



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.4.1**

Meeting Date: 6 March 2019

Subject: Significant issues identified

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Date Prepared: 19 February 2019

Objective

1. The objective of this paper is to outline the significant issues raised by the AUASB and ATG during the development of Proposed ISA 220 *Quality Management for an Audit of Financial Statements*, determine whether any other issues have been identified since the last review of the proposed standard in December 2018 and whether the questions in ED 03/19 appropriately draw stakeholder's attention to areas of interest.

Matters to Consider

2. A table has been prepared in paragraph 3, which aligns each of the issues raised by the AUASB to a question in ED 03/19. Based on the analysis in the table, the ATG recommends the inclusion of additional questions or modifications to questions in ED 03/19 to draw stakeholder attention to the following issues:
 - (a) Signing partner project – AUASB Members considered that this needed to be a higher priority and should be within the scope of this project;
 - (b) Engagement Team definition – AUASB Members commented that the expanded definition may result in requirements not practically being able to be met; and
 - (c) Contribution to Audit Quality – AUASB Members questioned how the incremental changes from the extant standard contribute to audit quality.

Questions

1. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on situations where somebody other than the engagement partner signs the audit report?
2. Does the AUASB consider it appropriate to amend Question 4 of ED 03/19 to draw attention to the Engagement Team definition?
3. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on whether the proposed changes will contribute to improved audit quality in Australia?
4. Has the AUASB identified any significant issues in ED 03/19 which have not been listed in this paper? If yes, do the specific questions appropriately bring the issue to stakeholder's attention?

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AUASB Table Aligning Questions to Issues

3. The following table has been prepared to provide the ATG's view on whether issues identified by the ATG and AUASB have been appropriately covered by the questions in ED 03/19.

Para	Issue Raised	Brief Description	Addressed by Question
A101	Signing Partner Project	AUASB view that the signing partner project needs to be a higher priority.	Not addressed by any questions as the IAASB has established a separate project. ATG recommends including an additional question in ED 03/19.
10(d) & A16	Definitions	<i>Engagement team</i> definition may include service delivery centres (SDC). The ATG believes there could be further clarity in the standard when it comes to the engagement leader's overall responsibility with oversight of SDC staff.	Not clearly address by any questions. ATG recommends including an additional question in ED 03/19.
13(b)	Monitoring and reviewing work of assignees	View that it may be difficult to meet this requirement when performing a large audit engagement.	ATG view that this is sufficiently addressed by ED 03/19 – Question 1 <i>Do you support the focus on the sufficient and appropriate involvement of the engagement partner (paras 11–13 and 37)...</i>
27	Guidance Direction and Supervision	Requirement in paragraph 27 may not be practical when interacting with expanded engagement team definition.	ATG view that this is sufficiently addressed by ED 03/19 – Question 5 <i>Do you support revised requirements and guidance on direction, supervision and review...</i>
Overall	How do the changes improve audit quality?	View that the incremental changes in the proposed ISA 220 do not provide much benefit and that it is unclear how the changes will improve audit quality.	Not clearly address by any questions. ATG recommends including an additional question in ED 03/19.
Overall	Engagement Partner	Role of partners on engagements has significantly changed, not always a clear engagement partner. In practice this has resulted in all partners on the engagement signing off all documents to avoid any issues that the regulator may raise with meeting the requirements of ASA 220.	ATG view that this is sufficiently addressed by ED 03/19 – Question 4 <i>Does ED 03/19 adequately deal with the modern auditing environment...</i>

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Attachment 1 – Issues Raised at June, September and December 2018 AUASB Meetings

Signing Partner Project

4. A separate IAASB *Signing Partner Project* 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.
5. The ATG has not been requested to assist on this project at this stage, we expect this to begin in early 2019.
6. AUASB Members expressed a view at the December 2018 AUASB Meeting that this project needs to be a higher priority and the AUASB should consider the inclusion of a specific question in the Australian exposure of ISA 220.

Definitions

7. Concerns were raised by AUASB Members at the September 2018 AUASB meeting regarding the definition of *engagement team* 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.
8. There was no change to the definition of *Engagement Team* for the version presented at the December 2018 AUASB Meeting. No change has been made to the definition between the December 2018 AUASB Meeting and the Exposure Draft issued by the IAASB.

Input from IAASB Data Analytics Working Group

9. 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 *Technological Resources* (paragraphs A56–A58).
10. Additional application material was included relating to technology before the December 2018 AUASB Meeting. Key changes include the insertion of a point around the fact that the over reliance on technology may undermine professional skepticism. No additional materials have been included since the December 2018 version.

Common Issues Across Quality Management (QM) Task Forces¹

11. 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.
12. Aligning with the changes in proposed ISQC 1 and proposed ISQC 2, the definitions of *engagement quality control* and *engagement quality control reviewer* had been amended to *engagement quality*

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

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review and engagement quality reviewer. Further revisions to the definitions of *engagement partner* and *engagement team* 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.

13. Before the December 2018 AUASB Meeting, the ISA 220 IAASB TF had worked on aligning the paragraphs. Common issues across all standards were addressed before exposure at the IAASB December 2018 Meeting. No issues with the alignment of the standards have been identified by ATG at this stage.

Other Issues Arising at AUASB December 2018 Meeting

14. A number of additional points for consideration were raised at the AUASB December 2018 Meeting, the issues related to:

- (a) *Sufficient and appropriate* should not be used in relation to involvement in the engagement as it is already used when determining level of audit evidence. This point has not been carried through to the table in paragraph 3 as the ATG considers that the application material distinguishes the terms clearly and that specific attention does not need to be drawn to the term in the AUASB exposure of ISA 220.
- (b) The *incremental changes* in the proposed ISA 220 from extant ISA 220 were not that great and raised questions about what benefit do the changes provide and how do the changes contribute to audit quality? This point has been carried through to the table in paragraph 3.
- (c) The role of Engagement Partner has changed and in a number of engagements there is not a clear engagement partner. Often there will be two partners on larger engagement who default to both signing everything off to avoid any issues that the regulator may raise with meeting the requirements of ASA 220. This point has been carried through to the table in paragraph 3.

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