



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.2.0
Meeting Date: 4-5 December 2018
Subject: ISA 220 – Quality Management at the Engagement Level
Date Prepared: 20 November 2018
Prepared By: Tim Austin

Action Required

For Information Purposes Only

IAASB Project Objective	AUASB SMEs
<p>1. The objectives of the project are to:</p> <ul style="list-style-type: none"> (a) Propose revisions to ISA 220 to strengthen aspects of quality management for individual engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances. (b) Propose consequential amendments to other standards that may be necessary as a result of revisions to ISA 220. (c) Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement the revisions or new standard(s). 	<p>Tim/Roger</p>
<p>AUASB Key Points</p>	
<p>Issues Raised at June and September 2018 AUASB Meetings</p>	
<p>Signing Partner Project</p>	
<p>2. A separate IAASB <i>Signing Partner Project</i> was established. The signing partner project will be led by Lyn Provost (IAASB Member) supported by the AUASB and NZAuASB. A short paper summarising the outcomes of the initial outreach and research is proposed to be brought to the March 2019 IAASB meeting.</p> <p>3. Update at December 2018 – The ATG has not been requested to assist on this project at this stage, we expect this to begin in early 2019.</p>	
<p>Definitions</p>	
<p>4. Concerns were raised by AUASB Members at the September 2018 AUASB meeting regarding the definition of <i>engagement team</i> and the inclusion of service delivery centers in the scope of the engagement team. Whilst the requirements of ISA 220 on their own do not appear overly onerous, the interaction of these requirements with an extended engagement team definition may set an unachievable benchmark for engagement partners.</p>	

IAASB Project Objective	AUASB SMEs
<p>5. Update at December 2018 – There has been no change to the definition of <i>Engagement Team</i> for the version presented at the December 2018 AUASB Meeting, refer Agenda Item 3.2.1.</p>	
<p>Input from IAASB Data Analytics Working Group</p>	
<p>6. Prior to the September 2018 IAASB meeting, detailed feedback had been provided by the IAASB Data Analytics Working Group (DAWG). Some of the feedback had been reflected in changes made to proposed ISA 220 since the June 2018 version, however, not all feedback had been incorporated due to insufficient time prior to the September 2018 IAASB meeting. The extent of the DAWG’s feedback/changes is unclear, particularly considering the main issue with extant ISA 220 in the responses to the DAWG’s Request for Input, has been addressed through application material on <i>Technological Resources</i> (paragraphs A10A-A10C).</p>	
<p>7. Update at December 2018 – Additional application material has been included relating to technology. Key changes include the insertion of a point around the fact that the over reliance on technology may undermine professional skepticism.</p>	
<p>Common Issues Across Quality Management (QM) Task Forces¹</p>	
<p>8. The alignment of language used in proposed ISA 220 to proposed ISQM 1 and proposed ISQM 2 was an on-going issue at the September 2018 AUASB meeting. The September 2018 ISA 220 version had 10 of the 38 body paragraphs (introduction, objective, definition and requirements) and 20 of the 101 application paragraphs still subject to language changes including further changes to definitions.</p>	
<p>9. Aligning with the changes in proposed ISQC 1 and proposed ISQC 2, the definitions of <i>engagement quality control</i> and <i>engagement quality control reviewer</i> had been amended to <i>engagement quality review</i> and <i>engagement quality reviewer</i>. Further revisions to the definitions of <i>engagement partner</i> and <i>engagement team</i> may occur as a result of discussions with the ISQM 1 and ISQM 2 Task Forces and the International Ethical Standards Board for Accountants (IESBA). The ATG will continue to monitor these.</p>	
<p>10. Update at December 2018 – ISA 220 TF has worked on aligning the paragraphs since the September 2018 IAASB Meeting. As all three QM standards are intended to be approved for public exposure at the December 2018 IAASB Meeting, the ATG’s view is that it is unlikely that there will be significant changes to the highlighted paragraphs. A separate paper has been prepared by the IAASB staff to explore common issues and look at conforming and consequential amendments. At the time of preparing this paper, the IAASB common issues paper was not available. These issues will be addressed as part of the AUASB ISQM 1 December 2018 paper, refer Agenda Item 3.1.</p>	
<p>Issues identified since September 2018 AUASB Meeting</p>	
<p>Issues Raised at, and Addressed at, September 2018 IAASB Meeting</p>	
<p>11. A number of issues were raised at the September 2018 IAASB Meeting by IAASB Members.</p> <p>(a) Paragraphs 11 and 12 – Clarification of engagement partner’s responsibility for emphasising the expected behaviours of engagement team members and that others to whom a supervisory role is assigned have the same responsibility as the engagement partner.</p> <p>(b) Paragraph 22 – Clarification of what the engagement partner is expected to do when they obtain information during the engagement which may have caused them to decline the audit.</p>	

¹ QM Task Forces include – ISQM 1, ISQM 2 and ISA 220 Task Forces.

IAASB Project Objective	AUASB SMEs
<p>(c) Paragraphs 30 and 31 – Minor amendment to clarify when the engagement partner is expected to read review the financial statements. Concerns with engagement partner only having to review the “final draft” and that changes may occur between then and issuance.</p> <p>(d) Paragraph 37 – Additional application paragraph included to assist with the engagement partners demonstrating they have met the requirement of the new stand-back paragraph.</p>	
<p>12. These matters have all been addressed by the ISA 220 Task Force in the December 2018 final version of ISA 220, as provided to AUASB Members as Agenda Item 3.2.1.</p>	
<p>Common Topics</p>	
<p>13. As discussed in paragraph 10 above, a separate paper has been prepared by the IAASB Quality Management Task Forces to address common topics. Consideration of these common topics will form part of the AUASB ISQM 1 papers (Agenda Item 3.1) as the IAASB Paper was not available at the time of preparing this paper.</p>	
<p>Any other issues we pick up with the standard</p>	
<p>14. Following a review of the final proposed version of ISA 220 (AG) the ATG have summarised other issues with the proposed ISA 220 in Attachment 1.</p>	
<p>What the ATG is seeking from the AUASB at this meeting:</p>	
<p>15. The ATG is seeking comments/inputs from the AUASB on the matters highlighted above and on the other potential issues summarised in Attachment 1.</p>	
<p>16. ISA 220 is expected to be approved for exposure at December 2018 IAASB Meeting. As this will be the final opportunity to provide feedback to the IAASB before exposure, AUASB Members may wish to read the standard in its entirety. A clean version has been provided as Agenda Item 3.2.1.</p>	
<p>17. Should AUASB Members wish to review the full suite of IAASB Papers relating to this Agenda Item, they are available via the following link: IAASB December 2018 Papers</p>	
<p>IAASB timeline and impact on AUASB activities/Next steps</p>	
<p>18. IAASB QM Task Forces aiming to approve ISQM 1, ISQM 2 and ISA 220 for exposure at the IAASB December 2018 meeting. No timeline has been given for when the exposures will be issued.</p>	
<p>19. AUASB members’ feedback on ISA 220 at the December 2018 AUASB meeting will be summarised and provided to Australasian IAASB members.</p>	

Material Presented

Agenda Paper 3.2.0	BMSP – ISA 220 Summary
Agenda Paper 3.2.1	ISA 220 Revised Clean

Action Required

No.	Action Item	Responsibility	Due Date
1.	The ATG is seeking comments / input from the AUASB on the matters described above as well as any other issues that arise. AUASB members are asked to read Agenda Paper 3.2.1, as ISA 220 is expected to be approved for exposure by IAASB at the December 2018 IAASB Meeting.	AUASB	4 December 2018

Attachment 1 – Table of issues

Tracking of issues raised by AUASB members or ATG				
<i>Para²</i>	<i>Issue previously identified at June or September 2018 AUASB meeting</i>	<i>Issue identified by ATG for consideration at December 2018 AUASB meeting</i>	<i>ATG Comment</i>	<i>Proposed Action</i>
3 & A4	Unclear whether national requirements are in addition to the requirements of ISQC 1 or alongside ISQC 1? Does a reference to ISQC 1 throughout the standards also mean national requirements?		Further clarifications made in application paragraph A4 have appropriately addressed this.	No further action
6		Paragraph about public interest is cross-referenced to A14 (Considerations specific to smaller firms). Does not appear correct.	Incorrect reference.	To be raised with IAASB Member at December 2018 meeting.
10(d)	<i>Engagement team</i> definition still subject to change. Changes to be looked at closely as they may draw in people who should not be considered part of the team.	<i>Engagement team</i> definition finalised in association with ISQM 1.	Engagement team definition not expected to change. No concerns with revised engagement team definition except for the fact that it is unclear about the extent to which service delivery centre (SDC) staff are the overall responsibility in accordance with paragraph 11. Refer below.	No further action
10(d) & A16	<i>Engagement team</i> definition may include service delivery centres.		No amendments have been made to the definition since IAASB September 2018 meeting. The ATG believes there could be further clarity in the standard when it comes to the engagement leader's overall responsibility when in respect of oversight of SDC staff.	To be raised with IAASB Members at December 2018 meeting.
10(k)	<i>Relevant Ethical Requirements</i> definition says national requirements are more restrictive than IESBA. Amend to national requirements may be more restrictive.		Issue has not been addressed in December 2018 version. However, paragraph deleted on adoption in Australia and replaced with a reference to ASA 102.	No further action

² Note – The December 2018 version of ISA 220 has been renumbered paragraphs and will not align with AUASB September 2018 Agenda Paper.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Tracking of issues raised by AUASB members or ATG				
<i>Para³</i>	<i>Issue identified at June or September 2018 AUASB meeting</i>	<i>Issue identified at December 2018 AUASB meeting</i>	<i>ATG Comment</i>	<i>Action</i>
10(l)	Ensure <i>response</i> definition is consistent with ISA 315 revisions.		In the definition of response in ISA 220, “ <i>in relation to a system of quality management</i> ” has been added to clarify what a response means in the context of a system of quality control. In the view of the ATG, this distinguishes it appropriately from the definition in proposed ISA 315.	No further action.
11 & A24	Sufficient and appropriate involvement requires clarification.		In the ATG’s view paragraph A24 adequately described what sufficient and appropriate involvement is, throughout the audit engagement	No further action.
13	<i>Assignment of responsibility</i> concern that a partner cannot realistically meet the requirement.		In the ATG’s view the assignment of responsibility in the final version of ISA 220 does not appear unreasonable.	No further action.
19	Use of the term <i>satisfied</i> could be interpreted as partner needing to know about compliance testing results or ask each individual.		Paragraph was substantially re-written at September 2018. <i>Satisfied</i> has been removed.	No further action.
26	How is the term <i>use</i> different from <i>direct</i> or <i>supervise</i> ?		In the ATG’s view at September, this was addressed through the removal of <i>direct</i> or <i>supervise</i> in a previous version of ISA 200. The term <i>Use</i> had been substituted to consider technology resources as it was not clear whether an automated tool could be directed or supervised in extant ISA 220.	No further action.
27	Requirement may not be practical when interacting with expanded engagement team definition.	Requirement may not be practical when interacting with expanded engagement team definition.	Refer to previous comments with respect to SDC staff in paragraph 10(d) and A16.	To be raised with IAASB Member at December 2018 meeting.
27(b)	Sub-paragraph is unclear.		ATG views that changes to the action part of the paragraph have addressed this.	No further action
A31-A42	Substantial re-write of Application and Other Explanatory Material relating to relevant ethical requirements.		Paragraphs have been re-written again for December 2018. ATG had no significant issues with the material.	No further action

³ Note – The December 2018 version of ISA 220 has been renumbered paragraphs and will not align with AUASB September 2018 Agenda Paper.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.