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# **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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### Contact Details

Auditing and Assurance Standards Board  
Podium Level 14, 530 Collins Street  
Melbourne Victoria 3000 AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

### Postal Address:

PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

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## 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, and details of the process the AUASB will apply to exposing other IAASB EDs in future.

#### 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 feedback on the proposed standards.
4. ED-220 is included as an attachment to this Explanatory Memorandum, and can also be obtained on the [IAASB's website](#).

#### Request for Comments

5. Stakeholders are directed to the Request for Comments section below which comprises IAASB and Australian specific questions. Stakeholder responses to both sets of questions will be used to inform the AUASB in their response to the IAASB on the Quality Management Exposure Drafts.

#### IAASB Questions

Stakeholders are asked to respond to the AUASB on the following questions derived from the IAASB's Explanatory Memorandum for ED-220 in order to inform the AUASB's formal response to the IAASB on their ED:

*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? (Refer to **Matter 8** in Table 1)
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?  
(Refer to **Matter 10** in Table 1)
5. Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)  
(Refer to **Matter 9** in Table 1)
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 included to reflect matters for further consideration 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 teams has been consistently applied across the suite of Quality Management Standards?  
(Refer to **Matter 4** in Table 1)

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

Stakeholders are asked to respond to the following specific questions included to reflect matters for further consideration 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 should be addressed as part of the revisions to ISA 220?  
(Refer to **Matter 1** 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 2** 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 3** 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 5** in Table 1)
13. Do you support the IAASB's decision to remove from the body of the standard the paragraph that engagement teams are entitled to rely on the firm's system of quality control?  
(Refer to **Matter 6** in Table 1)
14. Do you consider that an appropriate balance has been achieved between the responsibilities of the engagement partner and the engagement quality reviewer in the standard?  
(Refer to **Matter 7** 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 standards 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 1-10 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 have been appropriately addressed by an existing IAASB question.

**Table 1 – Matters Identified by the AUASB**

Matter #	ED Para	Matter Raised	Brief Description
1	A101	Signing Partner Project	<p>A separate IAASB Signing Partner Project, scoping considerations of situations where a person other than the engagement partner signs the audit report out of the ISA 220 project, has been established.</p> <p>The AUASB view is that situations where somebody other than the engagement partner signs the report is a contemporary issue that should be included in the scope of ISA 220. The AUASB’s view is that the signing partner project either needs to be a higher priority or scoped back into ED-220.</p> <p>Refer to Question 9: <i>Do you support the AUASB’s view that situations where somebody other than the engagement partner signs the audit report should be addressed as part of the revisions to ISA 220?</i></p>
2	10(d) & A16	Definitions	<p>The expanded <i>Engagement team</i> definition may make it difficult to meet the requirements of the standard, in particular, as the definition includes service delivery centres (SDC).</p> <p>The AUASB believes there could be further clarity in the standard when it comes to the engagement leader’s overall responsibility for oversight of SDC staff.</p> <p>Refer to Question 10: <i>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?</i></p>
3	Overall	How do the changes improve audit quality?	<p>The AUASB consider that the incremental changes in ED-220 do not reflect the modern audit engagement. It is unclear how the changes will improve audit quality in Australia.</p> <p>Refer to Question 11: <i>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.</i></p>
4	Overall	Definitions	<p>The AUASB raised concerns in relation to the consistent application of the <b>Engagement Team</b> definition across the suite of proposed quality management standards.</p> <p>Refer to Question 8: <i>Do you consider that the definition engagement team has been consistently applied across the suite of Quality Management Standards?</i></p>

<b>Matter #</b>	<b>ED Para</b>	<b>Matter Raised</b>	<b>Brief Description</b>
<b>5</b>	Overall	Requirements	<p>The AUASB raised concern around the drafting of the standard, in particular the language used to emphasize the engagement partner’s responsibilities may make it difficult to practically achieve, especially when the ability to rely on the firm/network system of quality control is no longer explicitly stated.</p> <p>Refer to Question 12: <i>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?</i></p>
<b>6</b>	Overall	Network reliance	<p>The AUASB raised a concern that the removal from the body of the standard the paragraph that engagement team are entitled to rely on the firm’s system of quality control may make the requirements of the standard not practically achievable by the engagement partner.</p> <p>Refer to Question 13: <i>Do you support the IAASB’s decision to remove from the body of the standard the paragraph that engagement teams are entitled to rely on the firm’s system of quality control?</i></p>
<b>7</b>	Overall	Roles of EP and EQR	<p>The AUASB discussed whether the right balance between the role of the engagement partner and the role of the engagement quality reviewer had been achieved when considering the requirements of proposed ISA 220 and proposed ISQM 2.</p> <p>Refer to Question 14: <i>Do you consider that an appropriate balance has been achieved between the responsibilities of the engagement partner and the engagement quality reviewer?</i></p>
<b>8</b>	13(b)	Monitoring and reviewing work of assignees	<p>The AUASB viewed that it may be difficult to meet this requirement when performing a large audit engagement, especially with the expanded engagement team definition.</p> <p>Refer to Question 1: <i>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?</i></p>
<b>9</b>	27	Guidance Direction and Supervision	<p>The AUASB considered that the paragraph 27 may not be practical when interacting with expanded the engagement team definition.</p> <p>Refer to Question 5: <i>Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)</i></p>
<b>10</b>	Overall	Engagement Partner	<p>The AUASB discussed that the role of partners on engagements has significantly changed and that there is not always a clear engagement partner on engagements.</p> <p>In practice this has resulted in a duplication of effort with all partners on an engagement signing off all documents to</p>



Matter #	ED Para	Matter Raised	Brief Description
			<p>avoid any issues with meeting the requirements of ASA 220.</p> <p>The AUASB questioned whether the proposed ISA 220 has appropriately considered modern audit delivery models.</p> <p>Refer to Question 4: <i>Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?</i></p>

### **Consideration of Australian modifications from the extant ASA 220**

- As outlined in the Explanatory Guide *Exposure of the IAASB’s Proposed Quality Management Standards in Australia*, the AUASB is yet to consider whether any current Australian specific modifications contained in the extant version of ASA 220 (Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, last issued in May 2017) are applicable to the proposed revised ISA 220. The list of modifications in the extant ASA 220 summarised in Appendix 1 will be evaluated for inclusion in the revised ASA 220 by the AUASB at a later date. However, Australian stakeholders are also requested to consider whether these Australian specific modifications are still relevant to the proposed international auditing standard. Refer to Question 15.

### **Potential Australian modifications arising from Revised ISA 220**

- As outlined in the Explanatory Guide *Exposure of the IAASB’s Proposed Quality Management Standards in Australia*, the AUASB is yet to consider whether any additional Australian modifications will be required arising from the Revised ISA 220. This will be considered by the AUASB in due course and as the drafting of revised ISA 220 progresses after the IAASB analyses and addresses comments raised on exposure.

### **Comment Date and How to Comment**

- 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.
- Where stakeholders for timing or other reasons cannot share a written submission with the AUASB, we request that feedback is still provided in another form. Where stakeholders are intending to only share feedback directly with the IAASB, we request that the AUASB is still consulted on 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.

### **Australian Proposed Outreach**

- The AUASB plans to hold roundtable events in Sydney, Melbourne 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. Furthermore, the AUASB expects to host webinars summarising feedback from roundtable sessions, with a view to seeking additional feedback on targeted areas. The timing of outreach events will be finalised by the end of March 2019.

## 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)