

# ISA 220 (Revised): Workshop 8



**DRAFTWORX**  
Financial Statements | Working Papers



# The Relationship of ISQM 1 with ISQM 2 and ISA 220 (Revised)

- The firm is responsible for designing, implementing and operating its SOQM.
- As the firm cannot identify all quality risks that may arise at the engagement level, the engagement team exercises professional judgement in determining whether to design and implement additional responses.

Par A2, A3, A103



# ISA 220 (REVISED): QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

- Requires the audit Engagement Partner (EP) to:
  - create an environment that emphasizes the firm's culture and expected behavior,
  - actively manage and take responsibility for the achievement of quality,
- especially through sufficient and appropriate involvement throughout the engagement and
- adherence to the firm's policies or procedures and the requirements of ISA 220 (Revised).

*Effective for financial periods beginning on or after 15 December 2022.*

Par 10



# OBJECTIVE OF THE STANDARD

The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:

- (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances.

Par 11



# Distinguishing the Role of the Engagement Partner and Other Engagement Team Member

When the term “*the engagement partner shall take responsibility for...*” is used, the engagement partner may choose to assign the design or performance of these procedures to appropriate engagement team members.

When this phrase is not used in connection with “the engagement partner,” then the IAASB intends that the engagement partner personally perform the requirement. For these requirements, the engagement partner may obtain information from other engagement team members or the firm.

Par 9



# Scalability

- The requirements of ISA 220 (Revised) are intended to be applied in a scalable manner in the context of the nature and circumstance of the audit.
- Paragraph 8 of ISA 220 (Revised) gives examples of the application of ISA 220 (Revised) to firms and engagement teams of different sizes who are dealing with both audits of less complex and more complex entities.
- ISA 220 (Revised) also includes application material that highlights how the ISA can be applied in the different circumstances.

Par 8, A13, A14, A29, A80 & A95



# REVISED AND NEW DEFINITIONS IN ISA 220 (REVISED)

## Engagement Team:

All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert and internal auditors who provide direct assistance on an engagement.

- See application material (and next slide) for how the definition may be applied in different circumstances, such as **group audits** and **service delivery centers** (see paragraphs A15-A21).
- It also explains how the application of the firm's policies or procedures may require different actions when the engagement team includes **individuals from another firm** who are neither partners nor staff of the engagement partner's firm (see paragraphs A23–A25).
- ISA 220 (Revised) also recognizes that individuals involved in the audit engagement **may not necessarily** be engaged or **employed directly** by the firm.

**Par 12(d)**

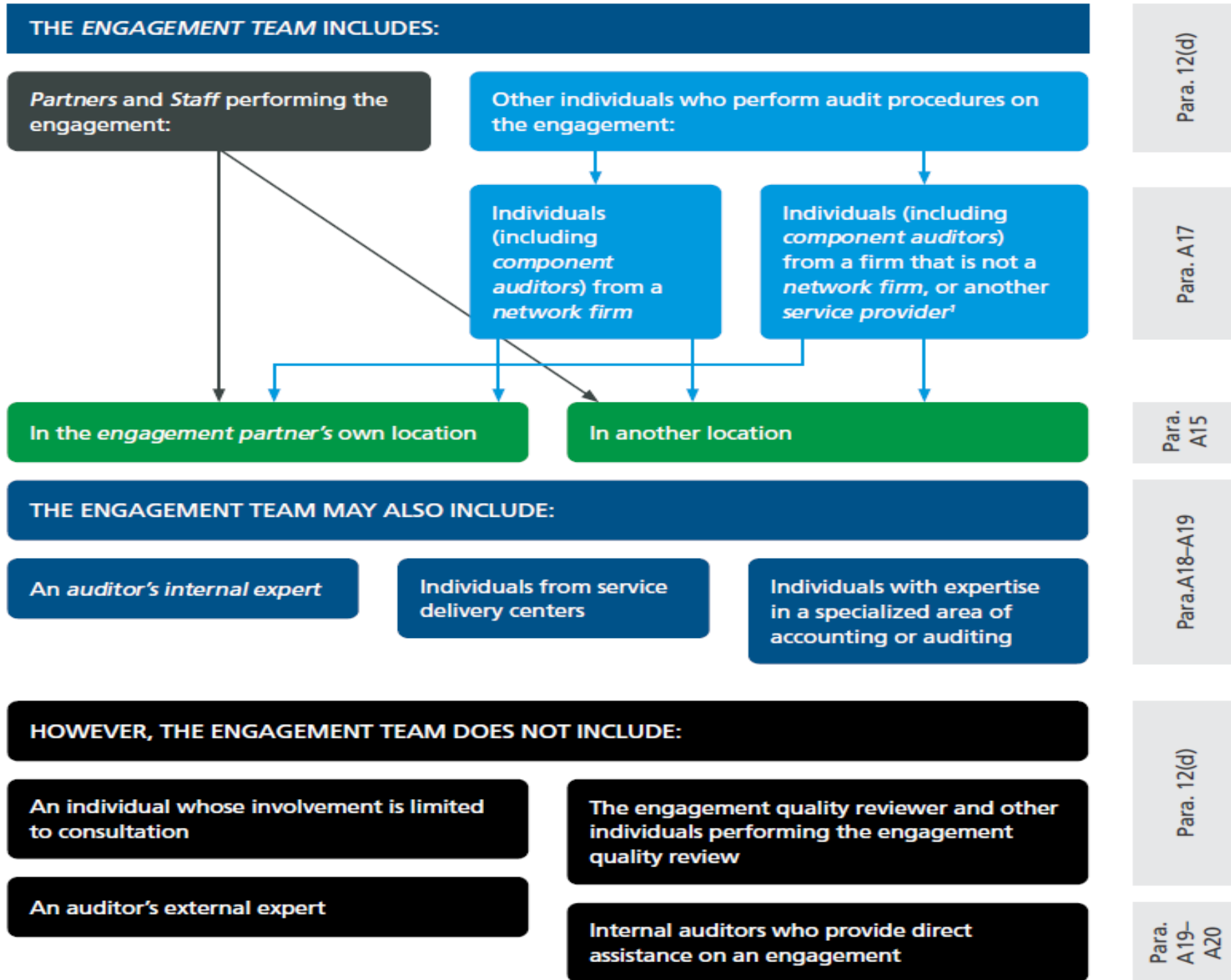
<https://www.iaasb.org/publications/isa-220-revised-definition-engagement-team-fact-sheet>

# REVISED AND NEW DEFINITIONS IN ISA 220 (REVISED)

## Service Delivery Centers

ISA 220 (Revised) recognizes that a firm may decide that specific tasks that are repetitive or specialized in nature will be performed by a group of appropriately skilled personnel such as a service delivery center. Service delivery centers may be established by the firm, the network, or by other firms, structures or organizations within the same network. For example, a centralized function may be used to facilitate external confirmation procedure





# ENGAGEMENT TEAM MAY DEPEND ON THE FIRM'S SYSTEM OF QUALITY MANAGEMENT

ISA 220 (Revised) clarifies that, ordinarily, the engagement team may depend on the firm's policies or procedures, unless:

- (i) the engagement team's understanding or experience indicates that the firm's policies or procedures would not be effective or
- (ii) information provided by the firm or others indicates that the firm's policies or procedures are not operating effectively.

This approach avoids the risk that the engagement team blindly relies on the firm's system of quality management.

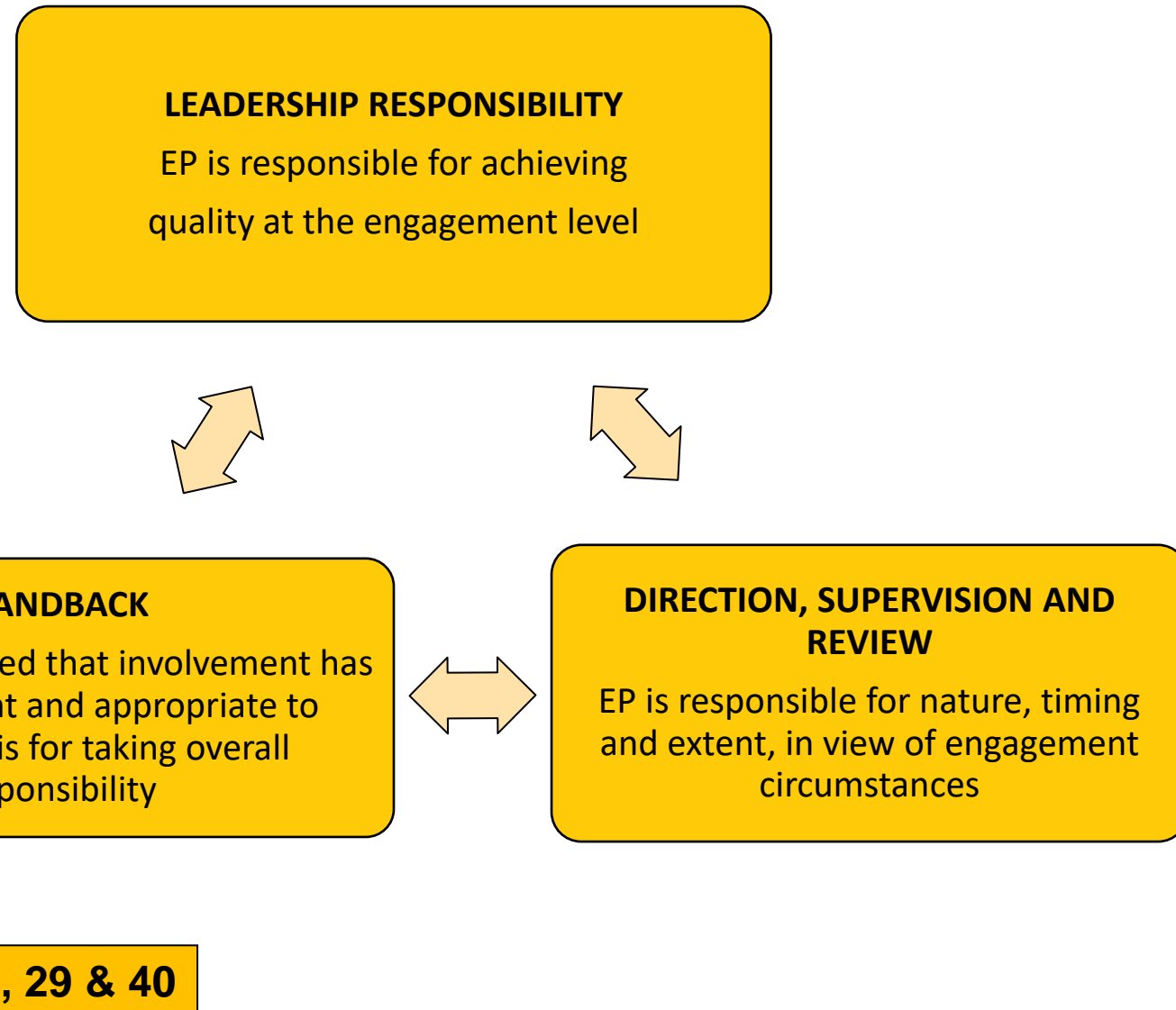
**INEFFECTIVE**

# MAJOR CHANGES TO/NEW REQUIREMENTS:

1. Leadership Responsibilities for Managing and Achieving Quality on Audits
2. Relevant Ethical Requirements, Including Those Related to Independence
3. Acceptance and Continuance of Client Relationships and Audit Engagements
4. Engagement Resources
5. Engagement Performance
  - a) Direction, Supervision and Review
  - b) Consultation
  - c) Engagement Quality Review
  - d) Differences of Opinion
6. Monitoring and Remediation
7. Taking Overall Responsibility for Managing and Achieving Quality
8. Documentation

# 1. A New Focus on Leadership Responsibilities:

Sufficient and appropriate involvement throughout the engagement



# Mitigating Impediments to Professional Skepticism

- How impediments to professional skepticism can affect the performance of the audit (see paragraph A34);
- Unconscious or conscious biases that may impede the exercise of professional skepticism (see paragraph A35); and
- Possible actions that the engagement team may take to mitigate impediments to professional skepticism (see paragraph A36).

Types of Biases

Availability bias	Confirmation bias
Groupthink	Overconfidence bias
Anchoring bias	Automation bias

## 2. Relevant Ethical Requirements, Including Those Related to Independence

ISA 220 (Revised) includes new requirements and application material regarding:

- An understanding of the relevant ethical requirements, including those related to independence, and whether other members of the engagement team are aware of those requirements and the firm's related policies or procedures (see paragraphs 16-17, A23-A25, A38-A44 and A48);
- Threats to compliance with relevant ethical requirements (see paragraphs 18 and A43-A44); and
- Determining whether relevant ethical requirements, including those related to independence have been fulfilled (see paragraphs 21, A38 and A47).

### 3. Acceptance and Continuance of Client Relationships and Audit Engagements

ISA 220 (Revised) includes a **new** requirement and application material regarding information obtained in the acceptance and continuance process, which is to be considered in planning and performing the audit engagement in accordance with the ISAs (see paragraphs 23 and A53- A56).



## 4. Engagement Resources

- Includes requirements addressing the full suite of resources needed at the engagement level to manage and achieve quality.
- Engagement partner to take action if the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement.
- Appropriate actions include communicating with appropriate individuals, such as firm personnel with responsibility for resources or engagement quality management activities, about the need for additional or alternative resources.

Par 25-28, A59-A79





## 4. Engagement Resources (cont.)

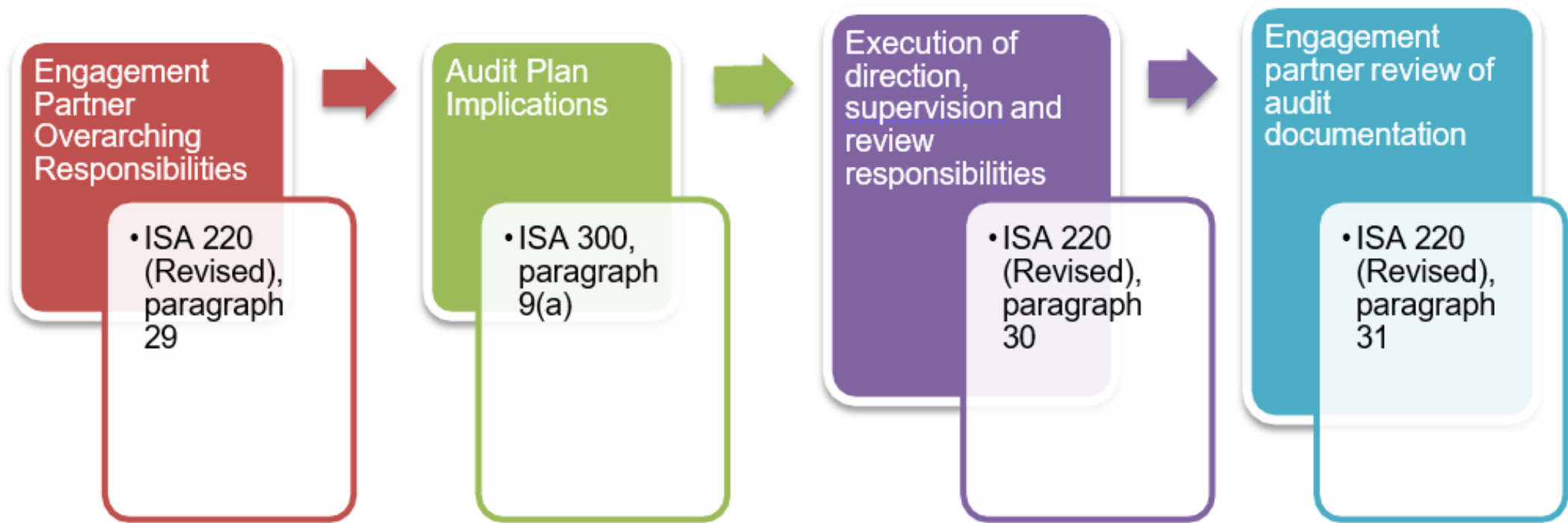
Paragraph 26 expands on extant\* ISA 220 by requiring a determination of whether the engagement team, and any auditor's external experts and internal auditors who provide direct assistance, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement.

\*Meaning the standard that is currently effective



## 5. Engagement Performance:

### a i) Direction, Supervision and Review



ISA 220 (Revised) also requires that the engagement partner review the **financial statements**, the **auditor's report**, and **formal written communications** to management, those charged with governance, or regulatory authorities (see paragraphs 33–34).

These were added to the standard to clarify and strengthen the auditor's responsibilities regarding **communications with external parties**.

## 5. Engagement Performance:

### a ii) Review of audit documentation

- At appropriate points in time during the audit engagement (paragraph 31).
- Documentation relating to significant matters and significant judgements.
  - “Significant matters” is a term used in ISA 230, paragraph 8(c) and is not further explained in ISA 220 (Revised).
  - By contrast, ISA 220 (Revised) contains guidance on the types of judgements that may be significant judgements (see paragraph A92).
- Documentation relating to other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities (see paragraph A93).
- The engagement partner does not need to review all audit documentation.

## 5. Engagement Performance:

### b) Consultation

No substantial changes



# 5. Engagement Performance

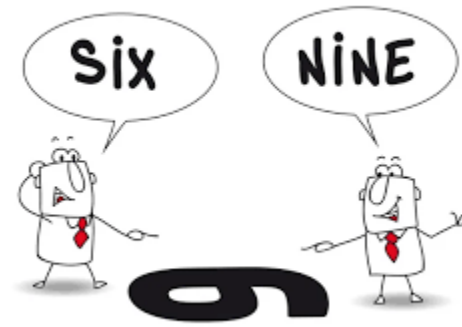


## c) Engagement Quality Review

- Extant ISA 220 includes requirements and guidance on the performance of the engagement quality review of the audit, including requirements directed at the engagement quality reviewer. These requirements and guidance are now moved to ISQM 2.
- The revised standard still contains requirements and application material regarding the engagement partner's responsibilities relating to an engagement quality review. These largely focus on how the engagement partner and the engagement team interact with the engagement quality reviewer (see paragraphs 36 and A103-A106).
- The engagement quality review must be completed on or before the date of the auditor's report.
- **New** requirement for the engagement partner to cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so (see paragraph 36(b)).

## 5. Engagement Performance

### d) Differences of Opinion



- Extant ISA 220 requires that the engagement team follow the firm's policies and procedures for dealing with and resolving differences of opinion.
- In addition to enhancing this extant requirement, ISA 220 (Revised) includes a **new** requirement providing greater specificity on the engagement partner's role in handling differences of opinion.
- Paragraph 38 of ISA 220 (Revised) specifically requires the engagement partner to:
  - A) Take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures;
  - B) Determine that conclusions reached are documented and implemented; and
  - C) Not date the auditor's report until any differences of opinion are resolved.

## 6. Monitoring and Remediation

The revised standard is premised on the basis that the engagement partner is responsible for dealing with the relevant aspects of the monitoring and remediation process, including:

- a) Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;
- b) Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39(a) and take appropriate action; and
- c) Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.



## 7. Taking Overall Responsibility for Managing and Achieving Quality

- ISA 220 (Revised) requires that, prior to dating the auditor's report, the engagement partner determines that he or she has taken overall responsibility for managing and achieving quality on the audit engagement.
- This requirement also addresses the engagement partner's involvement throughout the audit and that the nature and circumstance of the engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with ISA 220 (Revised).



## 8. Documentation

- Extant ISA 220 includes requirements on the documentation of the engagement quality review of the audit directed at the engagement quality reviewer. Those requirements are now moved to ISQM 2.
- However, the revised standard now requires the auditor to include in the audit documentation (if the audit engagement is subject to an engagement quality review) that the engagement quality review has been completed on or before the date of the auditor's report (see paragraph 41(c) of ISA 220 (Revised)).
- ISA 220 (Revised) also includes new application material that explains that the documentation of the performance requirements in ISA 220 (Revised) may be accomplished in different ways (see paragraph A118).

