



# AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.6**

Meeting Date: 11 September 2019

Subject: Proposed ISA 220 *Quality Management for an Audit of Financial Statements*

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Date Prepared: 2 September 2019

Action Required

For Information Purposes Only

## A. Background

- 1 The IAASB issued ED-ISA 220 in February 2019, with a comment period ending 1 July 2019.
- 2 The AUASB did extensive outreach on this Exposure Draft and submitted a response to the IAASB on the suite of Quality Management Standards.
- 3 The ISA 220 Taskforce (the Taskforce) has commenced their review of comments received.
- 4 The ATG has highlighted in section C.1 – C.5 the global respondents' key concerns and in section D.1 – D.5 the Taskforce's current planned response to the issues.

## B. What the Audit Technical Group (ATG) is seeking from the AUASB at the September 2019 AUASB meeting

- 5 To update and inform the AUASB on feedback the IAASB has received from respondents to ED-ISA 220:
  - (a) To communicate to the AUASB the ISA 220 Taskforce's (Taskforce's) proposed way forward and revised timelines; and
  - (b) For the AUASB to provide comment on any of the proposed actions to AUASB Chair in his capacity as an IAASB member, in line with the AUASB international influencing strategy.

### Questions

1. Do AUASB Members have any comments regarding the proposed actions (D.1-D.5) that they wish to raise?

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**C. Summary IAASB issues paper – feedback on ED-ISA 220:**

- 6 Ninety-one comment letters were received by the IAASB. In general, there was strong support across all stakeholder groups and across jurisdictions for the revised *Quality Management System*. However, concerns were raised about the practical application of certain areas.
- 7 For the September 2019 IAASB Meeting the Taskforce has structured its paper to focus on three key issues for discussion:
- (a) Engagement Partner’s Role and Overall Responsibility;
  - (b) Engagement Team definition; and
  - (c) Scalability.
- 8 The Taskforce has highlighted the following areas in their paper but will consider them in more detail at the December 2019 IAASB meeting:
- (a) Direction, supervision and review; and
  - (b) Ability to depend on the firm’s system.
- 9 The remaining areas of professional scepticism, the modern auditing environment (including resources/technology) and documentation will be addressed at the December 2019 IAASB meeting.

*C.1 Engagement Partner’s Role and Overall Responsibility*

- 10 Overall, respondents agreed with the engagement partner’s role and overall responsibility for managing quality on an audit. Stakeholders requested further clarification on several matters, including:
- (a) How an engagement partner is able to meet the overall responsibility when it is not practical to oversee every aspect of audit quality (on a large engagement).
  - (b) Which requirements the engagement partner needs to fulfil personally.
  - (c) The stand-back should not be limited to the end of the audit engagement.
- 11 Stakeholders also suggested that the concept of delegating authority included in the application materials be elevated to the requirements or introduction section of ED 220, and that further clarification be provided around possible delegation.
- 12 This is largely consistent with the points raised in the AUASB submission.

*C.2 Engagement Team Definition*

- 13 Overall, respondents from the Monitoring Group and regulators were supportive of the extended definition whilst other respondents raised concerns with the practical application of the extended definition. The key concerns raised related to:
- (a) Independence considerations – The ethical code does not address independence in respect of component auditors. The independence requirements apply to every member of the engagement team, including those relating to, for example, financial interests, business relations and employment relationships.

- (b) Requirements are onerous for an engagement partner to personally fulfil. Respondents requested further clarity about what is meant by “performs audit procedures” to address concerns around the wide-ranging scope of the definition.
- 14 Whilst the independence aspect was not raised in the AUASB’s submission, concerns around the practical application of the requirements due to the expanded definition were expressed strongly.

### *C.3 Scalability*

- 15 Overall, respondents considered that ED-220 was scalable. Respondents provided comments on how scalability could be improved for both small audits and “upwards scalability” for more complex audits including:
- (a) Implementation guidance on how to apply the requirements to large and more complex audits.
  - (b) Making requirements which are unlikely to apply to small audits conditional.
- 16 In its submission, the AUASB raised concern that the removal of paragraph 4 from the extant ISA 220 (ability to depend on the firm’s systems) may impact on the scalability of the standard for smaller auditors whilst in other areas of the AUASB’s response concerns were raised with the practical application of requirements in a larger audit. No other comments regarding scalability were raised in the AUASB’s submission.

### *C.4 Direction, Supervision and Review*

- 17 Many respondents supported the requirements without comment whilst others identified issues in relation to:
- (a) The practical implications of the requirements and the proposed changes to the engagement team definition.
  - (b) The need for further clarification regarding responsibilities of engagement team members assigned supervisory roles.
  - (c) Whether all requirements were capable of being applied in a group audit.
- 18 These concerns are largely consistent with the points raised in the AUASB submission.

### *C.5 Ability to depend on the firm’s system*

- 19 Overall, respondents from the Monitoring Group and regulators were supportive of the change. Other respondents expressed concern with the removal of paragraph 4 from the extant ISA 220 and the IAASB’s proposed approach of using the terms “shall be satisfied” and “shall determine” to differentiate between actions that can occur at a firm level and actions that must occur at an engagement level. In particular:
- (a) The revised approach is not clear unless the application material was read.

- (b) The situations where an engagement team can rely on the firm’s systems should be more clearly articulated in the standard, as well as what is required of an engagement partner where they choose to rely on a firm’s systems.

20 These concerns are consistent with the points raised in the AUASB submission.

**D. The way forward:**

21 As outlined above in paragraph 7, the IAASB will be discussing three key issues at the September 2019 IAASB meeting with the remaining areas planned to be addressed at the December 2019 IAASB meeting. No timeline beyond the December meeting has been provided in the papers.

22 The Taskforce’s planned responses to the issues identified are outlined below.

*D.1 Engagement Partner’s Role and Overall Responsibility*

23 Based on the feedback received, the Taskforce is planning to redraft paragraph 13 of the requirements to improve its understanding. Additionally, the Taskforce has identified all paragraphs in ED 220 which must be performed by the engagement partner personally and those requirements which could be assigned to other members of the engagement team. The Taskforce plans to amend the wording of the requirements, as needed, to better reflect which applies.

*D.2 Engagement Team Definition*

24 Based on the feedback received, the Taskforce has outlined two alternative approaches to the engagement team definition to address feedback raised by respondents and IESBA. At a high level the two approaches are:

- (a) The proposed definition from ED-220 remains (with possibly changes to improve clarity) and the Taskforce focuses on addressing the practical concerns raised.
- (b) Separate out quality management of component auditors to ISA 600 and retain the definition of engagement team from extant ISA 220.

25 In addition to the above, the Taskforce is planning to develop application material on what it means to “perform audit procedures” to better define who is part of the engagement team.

*D.3 Scalability*

26 The Taskforce considers that the other planned activities such as reviewing requirements to identify which must be performed by the engagement partner personally, are sufficient to address concerns for larger and more complex audits. To address issues for smaller audits, the Taskforce considers that the Appendix in the Explanatory Memorandum to ED-220, which identifies specific references in the ED to where scalability is addressed, should be sufficient.

*D.4 Direction, Supervision and Review*

- 27 The Taskforce considers that the other planned activities such as clarification of the work of assignees will be sufficient to address some of the concerns. The Taskforce also plans to clarify that areas which require increased professional judgement will also require greater engagement partner involvement.

*D.5 Ability to depend on the firm's system*

- 28 The Taskforce plans to clarify that the engagement partner can place reliance on the firm's systems but that reliance must be preceded by the engagement partner taking some actions to determine that reliance is warranted. Additionally, guidance on factors that may be taken into account in determining whether (and the degree to which) the engagement partner may depend on the firm's system is planned.