed international standard;
 - (c) How to provide comments and the Australian comment date; and
 - (d) Planned outreach in Australia to gather further feedback on the proposed standards.
4. ED-220 includes the IAASB's Explanatory Memorandum (EM) and is provided as an attachment to this Australian Explanatory Memorandum. Importantly, the IAASB's EM presents an overview of "Significant Matters" in relation to ED-220 which outlines to stakeholders the main changes from the existing ISA 220 including:
 - (a) Modernising the standard to acknowledge different audit delivery models. Including material outlining that regardless of location of engagement team members, the work of any individual undertaking audit procedures needs to be appropriately directed and supervised.
 - (b) Removal of material that allowed engagement team members to rely on the firm's system of quality control, unless information from the firm or other parties suggested otherwise.
 - (c) Strong emphasis on the Engagement Partner's overall responsibility for managing and achieving audit quality. This includes wording throughout the standard that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement to manage and achieve quality. A new stand-back provision has also been included.
 - (d) Material relating to relevant ethical requirements has been strengthened with more focus on the engagement partner's role in dealing with relevant ethical requirements.
 - (e) Inclusion of a new section relating to engagement resources which includes human, technological and intellectual resources, and the engagement partner's responsibility to determine whether the resources assigned are sufficient and appropriate.

Request for Comments

5. The AUASB requests comments on all matters in relation to ED-220, but specifically in relation to the questions below, which comprise both IAASB and Australian specific questions. Stakeholders' responses to IAASB and Australian specific questions will be used to inform the AUASB in their formal response to the IAASB on ED-220. Additionally, responses will be used in future deliberations supporting the issuance of the Australian standard. Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by a question.

IAASB Questions

NB: There are no variations between the questions below and those in the IAASB's Explanatory Memorandum, but for completeness and ease of use by respondents they are replicated in the Australian Explanatory Memorandum for ED-220.

1. Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?
2. Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?
3. Do you support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)
4. Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?
5. Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)
6. Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?
7. Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

Australian specific questions

Matters for further consideration in relation to the Quality Management Standards

Stakeholders are asked to respond to the following specific questions identified by the AUASB during its deliberations on the IAASB's development of the Quality Management Standards.

8. Do you consider the definition of engagement team has been consistently applied across the suite of Quality Management Standards?
(Refer to **Matter 3** in Table 1)

Matters for further consideration in relation to ISA 220 (revised)

Stakeholders are asked to respond to the following specific questions identified by the AUASB during its deliberations on the IAASB's development of ED-220. Further information about the matters related to each of the questions can be found in Table 1 below.

9. Do you support the AUASB's view that situations where somebody other than the engagement partner signs the audit report, or there are multiple partners on an engagement, should be addressed as part of the revisions to ISA 220?
(Refer to **Matter 4** in Table 1)
10. Do you consider that the expanded *Engagement Team* definition makes it difficult to meet the requirements of the standards, in particular when Service Delivery Centres are used?
(Refer to **Matter 5** in Table 1)

11. Do you consider that the proposed changes to ISA 220 will result in improved audit quality in Australia? If no, please describe the provisions of the proposed standard which impede the improvement of audit quality.
(Refer to **Matter 6** in Table 1)
12. Does the drafting of the standard to emphasise the engagement partner's responsibility for managing and achieving quality at the engagement level make it difficult to practically achieve?
(Refer to **Matter 7** in Table 1)
13. Do you support the IAASB's decision to remove from the introduction in the extant standard the paragraph that engagement teams are entitled to rely on the firm's system of quality control?
(Refer to **Matter 8** in Table 1)
14. Do you consider that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate given the objectives and nature of the two distinct roles?
(Refer to **Matter 9** in Table 1)

Considerations related to Australian Principles and Practices and Laws and Regulation

Stakeholders are asked to respond to the following AUASB specific questions which reflect considerations for ED-220 related to the Australian regulatory environment and principles and practices considered appropriate in Australia.

NB: The AUASB is yet to consider Australian modifications to this standard as part of its due process. Refer to paragraph 7 for further information.

15. Are there any modifications to the extant ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, which are still relevant to the ED-220?
16. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
17. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
18. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
19. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
 - a. Where those costs are likely to occur;
 - b. The estimated extent of costs, in percentage terms (relative to audit fees); and
 - c. Whether expected costs outweigh the benefits to the users of audit services?
20. Are there any other significant public interest matters that stakeholders wish to raise?

Matters identified for further consideration by the AUASB

6. As part of its International Strategy, the AUASB reviews the ongoing progress of all IAASB proposed standards over the course of their development. The AUASB’s International Strategy is designed to ensure the AUASB influences international standards and guidance as early as possible, by identifying matters for consideration that achieve public interest outcomes and ensuring they serve as the most effective base for the Australian auditing and assurance standards.

Matters 1-9 in Table 1 below have been raised by the AUASB during this review process and have either resulted in additional questions 8-14 in the ‘Request for Comments’ above or are the subject of an existing IAASB question.

Table 1 – Matters Identified by the AUASB

Matter #	ED Para	Matter Raised	Brief Description
1	13(b)	Monitoring and reviewing work of assignees	The AUASB raises for consideration whether it is difficult to meet this requirement when performing a large audit engagement, especially with the expanded engagement team definition. Refer to Question 1.
2	27	Guidance Direction and Supervision	The AUASB raises for consideration whether the requirements of paragraph 27 are practical when interacting with the expanded engagement team definition. Refer to Question 5.
3	Overall	Ambiguity of definitions across the QM suite in relation to Engagement Team	The AUASB raises for consideration how the definition of Engagement Team has been applied across the suite of quality management standards. Whilst the definition is consistent across each of the quality management standards, the application material which describes how to apply the definition is not. For example the application materials to ED-220 outlines that a service delivery centre may be part of an engagement team and that an engagement quality reviewer is not. In ED-ISQM 1 this is not clear. Refer to Question 8.
4	Overall	Engagement Partner	The AUASB discussed that in practice, there are multiple scenarios (including for listed entities) where engagements can have more than one partner. This may result in a duplication of effort by the partners and a lack of clarity about how to meet the requirements of ASA 220. The AUASB raises for consideration whether ED-220 should address this as part of the revisions. Refer to Question 9.
5	10(d) & A16-A19	Definitions	The definition of engagement team in ED-220 is supported by application material which extends the definition of engagement team to service delivery centres (SDC) and individuals from networks or other firms. The AUASB raises for consideration whether there could be further clarity in the standard when it comes to the engagement leader’s responsibility for oversight of members of the expanded engagement team. Refer to Question 10.

Matter #	ED Para	Matter Raised	Brief Description
6	Overall	How do the changes improve audit quality?	<p>Considering the nature and extent of changes in ED-220 the AUASB raises for consideration whether the requirements in ED-220 will contribute to improved audit quality in Australia.</p> <p>Refer to Question 11.</p>
7	Overall	Requirements	<p>The AUASB notes that the language used to emphasize the engagement partner’s responsibilities has changed from “shall be satisfied” to “shall determine”.</p> <p>This change appears to result in a higher bar for an engagement partner to meet and in combination with other changes in the proposed standard such as the removal of the explicit statement that an engagement partner may rely on the firm/network’s system of quality control, may make the bar difficult to practically achieve.</p> <p>Refer to Question 12.</p>
8	Overall	Network reliance	<p>The AUASB raises for consideration the removal from the introductory paragraph of the extant standard the paragraph that “engagement team are entitled to rely on the firm’s system of quality control”.</p> <p>The statement was removed and a modified version was included as part of the application and explanatory material. Areas of the standard have also been modified to explicitly state that the firm’s system cannot be relied upon by the engagement partner.</p> <p>Refer to Question 13.</p>
9	Overall	Roles of EP and EQR	<p>The AUASB raises for consideration whether the responsibilities of an engagement partner in ISA 220 and an engagement quality reviewer in ISQM 2 are appropriate and proportionate given their respective roles.</p> <p>It appears that the expectations of an EQR has noticeably increased from the extant standard and may not reflect the nature and objectives of the role.</p> <p>Refer to Question 14.</p>

Consideration of Australian modifications from the extant ASA 220

7. As outlined in the Explanatory Guide *Exposure of the IAASB’s Proposed Quality Management Standards in Australia*, at this stage of the exposure process the AUASB has not considered Australian modifications to the proposed standard to reflect Australian principles and practices and laws and regulations. This will be completed at a later date once the proposed international standard is finalised.
8. To guide the AUASB in the future deliberation of Australian modifications to the proposed international standard, Australian stakeholders are asked to consider whether any current Australian specific modifications contained in the extant version of ASA 220¹ are applicable to the proposed revised ISA 220. The list of modifications in the extant ASA 220 is summarised in Appendix 1. Refer to Question 15.

¹ Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

Comment Date

9. Comments to the AUASB will close on Wednesday 5 June 2019. This allows for the AUASB Audit Technical Group to analyse stakeholder comments and prepare a draft submission to the IAASB. The AUASB will then deliberate the content of the draft submission at a 26 June 2019 teleconference. The AUASB submission is due to the IAASB on 1 July 2019.
10. Where stakeholders for timing or other reasons cannot share a written submission with the AUASB, we request that feedback be provided in another form. Where stakeholders are intending to only share feedback directly with the IAASB, we request that:
 - (a) the AUASB is kept informed of any major concerns with the exposure drafts and if possible that the stakeholder submits or at least shares their submissions to the IAASB with the AUASB as early as possible, which may be on a confidential basis; and
 - (b) stakeholders respond directly to the AUASB on the Australian specific questions.

Australian Proposed Outreach

11. The AUASB plans to hold roundtable events in Sydney, Melbourne, Brisbane and Perth. Additionally, the AUASB intends to collaborate closely with the NZAuASB and the professional bodies in their outreach plans; so that we obtain sufficient feedback from the SMP sector. The AUASB is seeking involvement from practitioners who provide services other than audit, as the revised Quality Management Standards impacts those practitioners as well. Furthermore, the AUASB expects to host webinars summarising feedback from roundtable sessions, with a view to seeking additional feedback on specific areas. The timing of outreach events will be finalised by the end of March 2019 and posted on the AUASB website.

Appendix 1 –Australian Modifications to extant ASA 220

Extant ASA 220 para #	Australian Text in ASA 220
Aus 7.1	Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.
Aus 7.2	Engagement partner should be read as referring to a public sector equivalent where relevant.
Aus 7.3	Firm means a sole practitioner, partnership, or corporation or other entity of assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.
Aus 7.4	Partner means any individual with authority to bind the firm with respect to the performance of an audit of a financial report or historical financial information. Partner should be read as referring to a public sector equivalent where relevant.
Aus 7.5	Australian Auditing Standards means the suite of auditing standards issued by the AUASB, and includes ASA 805 <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> , and ASA 810 <i>Engagements to Report on Summary Financial Statements</i> .
Aus 7.6	Relevant ethical requirements means relevant ethical requirements as defined in ASA 102.*
Aus A2.1	<p><i>Reliance on the Firm’s System of Quality Control</i></p> <p>Notwithstanding reliance by the engagement team on the firm’s system of quality control, for audits undertaken in accordance with the <i>Corporations Act 2001</i> (the Act), the engagement partner is required to comply with the auditing standards under section 307A of that Act.</p>
Aus A4.1	<p><i>Compliance with Relevant Ethical Requirements</i></p> <p>The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102.</p>
A5	[Deleted by the AUASB. Refer ASA 102]
Aus A5.1	<p><i>Independence</i></p> <p>Examples of independence requirements that may be applicable are addressed in the <i>Corporations Act 2001</i>, Part 2M.3 Division 3, and relevant ethical requirements in ASA 102.</p>
Aus A6.1	<p><i>Threats to Independence</i></p> <p>The familiarity threat is particularly relevant in the context of financial report audits of listed entities. For these audits, relevant ethical requirements and the <i>Corporations Act 2001</i> specify the partner rotation requirements.</p>

ATTACHMENT 1 – PROPOSED INTERNATIONAL
STANDARD ON AUDITING 220 (REVISED)

**Exposure Draft
February 2019**

Comments due: July 1, 2019

International Standard on Auditing

Proposed International Standard on Auditing 220 (Revised)

*Quality Management for an
Audit of Financial Statements*

IAASB

International Auditing
and Assurance
Standards Board

About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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ISA.

IAASB

International Auditing
and Assurance
Standards Board®

REQUEST FOR COMMENTS

This Exposure Draft, proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by July 1, 2019.**

Respondents are asked to submit their comments electronically through the IAASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

CONTENTS

	Page
Introduction.....	5
Section 1 Guide for Respondents	5
Section 2 Significant Matters.....	5
Section 3 Request for Comments	12
Appendix to the Explanatory Memorandum	
Scalability for Firms of Different Sizes and for Engagements Where Nature and Circumstances Differ	14
Exposure Draft	
Proposed International Standard on Auditing 220 (Revised) Quality Management for an Audit of Financial Statements.....	18

Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* (ED-220), which was approved for exposure by the IAASB in December 2018.
2. ED-220 is part of a package of proposed quality management standards in respect of which the IAASB is seeking public comment. This memorandum supplements the overall explanatory memorandum, [The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level](#). The overall explanatory memorandum includes background to the IAASB's three quality management Exposure Drafts, discusses the scalability of the standards and sets forth the IAASB's considerations regarding the possible effective dates of the three standards following final approval by the IAASB and approval of due process by the Public Interest Oversight Board. The overall explanatory memorandum also explains the linkages between the three quality management standards and addresses the related conforming amendments to the IAASB's International Standards on Auditing (ISAs).

Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-220, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are also free to address only questions relevant to them. When a respondent agrees with proposals in ED-220, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.

Section 2 Significant Matters

Section 2-A – Overall Matters

Public Interest Matters

3. In revising ISA 220, the IAASB sought to address public interest considerations by encouraging proactive management of quality at the engagement level, emphasizing the importance of the exercise of professional skepticism, enhancing the documentation of the auditor's judgments, keeping ISA 220 fit for purpose in a wide range of circumstances and in a complex environment, and reinforcing the need for robust communications during the audit.¹
4. In support of these goals, the IAASB agreed to:
 - Highlight the importance of the public interest role of audits, and improve the emphasis on the importance of the appropriate application of professional judgment and exercise of professional skepticism (see paragraphs 5–6 below);
 - Clarify the role and responsibilities of the engagement partner, particularly the required involvement of the engagement partner throughout the audit, and retain the emphasis on the engagement partner's responsibility for managing and achieving quality at the engagement level (see Section 2-B below);

¹ The public interest issues that the IAASB was seeking to address are explained further in the [Project Proposal](#), paragraph 21.

EXPLANATORY MEMORANDUM

- Modernize ISA 220 for an evolving environment, including changes in audit delivery models and the use of technology (see paragraphs 7–9 below); and
- Clarify the relationship between ED-220 and the ISQMs, including additional clarification of the engagement partner’s and engagement team’s interaction with the firm, and the engagement team’s, ability to depend on the firm’s quality management policies or procedures (see paragraphs 10–11 below).

The Public Interest Role of Audits and the Exercise of Professional Skepticism

5. The IAASB believes that it is important to emphasize that the public interest is served by the consistent performance of quality engagements. Accordingly, ED-220 highlights that the public interest is served by the consistent performance of quality audit engagements (see paragraph 6 of ED-220 and paragraphs 19–21 of the explanatory memorandum in ED-ISQM 1).
6. In addition, the IAASB has included new introductory material on the importance of the use of professional skepticism and professional judgment in performing audit engagements (see paragraph 7 of ED-220). This introductory material is further supported by application material that describes impediments to professional skepticism, auditor biases, and actions the engagement partner can take to deal with impediments to the exercise of professional skepticism.

Modernizing ISA 220 for an Evolving Environment

7. The [Invitation to Comment \(ITC\), *Enhancing Audit Quality in the Public Interest*](#), noted that the project to revise ISA 220 could acknowledge the evolving use of audit delivery models² and emphasize the need for appropriate policies and procedures for these structures as part of the firm’s system of quality control and at the engagement level. Respondents to the ITC were supportive of this suggestion.
8. ED-220 now recognizes that engagement teams may be organized in a variety of ways including being located together or across different geographic locations, or organized by the activity they are performing. ED-220 also recognizes that individuals who are involved in the audit engagement may not necessarily be engaged or employed directly by the firm. Importantly, the change recognizes that, regardless of the location or employment status of such individuals, if they are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed. As a consequence, changes have been made to the definition of the engagement team to recognize different and evolving engagement team structures (see Section 2-E below).
9. ED-220 also highlights the growing role of technology in audits of financial statements. The requirements in the Resources section have been enhanced and cover not only the human resources involved in an audit engagement, but also the technology and intellectual resources. Paragraphs A56–A58 explain how technological resources may be used in the audit (see also Section 2-D below). The ED also notes the role of specialized skills or knowledge in the use of automated tools. In proposing amendments to the ISA, the IAASB took into account the learnings of the IAASB’s Data Analytics Working Group, which is exploring the use of technology on audits.

² See paragraph 117 of the ITC for an explanation of audit delivery models.

The Interaction Between ED-220 and Proposed ISQM 1 and Proposed ISQM 2

10. ED-220 is designed to operate as part of the broader system of quality management established by ISQM 1.³ Under ED-ISQM 1, the firm establishes quality objectives, identifies and assesses quality risks, and designs responses to address the quality risks in relation to the components of the firm's system of quality management. The responses may be implemented at the firm level or at the engagement level, depending on the nature and circumstances of the firm and the engagement.⁴ Accordingly, ED-ISQM 1 requires the firm to communicate information to the engagement team about their responsibilities regarding the firm's responses that are required to be implemented at the engagement level.
11. Extant ISA 220 includes requirements and guidance on the performance of an engagement quality review (formerly known as an engagement quality control review) of the audit, including requirements directed at the engagement quality reviewer. These requirements and guidance are now proposed to be moved to proposed ISQM 2⁵ and, therefore, ED-220 is focused only on the responsibilities of the engagement partner in this regard, including how the engagement partner and engagement team interact with the engagement quality reviewer.

The role of the firm's policies or procedures at the engagement level

12. Extant ISA 220 notes that engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The IAASB has proposed removing this material, and replacing it with application material that explains that in certain circumstances, the engagement partner may "depend on the firm's policies or procedures" in complying with the requirements of ED-220. This approach is intended to avoid the risk that the engagement team blindly relies on the firm's system of quality management without taking into account whether the firm's quality management policies or procedures are "fit-for-purpose" in the specific circumstances of the engagement. To assist the engagement partner in making the determination as to whether, and the degree to which, the engagement partner may depend on the firm's policies or procedures, the IAASB has also proposed application material that provides examples of 'matters' that the engagement partner may take into account when determining whether it is appropriate to depend on the firm's policies or procedures (see paragraphs A7–A8 of ED-220).
13. In certain places in ED-220, the engagement partner or engagement team is required to comply with the firm's policies or procedures in addressing the requirements of ED-220. This is because in such cases the firm's policies or procedures are considered integral to the fulfillment of the requirements of ED-220. For example, paragraph 16 of ED-220 requires the engagement partner to evaluate threats to compliance with relevant ethical requirements through complying with the firm's policies or procedures. Complying with the firm's policies or procedures in these circumstances is considered necessary because the engagement partner would likely not have the necessary information or tools to evaluate the threats, and would therefore need to draw upon the firm's resources to assist in this regard. The IAASB concluded that the requirements that reference the firm's policies and procedures are aligned with requirements in proposed ISQM 1 for the firm to establish responses to risks to

³ See [ED-ISQM 1](#).

⁴ See the [overall explanatory memorandum](#) for an explanation of how the quality management approach can be implemented in a scalable manner and the implementation support tools available.

⁵ See [ED-ISQM 2](#).

engagement quality⁶ and this approach is consistent with extant ISA 220. In addition, understanding and complying at the engagement level with applicable firm policies and procedures is critical to establishing and maintaining the relationship between quality management at the firm level and quality management at the engagement level.

14. In ED-220, the phrase “shall be satisfied” has been used in requirements that refer to the engagement partner’s responsibility in relation to actions that occur (or should have occurred) at the firm level, but which are relevant to managing and achieving quality at the engagement level. The phrase “shall determine” has been used in requirements that refer directly to actions that the engagement partner is required to take.

Scalability for Firms of Different Sizes and for Engagements Where Nature and Circumstances Differ

15. ED-220 is intended to be applied by firms of all sizes and circumstances and it is intended to be scalable based on the nature and circumstances of the audit engagement. The Appendix to this Explanatory Memorandum lists paragraphs that highlight how the proposed ISA can be applied in the different circumstances. In addition, the IAASB is developing support materials to show how certain aspects of proposed ISA 220 (Revised) and ISQM 1 (Revised) can be applied together in a scalable manner in smaller firms.⁷

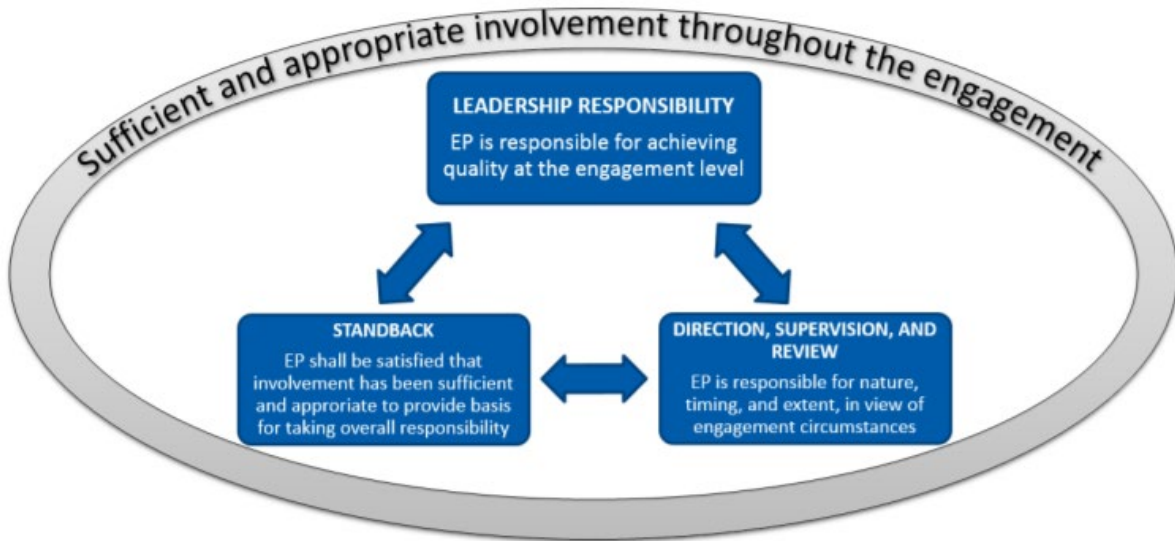
Section 2-B – The Engagement Partner’s Overall Responsibility for Managing and Achieving Quality on Audits, Including Engagement Performance and Standing Back

16. Extant ISA 220 requires the engagement partner to take responsibility for the overall quality of each audit engagement to which that partner is assigned and provides guidance on the actions and messages to emphasize. The ITC noted that the project to revise ISA 220 may result in updating requirements and application material in ISA 220 to make the engagement partner’s responsibilities for leadership and project management (including the assessment of the competence and objectivity of the engagement team) more explicit.
17. The IAASB believes that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement as this is fundamental to providing the engagement leadership required to achieve high quality audits and, therefore, to meeting the objective of ISA 220. The diagram below illustrates how the engagement partner’s overall responsibility to manage and achieve quality on the engagement is demonstrated through sufficient and appropriate involvement throughout the engagement, such that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the audit. This overall responsibility includes:
 - a) **Fulfilling leadership responsibilities**, including taking actions to create an environment for the engagement that emphasizes the firm’s culture and the expected behavior of engagement team members, and assigning procedures, tasks or actions to other members of the engagement team;
 - b) **Supporting engagement performance**, including taking responsibility for the nature, timing and extent of direction, supervision and review of the work performed; and

⁶ See Section 6 of the Explanatory Memorandum, *The IAASB’s Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews*.

⁷ The support materials will be available at www.iaasb.org during the public exposure period for ED-220.

- c) **Standing back**, to determine whether the engagement partner has taken overall responsibility for managing and achieving quality, including determining that the engagement partner's involvement has been sufficient and appropriate throughout the engagement and that the nature and circumstances of the engagement have been taken into account.



Fulfilling Leadership Responsibilities (Paragraphs 11–13 of ED-220)

18. In clarifying the role and responsibilities of the engagement partner, the IAASB determined that ED-220 needed to highlight early in the ISA that achieving quality on the audit engagement requires the engagement partner to demonstrate sufficient and appropriate involvement in the engagement, which includes being responsible for creating an environment that emphasizes the firm's culture and expected behavior of engagement team members (see paragraph 11 of ED-220). The engagement partner is also required to take clear, consistent and effective actions that reflect the firm's commitment to quality and communicate the expected behavior of engagement team members (see paragraph 12 of ED-220). The focus on the link between the firm's culture and the tone set by leadership is aligned with the requirements of ED-ISQM 1 (see, for example, paragraph 22 of the explanatory memorandum of ED-ISQM 1).
19. Another aspect of leadership responsibilities is assigning responsibilities to other engagement team members. ED-220 recognizes that the engagement partner may assign procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements, but that the engagement partner is still required to take overall responsibility for the quality of the engagement. The engagement partner is therefore required to inform assignees about their responsibilities, to monitor the performance of the assignees' work, and to review related documentation (see paragraph 13 of ED-220). The IAASB discussed whether the leadership requirements, collectively, placed too much emphasis on the role of the engagement partner, but concluded that the public interest was best served by requirements that continue to emphasize the importance of overall responsibility for managing and achieving quality being in the hands of the engagement partner.

Supporting Engagement Performance (Paragraphs 27–31 of ED-220)

20. The IAASB revised the engagement performance section extensively to improve the quality of audits by enhancing the requirements and emphasizing the importance of taking the nature and circumstances of the audit into account in addressing them. To this end:
- The requirements and application material on direction, supervision and review have been strengthened and include greater specificity on how the engagement partner needs to be involved. In addition, the revised requirements include linkages with other requirements in ED-220 (e.g. the requirements on engagement resources) and with other ISAs (e.g. the guidance in ISA 230 on significant matters). The proposed standard also includes new guidance on these requirements, including guidance on matters that may constitute a significant judgment, and which matters therefore need to be reviewed by the engagement partner.
 - New requirements require the engagement partner to review the financial statements and the auditor’s report prior to dating the auditor’s report and, prior to their issuance, to review formal written communications to management, those charged with governance, or regulatory authorities.
 - The proposed ISA includes improved links with proposed ISQM 1 and ISQM 2, for example:
 - Requiring the engagement partner to take responsibility for the engagement team consulting on matters where the firm’s policies or procedures require consultation.
 - Aligning the requirement to cooperate with the engagement quality reviewer with proposed ISQM 2.
 - Referring in paragraph A29 of ED-ISQM 2 to the new focus and guidance on significant judgments in ED-220, which provides assistance to the engagement quality reviewer in addressing the requirements of ISQM 2
 - A new requirement on addressing differences of opinion has been included to provide greater specificity on the engagement partner’s role in handling differences of opinion. This requirement is supported by guidance on how to handle differences of opinion.

Standing Back (Paragraph 37 of ED-220)

21. Paragraph 37 of ED-220 requires the engagement partner to “stand-back” and, prior to forming an opinion, determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. The IAASB concluded that it was appropriate for the engagement partner to determine that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement and that the nature and circumstances of the engagement (and any changes thereto) have been taken into account in complying with the proposed ISA. The IAASB believes that including such a stand-back requirement would also assist in supporting the exercise of professional skepticism by the engagement partner and other members of the engagement team. Paragraph A100 of ED-220 provides guidance that appropriate consideration of the requirements of ED-220, and how the audit documentation evidences the engagement partner’s involvement in the audit, would provide the basis for whether the engagement partner has taken overall responsibility for managing and achieving quality.

Section 2-C – Relevant Ethical Requirements

22. Extant ISA 220 requires that the engagement partner remain alert for non-compliance with relevant ethical requirements by members of the engagement team, determine the appropriate action if non-compliance comes to the engagement partner's attention, and conclude on compliance with independence requirements. The ITC noted that ISA 220 could include further material on the responsibilities of the engagement partner in relation to relevant ethical requirements for members of the engagement team.
23. In response to the ITC and the comments thereon, the IAASB determined that the requirements should be strengthened regarding relevant ethical requirements and the engagement partner's role in dealing with relevant ethical requirements. Accordingly, in addition to enhancing the extant requirements, ED-220 includes requirements regarding:
- Understanding of the relevant ethical requirements and whether other members of the engagement team are aware of those requirements and the firm's related policies or procedures;
 - Threats to compliance with relevant ethical requirements; and
 - Determining whether relevant ethical requirements, including those related to independence, have been fulfilled.
24. ED-220 also includes new application material that links with the firm level requirements in proposed ISQM 1, describes possible appropriate actions if non-compliance is indicated, and links to the requirement in ISA 700 (Revised)⁸ for the auditor's report to include a statement regarding the auditor's independence.

Section 2-D – Engagement Resources

25. Extant ISA 220 contains requirements and guidance about the assignment of the engagement team, but does not otherwise address the engagement level resources. In paragraph 78 of the ITC, it was noted that extant ISA 220 does not explicitly address the need for the engagement partner to be satisfied that sufficient time and resources are available to the engagement team such that it will be possible to perform the necessary work to obtain sufficient appropriate audit evidence before the reporting deadline.
26. Consistent with the approach taken in ED-ISQM 1, proposed ISA 220 addresses this gap through a new section on human, technological and intellectual resources (see paragraphs 23–26 of ED-220). The engagement partner is responsible for determining that there are sufficient and appropriate resources assigned or made available on a timely basis. The engagement partner is also responsible for taking appropriate action when insufficient or inappropriate resources in the context of the audit engagement are provided by the firm, and for the appropriate use of resources by the engagement team. New application material describes how human, technological, and intellectual resources may be used to support the performance of audit engagements, how project management skills can assist in managing the quality of the audit engagement, and the appropriate actions if the engagement partner determines that the resources are insufficient or inappropriate.

⁸ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 28(c)

Section 2-E – Other Matters

27. Other improvements in ED-220 include that:

- Information learned in the acceptance and continuance process is required to be taken into account in planning and performing the audit engagement in accordance with the ISAs (see paragraph 21 of ED-220). For example, ED-220 now explicitly recognizes that information obtained in the acceptance and continuance process will be relevant to the auditor’s risk assessment process.
- The monitoring and remediation requirement has been enhanced and clarified. The IAASB has also aligned ED-220 with the new requirements in proposed ISQM 1, and are premised on the basis that the engagement partner is responsible for dealing with the relevant aspects of the 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 (see paragraph 36 of ED-220). In addition, the engagement partner is also required to be satisfied that the engagement team is aware of the results of the firm’s monitoring and remediation process, and to remain alert throughout the engagement for information that may be relevant to the monitoring and remediation approach.

28. Regardless of how the engagement team is organized, the IAASB has also emphasized the engagement partner’s overall responsibility for managing and achieving quality on the engagement (see Section 2-B above). In light of this, the role and responsibilities of the engagement partner and engagement team in a group audit are also a key focus for the IAASB. The IAASB is currently undertaking a project to revise ISA 600,⁹ which may result in minor amendments to ED-220 in due course as the project progresses.

Section 3 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-220. In this regard, comments will be most helpful if they are identified with specific aspects of ED-220 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement.

- 1) Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?
- 2) Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?
- 3) Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)
- 4) Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?
- 5) Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)

⁹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

EXPLANATORY MEMORANDUM

- 6) Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?
- 7) Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

Scalability for Firms of Different Sizes and for Engagements Where Nature and Circumstances Differ

Note: This Appendix includes the relevant references to the material located within ED-220 that incorporates scalability for firms of different sizes and for engagements where the nature and circumstances differ.

How ED-220 Covers Scalability	Reference to ED-220
<ul style="list-style-type: none"> • In larger firms, responsibility for elements of the system of quality management is dispersed throughout the firm and the engagement partner may not have direct involvement or detailed knowledge of those elements. In such cases, the engagement partner may use information provided by the firm and personal knowledge, supplemented with additional inquiries or other procedures, to have the necessary basis to depend on the firm’s policies and procedures. In a smaller firm, the engagement partner may have more direct involvement in the firm’s processes, which may provide the basis for depending on the firm’s policies or procedures in certain circumstances. • For example, if the engagement partner is directly involved throughout the firm’s acceptance and continuance process, the engagement partner will therefore be aware of the information obtained, or used by the firm, in reaching the related conclusions. Such involvement may also therefore provide a basis for the engagement partner being satisfied that the firm’s policies or procedures have been followed and that the conclusions reached are appropriate. 	<ul style="list-style-type: none"> • The Firm’s System of Quality Management and Role of Engagement Teams – Paragraphs A7–A8. • Acceptance and Continuance of Client Relationships and Audit Engagements – Paragraph A45. • Engagement Resources – Paragraphs A52 and A61.

EXPLANATORY MEMORANDUM

How ED-220 Covers Scalability	Reference to ED-220
<ul style="list-style-type: none"> • In a smaller firm, the design and implementation of many responses to the firm’s quality risks may be most effectively dealt with by the engagement partner at the engagement level. • The firm’s responses to quality risks, including policies or procedures, may be less formal in a smaller firm (e.g., in a very small firm with a relatively small number of audit engagements, firm leadership may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence would be monitored at the engagement level by the engagement partner). 	<ul style="list-style-type: none"> • The Firm’s System of Quality Management and Role of Engagement Teams – Paragraph A14.
<ul style="list-style-type: none"> • Some requirements of ED-220 may not be relevant if the audit is carried out entirely by the engagement partner because they are conditional on the involvement of other members of the engagement team (e.g., requirements related to direction, supervision, and review). 	<ul style="list-style-type: none"> • The Firm’s System of Quality Management and Role of Engagement Teams – Paragraph A15.
<ul style="list-style-type: none"> • For a smaller engagement team that consists of only a few engagement team members, the engagement partner’s actions influence the desired culture through direct interaction and conduct, which may be sufficient to reflect the firm’s commitment to quality. For a larger engagement team that is dispersed over many locations, more formal communications may be necessary. 	<ul style="list-style-type: none"> • Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraph A23.
<ul style="list-style-type: none"> • The requirements relating to nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed are required to be responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement (i.e., the direction, supervision and review is to be specifically 	<ul style="list-style-type: none"> • Engagement Performance – Paragraphs 27–29.

EXPLANATORY MEMORANDUM

How ED-220 Covers Scalability	Reference to ED-220
<p>tailored or scaled for each engagement, depending on its size and complexity).</p>	
<ul style="list-style-type: none"> For larger engagements, the engagement partner may assign certain procedures, tasks or other actions to other members of the engagement team to assist the engagement partner in complying with the requirements of ED-220. 	<ul style="list-style-type: none"> Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraphs 13 and A30.
<ul style="list-style-type: none"> 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 who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for a smaller engagement team with fewer engagement team members, project management may be achieved through less formal means. 	<ul style="list-style-type: none"> Engagement Resources – Paragraph A63–A64.
<ul style="list-style-type: none"> Explicit acknowledgement of a tailored approach to quality management at the engagement level that is responsive to the nature and circumstances of the audit engagement. 	<ul style="list-style-type: none"> Scope of this ISA – Paragraph A2. The Firm’s System of Quality Management and Role of Engagement Teams – Paragraphs 4(b), 7, A5, A9, and A14. Relevant Ethical Requirements, Including Independence Requirements – Paragraphs 14–15, 18, and A32–A33. Acceptance and Continuance of Client Relationships and Audit Engagements – Paragraph A49. Leadership Responsibilities for Managing and Achieving Quality on Audits – Paragraphs 11, A23–A24, and A66. Engagement Resources – Paragraphs 23, 25, A52, A60, and A11D. Direction, Supervision and Review – Paragraphs 27(b), A69, A81, and A84. Monitoring and Remediation – Paragraph A97.

EXPLANATORY MEMORANDUM

How ED-220 Covers Scalability	Reference to ED-220
	<ul style="list-style-type: none">• Taking Overall Responsibility for Managing and Achieving Quality – Paragraph 37.

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 220
(REVISED)
QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL
STATEMENTS**

CONTENT

	Page
Introduction	20
Scope of this ISA	20
The Firm’s System of Quality Management and Role of Engagement Teams	20
Effective Date	21
Objective	21
Definitions	21
Requirements	23
Leadership Responsibilities for Managing and Achieving Quality on Audits	23
Relevant Ethical Requirements, Including Those Related to Independence	23
Acceptance and Continuance of Client Relationships and Audit Engagements	24
Engagement Resources	24
Engagement Performance	25
Direction, Supervision and Review	25
Engagement Quality Review	26
Differences of Opinion	26
Monitoring and Remediation	27
Taking Overall Responsibility for Managing and Achieving Quality	27
Documentation	27
Application and Other Explanatory Material	28
Scope of this ISA	28
The Firm’s System of Quality Management and Role of Engagement Teams	28
Definitions	31
Leadership Responsibilities for Managing and Achieving Quality on Audits	32
Relevant Ethical Requirements, Including Those Related to Independence	35
Acceptance and Continuance of Client Relationships and Audit Engagements	38
Engagement Resources	40
Engagement Performance	43

PROPOSED INTERNATIONAL STANDARD ON AUDITING 220,
QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Consultation.....	48
Engagement Quality Review	48
Differences of Opinion	49
Monitoring and Remediation.....	49
Taking Overall Responsibility for Managing and Achieving Quality	50
Documentation.....	50

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:
 - (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.¹⁰ (Ref: Para. A3, A14–A15)
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. 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–A8)
 - (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses beyond those set forth in the firm's policies or procedures; and (Ref: Para. A9–A10)
 - (c) Providing the firm with information from the audit engagement 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. A11)
5. Complying with the requirements in other ISAs may provide information that is relevant to quality management at the engagement level. (Ref: Para. A12)
6. The public interest is served by the consistent performance of quality audit engagements. Quality audit engagements are 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 standards and complying with the requirements of applicable law

¹⁰ Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 21

or regulation involves exercising professional judgment and exercising professional skepticism. (Ref: Para. A13)

7. In accordance with ISA 200,¹¹ 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. In doing so, the engagement partner and engagement team exercise professional judgment and professional skepticism in meeting the objective and requirements of this ISA. Professional judgment is applied 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 deal with impediments that may impair the appropriate exercise of professional skepticism, such as unconscious bias or resource constraints. (Ref: Para. A27–A29)

Effective Date

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

Objective

9. 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.

Definitions

10. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Engagement partner¹² – 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.
 - (b) Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon that is completed on or before the date of the engagement report.
 - (c) Engagement quality reviewer – A suitably qualified partner or other individual appointed by the firm to be responsible for the performance of the engagement quality review.

¹¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 15–16

¹² “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

- (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. 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 (Ref: Para. A16–A19)
- (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A20)
- (f) Network firm – A firm or entity that belongs to a network. (Ref: Para. A21)
- (g) Network – A larger structure: (Ref: Para. A21)
 - (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.
- (l) 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.
- (m) Staff – Professionals, other than partners, including any experts the firm employs.

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.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

11. 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 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)
12. In creating the environment described in paragraph 11, the engagement partner, and others to whom supervisory roles are assigned, shall take clear, consistent and effective actions that reflect the firm's commitment to quality and establish and communicate the expected behavior of engagement team members, including:
 - (a) Emphasizing that all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
 - (b) Reinforcing the importance of professional ethics, values, and attitudes to the members of the engagement team;
 - (d) 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
 - (e) Emphasizing the importance of each engagement team member exercising professional skepticism throughout the audit engagement.
13. If the engagement partner assigns procedures, tasks or actions 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. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall: (Ref: Para. A30)
 - (a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and
 - (b) Monitor the performance of the work of assignees and review selected related documentation in order to evaluate the conclusions reached.

Relevant Ethical Requirements, Including Those Related to Independence

14. 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, A41)
15. The engagement partner shall determine that other members of the engagement team have 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 deal with: (Ref: Para. A33–A35)

- (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 their responsibilities when they become aware of actual or suspected breaches; and
 - (c) Their responsibilities when they become aware of an instance of actual or suspected non-compliance with laws and regulations.¹⁵
16. 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 such 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–A37)
17. 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. A38)
18. 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. A39)
19. Prior to dating the auditor's report, the engagement partner shall determine whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A40)

Acceptance and Continuance of Client Relationships and Audit Engagements

20. The engagement partner shall be satisfied 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, A51)
21. 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–A49)
22. If the engagement partner obtains 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. A50)

Engagement Resources

23. The engagement partner shall determine that, given the nature and circumstances of the audit engagement (and any changes that may arise during its course), sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm on a timely basis. (Ref: Para. A52–A61, A63–A64, A67)

¹⁵ ISA 250 (Revised), *Considerations of Laws and Regulations in an Audit of Financial Statements*

24. The engagement partner shall determine that members of the engagement team, and any auditor's experts 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. A62–A64)
25. If, as a result of complying with the requirement in paragraphs 23 and 24, 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–A66)
26. 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. A58)

Engagement Performance

Direction, Supervision and Review

27. The engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and determine that such direction, supervision and review is: (Ref: Para A68–A76, A81–A83)
 - (a) Planned 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; and
 - (c) Planned and performed on the basis that the work performed by less experienced team members is directed, supervised, and reviewed by more experienced engagement team members.
28. On or before the date of the auditor's report, the engagement partner shall, through review of audit documentation and discussion with the engagement team, determine 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–A80)
29. In complying with the requirements of paragraph 28, the engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A77–A80)
 - (a) Significant matters;¹⁶
 - (b) Other areas involving significant judgments, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached; and
 - (c) Other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.
30. Prior to dating the auditor's report, and in order to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the financial statements and

¹⁶ ISA 230, *Audit Documentation*, paragraph 8

the auditor's report, including, if applicable, the description of the key audit matters¹⁷ and related audit documentation.

31. The engagement partner shall review, prior to their issuance, any formal written communications to management, those charged with governance, or regulatory authorities.

Consultation

32. The engagement partner shall: (Ref: Para. A84–A87)
- (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Matters where 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 course of 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

33. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A88)
- (a) Be satisfied 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;
 - (c) Discuss significant matters arising during the 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–A92)

Differences of Opinion

34. 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 them. (Ref: Para. A93–A94)
35. The engagement partner shall:
- (a) Take responsibility for differences of opinion being dealt with and resolved in accordance with the firm's policies or procedures;

¹⁷ ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

- (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

36. The engagement partner shall: (Ref: Para. A97–A98)
- (a) Be satisfied that the engagement team has been made aware of 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) Determine the relevance and effect on the audit engagement of the information referred to in paragraph 36(a) and take appropriate action; and
 - (c) Remain 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

37. 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 doing so, the engagement partner shall determine that: (Ref: Para. A99–A101)
- (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.

Documentation

38. The auditor shall include in the audit documentation:¹⁸ (Ref: Para. A102–A104)
- (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 course of 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.

¹⁸ ISA 230, paragraphs 8-11 and A6

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 600,¹⁹ deals with special considerations that apply to group audits, in particular those that involve component auditors.
- A2. ISA 200 requires the auditor to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements.²⁰ Paragraphs 14–19 and A31–A41 of this ISA include requirements and guidance that deal with 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. A system of quality management is designed, implemented and operated by a firm in accordance with proposed ISQM 1 and is organized into the following eight components:
- Governance and leadership;
 - The firm's risk assessment process;
 - Relevant ethical requirements;
 - Acceptance and continuance of client relationships and specific engagements;
 - Engagement performance;
 - Resources;
 - Information and communication; and
 - The monitoring and remediation process.
- 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 deal with all the components referred to in paragraph A3 and impose obligations on the firm to achieve the objective set out in proposed ISQM 1.

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

¹⁹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

²⁰ ISA 200, paragraph 14.

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 deal with particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing 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 firm or 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.

Other Firm Level Responses That May be Relevant to the Engagement Team (Ref: Para. 4(a))

- 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 partner may be able to depend on when complying with the requirements of this ISA include:

- Information systems that monitor independence;
- Information systems that deal with acceptance and continuance of client relationships and audit engagements; and
- Audit methodologies and related implementation tools and guidance.

- A8. Matters that the engagement partner may take into account 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 the requirements of this ISA include:

- The engagement partner’s knowledge or understanding of, or practical experience with, such policies or procedures.
- Information obtained from the firm, engagement team, or other parties, about the effectiveness of such policies or procedures (e.g., information provided by the firm’s monitoring and remediation processes that indicate that the firm’s policies or procedures are operating effectively or that do not provide any indications of deficiencies).

Designing and Implementing Responses at the Engagement Level (Ref: Para. 4(b))

- A9. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the 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 partner 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 in order to meet the objective of this ISA.²¹ The engagement partner’s determination of whether such engagement level responses are required (and if so,

²¹ ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

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 thereto. For example, unanticipated circumstances may arise during the course of 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.

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))

A11. The firm's policies or procedures may require the engagement team to provide the firm with specific information from the audit engagement that is relevant to the design, implementation, and operation of the firm's system of quality management. During the engagement, the engagement partner may become 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. Providing such information to the firm may be relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit program provided by the firm does not deal with new or revised regulation, 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 to deal with such regulation.

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

A12. 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)²² 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

²² ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

- 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.

Public Interest (Ref: Para. 6)

A13. Relevant ethical requirements contain requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest.

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

A14. In a smaller firm, the design and implementation of many responses to the firm's quality risks, may be most effectively dealt with 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. If an audit is carried out entirely by the engagement partner, some requirements in this ISA are not relevant because they are conditional on the involvement of other members of the engagement team. For example, 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 Team (Ref: Para. 10(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 activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures²³ on the audit engagement is considered to be a member of the engagement team. External experts and internal auditors providing direct assistance are not members of the engagement team. ISA 620²⁴ and ISA 610²⁵ include requirements for the auditor to comply with when using the work of an external expert or when using the work of internal auditors in a direct assistance capacity. The auditor performs audit procedures to comply with these requirements and these procedures form the basis for the auditor's determination as to whether work performed by external experts or internal auditors providing direct assistance can be used as audit evidence.

²³ ISA 500, *Audit Evidence*, paragraph A10

²⁴ See ISA 620, paragraph 12–13

²⁵ See ISA 610 (Revised 2013), paragraphs 21–25

- A17. Engagement teams may 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 group of firms from within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.
- A18. Engagement teams may include individuals from network firms or other firms to perform audit procedures, for example, procedures such as attending a physical inventory count or inspecting physical fixed assets at a remote location.
- A19. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and individuals who assist the engagement quality reviewer in performing the engagement quality review, are not members of the engagement team.

Firm (Ref: Para. 10(e))

- A20. 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. 10(f)–10(g))

- A21. 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. 11–13)

Taking Overall Responsibility for Managing and Achieving Quality

- A22. 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 11 and 12, the engagement partner may communicate directly and reinforce this communication through personal conduct and actions (e.g., 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.
- A23. The nature and extent of the actions of the engagement partner to reflect the firm’s commitment to quality may depend on a variety of 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

A24. 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 the work performed in complying with the requirements of this ISA;
- Varying the nature, timing and extent of such direction, supervision, and review, in the context of the nature and circumstances of the engagement.

Communication

A25. Communication is the means through which the engagement partner and the members of the engagement team share relevant information on a timely basis in order 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:

- (a) The firm, such as with 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;
- (b) Others involved in the audit (e.g., an auditor's external expert or component auditor); and
- (c) Parties that are external to the firm (e.g., management, those charged with governance, or regulatory authorities).

A26. 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 engagement team members. For example, in-person and more frequent interactions are likely to be a more effective way to direct and supervise less experienced team members.

Professional Skepticism

A27. As explained in paragraph 7, professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, the overall effectiveness of the engagement team in achieving quality at the engagement level. In some circumstances the engagement partner may need to deal with impediments to the exercise of professional skepticism at the engagement level such as:

- Tight deadlines or budget constraints may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review it;
- Lack of cooperation or undue pressures imposed by management may negatively affect the engagement team's ability to resolve complex or contentious issues;
- Insufficient emphasis on the importance of quality may undermine the exercise of professional skepticism by the engagement team;

PROPOSED INTERNATIONAL STANDARD ON AUDITING 220,
QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

- Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework 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 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; and
 - Overreliance on tools and templates may undermine the exercise of professional skepticism by the engagement team.
- A28. Unconscious or conscious auditor biases may affect the engagement team's professional judgments, including for example, the selection of an audit approach, performance of audit procedures, or evaluation of audit evidence. Examples of unconscious auditor biases that may affect the exercise of professional skepticism, and therefore the reasonableness of the professional judgments made by the engagement partner in complying with the requirements of this ISA, 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.
 - Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences.
 - Overconfidence bias, which involves overestimating one's own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions.
 - Anchoring bias, which involves making assessments by starting from an initial numerical value and then adjusting insufficiently away from that initial value in forming a final judgment.
- A29. Possible actions that the engagement partner may take to deal with impediments to the exercise of professional skepticism at the engagement level 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 (see paragraph A28);
 - Changing the composition of the engagement team assigned, for example, involving more experienced staff in order to obtain greater skills or knowledge or specific expertise;
 - 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 deal with complex or subjective areas of the audit;
 - Modifying the nature, timing and extent of direction and supervision of engagement team members, and review of their work, for complex or subjective areas of the audit, including

involving more experienced members of the team, more in-person oversight on a more frequent basis and more in-depth reviews of certain working papers;

- Setting expectations for:
 - Less experienced members of the engagement team to seek advice frequently and on a timely basis from more experienced team members or the engagement partner;
 - More experienced team members to be available to less experienced members of the engagement team throughout the audit and to respond positively and on a timely basis 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. 13)

A30. The engagement partner is ultimately responsible and therefore accountable for managing and achieving quality on the audit engagement. However, it will generally not be possible or practical for all of the requirements in this ISA to be dealt with solely by the engagement partner (e.g., due to the nature and size of the entity, or the complexity of the audit and the need for specialized skills or expertise). In managing quality at the engagement level, the engagement partner may therefore assign responsibility for procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team who assist the engagement partner in complying with the requirements of this ISA. For example, engagement team members other than the engagement partner may be assigned supervisory roles.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 14–19)

Relevant Ethical Requirements

A31. ISA 200²⁶ 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, there may be requirements related to independence that are applicable only when performing audits of listed entities.

A32. Based on the nature and circumstances of the audit engagement, certain relevant ethical requirements, or aspects of law or regulation, may be of significance to the engagement, for example law or regulation dealing with money laundering, corruption, or bribery.

Firms Policies or Procedures to Deal With Relevant Ethical Requirements

A33. Information and communication, and 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:

²⁶ ISA 200, paragraphs 14 and A16-A19

- Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.
 - Providing training for personnel 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 personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner, such as requirements for engagement teams or personnel 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.
 - Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.
- A34. The engagement partner may take into account the information, communication and resources described in paragraph A33 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. For example, the engagement partner may be able to depend on information systems that monitor independence. See paragraphs A7–A8.
- A35. 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)

- A36. 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, 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.
- A37. 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.

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

- A38. 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. 18)

A39. 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; or
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor's Report (Ref: Para. 19)

- A40. 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.²⁷ 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

- A41. 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 the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 14. This may include, where the public

²⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 28(c)

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)

- A42. 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.
- A43. Information such as the following assists 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 there are sufficient and appropriate resources 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;
 - Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.
- A44. 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.
- A45. 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 being satisfied that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.
- A46. 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:
- 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.
- A47. 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;³
 - Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA 315 (Revised) and ISA 240;²⁸
 - 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 260²⁹ and ISA 265.³⁰
- A48. Law, regulation, or relevant ethical requirements may require the 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 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.
- A49. 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 21.
- A50. 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 and is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

Considerations Specific to Public Sector Entities (Ref: Para. 20–22)

- A51. 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

²⁸ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

²⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*

³⁰ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

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 and A42–A47 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: Para. 23–26)

A52. 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.

Under proposed ISQM 1, the firm's quality objectives are required to address appropriately obtaining, developing, using, maintaining, allocating and assigning such resources in a timely manner to enable the design, implementation and operation of the system of quality management. Based on the nature and circumstances of the engagement the engagement partner may be able to depend on the firm's policies or procedures that address the quality risks related to such quality objectives when complying with the requirements in paragraphs 23–26 of this ISA (see also paragraphs A7–A8).

A53. A relevant consideration for the engagement partner, in complying with the requirements in paragraph 23 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

A54. Human resources assigned or made available by the firm include members of the engagement team and, where applicable, external experts. In addition, as provided for by ISA 610 (Revised 2013) individuals from within the entity's internal audit function may provide direct assistance.

A55. An engagement team includes any 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, information technology, or in using automated tools to analyze complex data or to perform statistical analysis.

Technological Resources

A56. 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 in order to, 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. Inappropriate use of such technological resources may however increase the risk of overreliance on the information produced for decision purposes, or may create threats to

complying with relevant ethical requirements, for example, those requirements related to confidentiality.

- A57. 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.
- A58. 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 engagement team or obtained from outside the engagement team or the firm). In these circumstances, the engagement partner may apply 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.

Intellectual Resources

- A59. Intellectual resources include, for example, firm, network firm, or network audit methodologies, implementation tools, auditing guides, model programs, templates, checklists, or forms.
- A60. 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, industry-specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 23)

- A61. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team by the firm, the engagement partner may be able to depend on the firm's related policies or procedures as described in paragraph A7. Matters that the engagement partner may take into account when making such a determination are described in paragraph A8. For example, 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 based on information communicated by the firm.

Competence and Capabilities of the Engagement Team (Ref: Para. 24)

- A62. 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 apply professional judgment.
- Understanding of the firm's policies or procedures.

Project Management

A63. 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 who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for a smaller engagement team with fewer engagement team members, project management may be achieved through less formal means.

A64. 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,³¹ 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;
- 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
- Coordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: Para. 25)

A65. 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.³² In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for becoming satisfied that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.

A66. 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

³¹ ISA 300, paragraph 9

³² See also paragraph A37.

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

- If possible, discussing an extension to the reporting deadlines with management or those charged with governance.
- 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.

Considerations Specific to Public Sector Entities (Ref: Para. 23–26)

A67. 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 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. 27)

- A68. 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 by more experienced engagement team members.
- A69. 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 quality of the audit engagement. Accordingly, the approach to direction, supervision and review will take into account the nature and circumstances of the engagement and will generally include a combination of addressing the firm's policies or procedures and engagement-specific responses. The approach will vary from one engagement to the next.
- A70. The approach to the direction and supervision of the members of the engagement team and the review of the work performed provides support for the engagement partner in addressing the requirements in this ISA, as well as the conclusion that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 37.
- A71. Ongoing discussion and communication among members of the engagement team allows less experienced team members to raise questions with more experienced team members (including the engagement partner) on a timely basis and enables effective direction, supervision and review in accordance with paragraph 27(c).

Direction

A72. Direction of the engagement team may involve informing the members of the engagement team of matters 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 A29).
- Their responsibilities to fulfill relevant ethical requirements.
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- Respective roles and responsibilities of the engagement team members in performing audit procedures and the roles of more experienced team members in directing, supervising and reviewing the work of less experienced team members.
- The objectives of the work to be performed and detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
- 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

A73. Supervision includes matters such as:

- Tracking the progress of the audit engagement, which includes:
 - Monitoring the progress against the audit plan;
 - Monitoring whether the objective of work performed has been achieved;
 - 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 members of the engagement team 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

- A74. Review of work performed provides support for the conclusion that the requirements of this ISA have been addressed.
- A75. Review of work performed 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.
- A76. 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 of Work Performed (Ref: Para. 28–31)

- A77. The firm's policies or procedures may specify the nature, timing and extent of the engagement partner's review. As required by ISA 230, the partner documents the extent and timing of the review.³³
- A78. Timely review by the engagement partner at appropriate stages during 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 but may do so.
- A79. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. 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;
 - The composition of the engagement team, including:

³³ ISA 230, paragraph 9(c)

PROPOSED INTERNATIONAL STANDARD ON AUDITING 220,
QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

- Personnel using expertise in a specialized area of accounting or auditing;
 - 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 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:
 - The proposed overall group audit strategy and group audit plan, including the identification of significant components;
 - Decisions about the involvement of component auditors, including how to direct and supervise their work. For example, if a component auditor is located in a jurisdiction or a firm with significant audit inspection findings, then judgments about their involvement in the engagement and the direction, supervision and review of their work are likely to be more significant; and
 - 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; or
 - The engagement team's 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.
- A80. The engagement partner uses 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. 27)

- A81. In accordance with paragraph 27(a), 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 on a timely basis.
- A82. In accordance with paragraph 27, the engagement partner is responsible for the nature, timing and extent of direction and supervision of the engagement team and the review of the work performed. The engagement partner may tailor the approach to direction, supervision and review 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, including whether there are significant events that 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 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 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 team members may require more detailed instructions and more frequent, or in person, interactions as the work is performed.
 - The manner in which the engagement partner and manager reviews of 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 location of engagement team members, including where 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.
- A83. In accordance with paragraph 27(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 member of the engagement team 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.

Consultation (Ref: Para. 32)

A84. 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.

A85. 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.

A86. 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. 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.

A87. 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.³⁴

Engagement Quality Review (Ref: Para. 33)

A88. Proposed ISQM 1 requires that the firm establish policies or procedures that require an engagement quality review for certain types of engagements.³⁵ Proposed ISQM 2³⁶ 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. 33(d))

A89. ISA 700 (Revised) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial

³⁴ ISA 701, paragraphs 9 and A15

³⁵ Proposed ISQM 1, paragraph 40(e)

³⁶ Proposed ISQM 2, *Engagement Quality Reviews*

statements.³⁷ 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.

- A90. 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.³⁸
- A91. 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.
- A92. 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)

- A93. 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.
- A94. 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. 36)

- A95. 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.
- A96. Information provided by the firm may be relevant to the audit engagement when, for example, it deals with findings identified on another engagement done by the engagement partner or engagement team, findings from the local firm office or previous inspection results of this particular engagement.

³⁷ ISA 700 (Revised), paragraph 49

³⁸ Proposed ISQM 2, paragraph 21(b)

A97. In considering relevant information communicated by the firm 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;
- 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.

A98. A deficiency in the firm's system of quality management does not necessarily indicate that a particular 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.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 37)

A99. 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 engagement.

A100. Relevant considerations in addressing the requirement in paragraph 37 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 in the engagement.

A101. If the engagement's 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 37. 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. 38)

A102. In accordance with ISA 230,³⁹ 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. Documentation of the performance of the

³⁹ ISA 230, paragraph A7

requirements of this ISA, including evidencing the involvement of the engagement partner, may be accomplished in different ways. 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 engagement team members, and where applicable the engagement quality reviewer, and related time records, may provide evidence of the engagement partner's involvement throughout the audit; and
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A103. 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 22), the documentation may include explanations of how the engagement team dealt with the circumstance.

A104. 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.

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