



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.4.1**

Meeting Date: 12 September 2018

Subject: ISA 220 – Quality Management at the Engagement Level

Date Prepared: 31 August 2018

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/TBD</p>
<p>AUASB Key Points</p>	
<p>Background</p> <p>2. Taking into account feedback from the December 2017 IAASB meeting, the ISA 220 Task Force (TF) significantly redrafted the requirements of the proposed standard for consideration at the June 2018 IAASB meeting.</p> <p>3. The ISA 220 TF’s key changes when developing the June 2018 draft were:</p> <ul style="list-style-type: none"> (a) A number of updates to the <i>Introduction</i> and <i>Definitions</i>; (b) A revised <i>Objective</i> (refer Para. 6 – “The objective of the auditor is to manage quality at the engagement level to provide the auditor with reasonable assurance that quality has been achieved such that: (a) The auditor has fulfilled its responsibilities in accordance with professional standards and applicable legal and regulatory requirements; and (b) The auditor’s report issued is appropriate in the circumstances.”); (c) Expanded and clarified requirements for leadership responsibilities in the standard; and 	

- (d) Extensive updates to relevant ethical requirements, acceptance and continuance considerations, resources, engagement performance and the introduction of engagement leader stand-back requirements in the standard.
4. At the June 2018 IAASB meeting, the IAASB were broadly supportive of the direction of the proposed changes and requested that the ISA 220 TF further align the language in proposed ISA 220 with proposed ISQC 1 *Quality Control at Firm Level* and proposed ISQC 2 *Engagement Quality Control Reviewer*. The IAASB also discussed the circumstance when an individual other than the engagement partner signs the auditor's report, either instead of, or in addition to, the engagement partner. The IAASB concluded that additional research needed to be carried out.
5. An IAASB *Signing Partner Project Proposal* was provided to the AUASB Technical Group (ATG) for feedback on the proposed objective, scope, method and timing. 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.

Key Points raised by the AUASB in June 2018 and an update on progress to September 2018

A. General drafting and definitions

Issue

6. No significant concerns with the requirements were highlighted by the ATG in June. However, the ATG did specifically draw the AUASB's attention to the fact that a number of the requirements within proposed ISA 220 are subject to any relevant changes in proposed ISQC 1 and proposed ISQC 2. This will continue to be an issue throughout the development of proposed ISA 220.
7. The IAASB staff have indicated in IAASB Agenda Item 4 that they intend the IAASB December 2018 meeting to be focused on the alignment of proposed ISA 220 with proposed ISQC 1 and proposed ISQC 2.

Update

8. The alignment of language used in proposed ISA 220 to proposed ISQC 1 and proposed ISQC 2 is an on-going issue. At present 10 of the 38 body paragraphs (introduction, objective, definition and requirements) and 20 of the 101 application paragraphs of proposed ISA 220 have been highlighted by the ISA 220 TF as still subject to language changes including further changes to definitions.
9. Detailed feedback has been provided by the IAASB Data Analytics Working Group (DAWG). Whilst some of the feedback has been reflected in changes made to proposed ISA 220 since the June 2018 version, not all feedback has 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 A10A-A10C).
10. Aligning with the changes in proposed ISQC 1 and proposed ISQC 2, the definitions of *engagement quality control* and *engagement quality control reviewer* have been amended to *engagement quality 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 ISQC 1 and ISQC 2 Task Forces and the International Ethical Standards Board for Accountants (IESBA). The ATG will continue to monitor these.

B. Taking Overall Responsibility for Managing and Achieving Quality

Issue

- 11. The ATG raised during the June 2018 AUASB meeting that the purpose of paragraph 23A under the heading *Taking Overall Responsibility for Achieving Quality* of proposed ISA 220 was unclear.

Update

- 12. Since the June 2018 IAASB meeting, the heading above paragraph 23A has been amended to read *Taking Overall Responsibility for Managing and Achieving Quality*. Additionally, “managing and achieving quality” has been included in the requirement paragraph, related application material and other relevant places throughout the standard which address behavioural aspects.
- 13. The ATG considers the wording changes to paragraph 23A to better align the paragraph with the objective of the standard and the engagement partner’s responsibilities.
- 14. Amendments were also made to the existing application paragraphs to 23A, including the insertion of an additional application paragraph linking to the Firm’s responsibilities for managing and achieving quality under ISQC 1.
- 15. The ATG considers the amendments to the requirement and application paragraphs have addressed concerns raised by the ATG at the AUASB June 2018 meeting.

What the ATG is seeking from the AUASB at this meeting:

- 16. The ATG is seeking comments/inputs from the AUASB on the matters highlighted above in paragraphs 6-16 as well as any other areas of the requirements and application material.
- 17. The intention of the ISA 220 Task Force at the December 2018 IAASB meeting is to focus on the alignment of proposed ISA 220 with the approved ED of ISQC 1 (anticipated December 2018) and the approved ED of ISQC 2 (anticipated December 2018). Therefore, if the AUASB have any significant issues with the proposed ISA 220, they will need to be raised with the IAASB prior to the IAASB December 2018 meeting.

IAASB timeline and impact on AUASB activities/Next steps

- 18. Based on comments made by the ISA 220 Task Force in IAASB Agenda Item 4, the ATG expects that proposed ISA 220 will be presented to the IAASB in December 2018 for approval as an exposure draft (ED).
- 19. AUASB members’ feedback on ISA 220 at the September 2018 AUASB meeting will be summarised and provided to Australasian IAASB members.

Material Presented

- Agenda Paper 5.4.1 AUASB Board Meeting Summary Paper
- Agenda Paper 5.4.2 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 5.4.2,	AUASB	12 September 2018

Potential additional issues raised by AUASB members or ATG			
Paragraph	Issue identified June 2018 AUASB meeting	Issue identified September 2018 AUASB meeting	ATG Comment
7(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.	ATG to monitor.
7(n)		<i>Relevant Ethical Requirements</i> definition says national requirements are more restrictive than IESBA. Amend to national requirements may be more restrictive.	Definition of relevant ethical requirements would be amended upon adoption in Australia to refer to ASA 102.
7(na)	Ensure <i>response</i> definition is consistent with ISA 315 revisions.		ATG to monitor.
8B	<i>Assignment of responsibility</i> Partner can't possibly do all of this personally.		Paragraph has been amended for September, will need to see if changes help with this.
10A	Use of the term <i>satisfied</i> could be interpreted as partner needing to know about compliance testing results or ask each individual.		Paragraph has been substantially rewritten. <i>Satisfied</i> has been removed.
14C	How is the term <i>use</i> different from <i>direct</i> or <i>supervise</i> ?		<i>Use</i> added to consider technology resources as it was not clear whether an automated tool could be directed or supervised in extant ISA 220.
15	Requirement may not be practical.		No change made by IAASB for September meeting.
15(b)	Sub-paragraph is unclear		No change made by IAASB for September meeting.
A4-A7		Substantial re-write of Application and Other Explanatory Material relating to relevant ethical requirements.	ATG to monitor

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