



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2.4.0**

Meeting Date: 26 June 2019

Subject: ED-ISA 220 AUASB Submission

Date Prepared: 20 June 2019

Prepared By: Tim Austin

Action Required

For Information Purposes Only

Agenda Item Objectives

1. **Consider and provide input** into the AUASB response to the IAASB on ED – ISA 220 *Quality Management for an Audit of Financial Statements* (Agenda Item 2.4.1). The AUASB submission to the IAASB has been developed based on:
 - (a) Matters raised by the AUASB during the development of the standard; and
 - (b) Feedback received from outreach activities.

Matters raised by the AUASB

2. Throughout the development of ISA 220, the AUASB raised and tracked a number of matters for consideration. The matters in the table below are those raised by the AUASB through the course of the development and included in the Explanatory Memorandum to ISA 220 and resulted in Australian specific questions to gather stakeholder feedback on the matters.
3. The AUASB received two submissions to the Australian exposure of ED-ISA 220, only one of the submissions directly responded to the Australian questions. Agenda Item 2.7 *Comments Received and Proposed Disposition* shows how the AUASB Technical Group (ATG) has responded to the comments raised by Australian stakeholders.
4. The table below, links the issues raised to the draft AUASB submission to the IAASB on ISA 220.

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.

Matter #	Matter Raised	Brief Description	Link to draft AUASB submission on ISA 220 Agenda Item 2.4.1
1	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.	Question 1
2	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.	Question 5
3	Ambiguity of definitions across the QM suite in relation to Engagement Team	<p>The AUASB raises for consideration how the definition of Engagement Team has been applied across the suite of quality management standards.</p> <p>Whilst the definition is consistent across each of the quality management standards, the application material which describes how to apply the definition is not.</p> <p>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.</p>	Question 2 (AUASB Question 8)
4	Engagement Partner	<p>The AUASB discussed that in practice, there are multiple scenarios (including for listed entities) where engagements can have more than one partner.</p> <p>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.</p> <p>The AUASB raises for consideration whether ED-220 should address this as part of the revisions.</p>	Question 1 & 4 (AUASB Question 9)
5	Definitions	<p>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.</p> <p>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.</p>	Question 5 (AUASB Question 10)
6	How do the changes improve audit quality?	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.	Question 4 (AUASB Question 11)
7	Requirements	<p>The AUASB notes that the language used to emphasis 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>	Question 1 & 2 (AUASB Question 12)

Matter #	Matter Raised	Brief Description	Link to draft AUASB submission on ISA 220 Agenda Item 2.4.1
8	Network reliance	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”. 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.	Question 2 & 7 (AUASB Question 13)
9	Roles of EP and EQR	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. 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.	Question 2 (AUASB Question 14)

Matters raised by stakeholders through outreach

5. AUASB Stakeholders raised the following matters which have been included within the AUASB’s submission:
- Documentation – The documentation requirements should include documentation of the engagement partner’s review in paragraphs 27-31. Raised in question 6 of the AUASB submission.
 - Review of Technology – There is insufficient consideration of how the engagement partner will meet the requirements of the standard as the level of technology used in audits increases and the complexity of that technology increases.
 - Network Reliance – The removal of the statement regarding reliance on the firm’s system of quality control may result in benefits of being part of a network not being realised. For national or regional networks this may impact on the scalability of the standard.

Material Presented

Agenda Item 2.4.0	BMSP ISA 220
Agenda Item 2.4.1	Draft Appendix 3 ISA 220

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider feedback and comment on submission	Approve submission	AUASB	26 June 2019	

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.