



# QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

*Presentation by:*

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# Presentation Agenda



- ✓ Introduction
- ✓ Audit Documentation and Review
- ✓ Quality Control Review

# ISA 230: AUDIT DOCUMENTATION



# Definitions



## **Audit documentation**

The record of audit procedures performed, relevant audit evidence obtained and conclusion the auditor reached.

## **Audit file**

One or more folders or other storage media, physical or electronic form, containing the records that that comprise the audit documentation for a specific engagement.

## **Experienced Auditor**

An individual (whether internal or external to the firm) who has practical audit experience, and has a reasonable understanding of:

# Definitions



- ✓ Audit processes
- ✓ ISAs and applicable legal and regulatory requirements
- ✓ The business environment in which the entity operates; and
- ✓ Auditing and financial reporting issues relevant to the entity's industry.

# Nature and Purpose of Audit Documentation



Audit documentation that meets the requirements of ISA 230 and specific requirements of other relevant ISAs provides;

- ✓ Evidence of the auditor's basis of conclusion about the achievement of the overall objectives of the auditor
- ✓ Evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

# Nature and Purpose of Audit Documentation



## Purpose of Audit documentation :

- ✓ Assisting the engagement team to plan and perform the audit
- ✓ Enabling the engagement team to be accountable for its work
- ✓ Retaining a record of matters of continuing significance to future audit
- ✓ Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements

# Scope



- ✓ This standard deals with auditor's responsibility to prepare audit documentation for an audit of financial statements.
- ✓ The specific documentation requirements in other ISAs do not limit the application of this ISA



# Effective date



- ✓ ISA 230 is effective for audit of financial statements for periods beginning on or after December 15, 2009.



# Objective



The objective of the auditor is to prepare documentation that provides

- ✓ A sufficient and appropriate record of the basis of the auditor's report.
- ✓ Evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.

# Requirements



## Timely Preparation of Audit Documentation

- ✓ The auditor shall prepare audit documentation on a timely basis.
- ✓ This helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence attained and conclusions reached before the auditor's report is finalized.

# Requirements



## Documentation of the Audit Procedures Performed and Audit Evidence obtained

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connections with the audit, to understand:

- ✓ The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements.
- ✓ The results of the audit procedures performed, and the audit evidence obtained.
- ✓ Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

# Requirements



## Documentation of the Audit Procedures Performed and Audit Evidence obtained

In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- ✓ The identifying characters of the specific items or matters tested
- ✓ Who performed the audit work and the date such work was completed
- ✓ Who reviewed the audit work performed and the date and extent of such review.

# Requirements



- ✓ The auditor shall document discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed and when and with whom the discussions took place
- ✓ The auditor may include other records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor.
- ✓ If the auditor identified information that is inconsistent with the auditor's final conclusion regarding significant matters, the auditor shall document how they addressed the inconsistency.

# Factors influencing the form, content and extent of audit documentation



- ✓ The size and complexity of the entity
- ✓ The nature of the audit procedures performed
- ✓ The identified risks of material misstatements
- ✓ Significance of the evidence obtained
- ✓ Nature and extent of exceptions identified
- ✓ The audit methodology and tools used

# Examples of audit documentation



- ✓ Audit programs
- ✓ Analyses and checklists
- ✓ Issues memoranda
- ✓ Summaries of significant matters
- ✓ Letters of representation and confirmation
- ✓ Correspondence concerning significant matters  
(e.g e-mail)



# Documentation of significant matters and related significant professional judgement



Examples of significant matters include;

- Matters that give rise to significant risk
- Results of audit procedures indicating:
  - ✓ That the financial statements could be materially misstated
  - ✓ A need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to the risks

# Documentation of significant matters and related significant professional judgement



- ✓ Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- ✓ Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of matter paragraph in the auditor's report.

# Matters Arising after the Date of Auditor's Report



If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document;

- ✓ The circumstances encountered
- ✓ The new or additional audit procedures performed, audit evidence obtained, and conclusion reached, and their effect on the auditor's report
- ✓ When and by whom the resulting changes to audit documentation were made and reviewed

# Assembly of the Final Audit File



- ✓ The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
- ✓ After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
- ✓ In circumstances where the auditor find to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modification or additions, document:
  - The specific reason for making them
  - When and by whom they were made and reviewed.

# ISA 220: QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS



# Scope



- ✓ This ISA deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements.
- ✓ It also addresses, where applicable, the responsibilities of the quality control reviewer

# System of quality control and role of engagement team



- Quality control systems, policies and procedures are the responsibility of the audit firm.
- Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that;
  - ✓ The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
  - ✓ Reports issued by the firm or engagement partners are appropriate in the circumstances.
  - ✓ Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggest otherwise.

# Effective date



- ✓ ISA 220 is effective for audit of financial statements for periods beginning on or after December 15, 2009.





# Objective



The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that;

- ✓ The auditor complies with professional standards and applicable legal and regulatory requirements; and
- ✓ The auditor's report issued is appropriate in the circumstances.

# Requirements



## Leadership responsibilities for quality of audit

The engagement partner shall take responsibility for the overall quality of each audit engagement to which the partner is assigned.

# Requirements



## Relevant ethical requirements

- ✓ Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary for evidence of noncompliance with relevant ethical requirements by members of the engagement team.
- ✓ If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm shall determine the appropriate action.

# Requirements



## Independence

The engagement partner shall form a conclusion on compliance with independence requirement that apply to the audit engagement.

The engagement partner shall;

- ✓ Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence.
- ✓ Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
- ✓ Take appropriate action to eliminate such threat or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation.

# Requirements



## Acceptance and continuance of client relationships and audit engagements

- ✓ The engagement partner shall be satisfied that the audit procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate.
- ✓ If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been earlier available, the engagement partner shall communicate that information promptly to the firm, so that the firm and engagement partner can take the necessary action.

# Requirements



## Assignment of engagement team

The engagement partner shall be satisfied that the engagement team, and any auditor's experts, who are part of the engagement team, collectively have the appropriate competence and capabilities to;

- ✓ Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
- ✓ Enable an auditor's report that is appropriate in the circumstances to be issued.

# Engagement Performance



## Direction, supervision and performance

The engagement partner shall take responsibility for;

- ✓ The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and
- ✓ The auditor's report being appropriate in the circumstance

# Engagement Performance



## Reviews

- ✓ The engagement partner shall take responsibility for reviews being performed in accordance with the firms review policies and procedures.
- ✓ On or before the date of the auditor's report, the engagement partner shall, through review of the audit documentation and discussion with the engagement team, shall be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached for the auditor's report to be issued.



# Engagement Performance



The engagement partner shall;

- ✓ Take responsibility for the engagement team undertaking appropriate consultation on difficult and contentious matters;
- ✓ Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement and between the engagement team and others at the appropriate level within or outside the firm.

# Engagement Performance



- ✓ Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
- ✓ Determine the conclusions resulting from such consultations have been implemented.



# Engagement Performance



## Engagement quality control review

For audit of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality review is required, the engagement partner shall;

- ✓ Determine that an engagement quality control reviewer has been appointed
- ✓ Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
- ✓ Not date the auditor's report until the completion of the engagement quality control review.

# Engagement Performance



## Engagement quality control review

The engagement quality control reviewer shall perform an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the auditor's report.

The evaluation shall involve;

- ✓ Discussion of significant matters with the engagement partner;

# Engagement Performance



- ✓ Review of the financial statements and the proposed auditor's report;
- ✓ Review of selected audit documentation relating to the significant judgements the engagement team made and the conclusions it reached; and
- ✓ Evaluation of the conclusions reached in formulating the auditor's report and consideration whether the proposed auditor's report is appropriate

# Engagement Performance



## Engagement quality control review

For audit of financial statements of listed companies, the engagement quality control reviewer, on performing an engagement quality review, shall also consider the following;

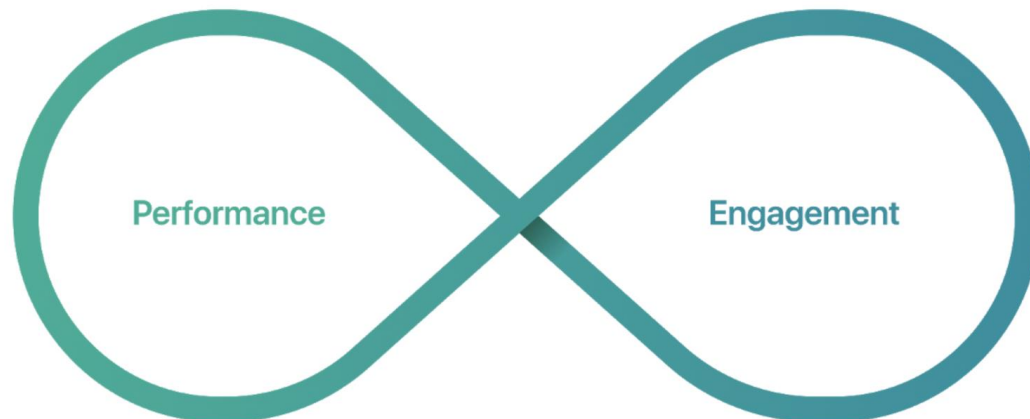
- ✓ The engagement team evaluation of the firm's independence in relation to the audit engagement;
- ✓ Whether appropriate consultation has taken place on matters involving differences in opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
- ✓ Whether appropriate documentation selected for review reflects the work performed in relation to the significant judgement and supports the conclusion reached.

# Engagement Performance



## Difference of opinion

If differences in opinion arise within the engagement team, with those consulted, or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences in opinion.



# Monitoring



- ✓ An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.
- ✓ The engagement partner shall consider the results of the firm's monitoring process as evidence in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that system may affect the audit engagement.



# Documentation



The auditor shall include in the audit documentation;

- ✓ Issued identified with respect to compliance with relevant ethical requirements and how they were resolved;
- ✓ Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions;
- ✓ Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements
- ✓ The nature and scope of, and conclusions resulting from, consultations undertaken in the course of the engagement.

# Documentation



The engagement quality control reviewer shall document, for the audit engagement reviewed, that:

- ✓ The procedures required by the firm's policies on engagement quality control review have been followed;
- ✓ The engagement quality control review has been completed on or before the date of the auditor's report; and
- ✓ The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the engagement team made and the conclusions it reached were not appropriate.

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



# Significant Matters



## Public interest matters

### The Revised ISA 220 :

- ✓ Highlights the importance of the public interest role of audits, and improves the emphasis on the importance of the appropriate application of professional judgment and exercise of professional skepticism
- ✓ Clarifies the role and responsibilities of the engagement partner, particularly the required involvement of the engagement partner.

# Significant Matters



## Public interest matters

### The Revised ISA 220 :

- ✓ Modernizes ISA 220 for an evolving environment, including changes in audit delivery models and the use of technology; and
- ✓ Clarifies the relationship between ED-220 and the ISQMs, including additional clarification of the engagement partner's and engagement team's interaction with the firm, and the engagement team's, ability to depend on the firm's quality management policies or procedures.

# Significant Matters



**The engagement partner's overall responsibility for managing and achieving quality on audits, including engagement performance and standing back**

- ✓ The ITC noted that the project to revise ISA 220 may result in updating requirements and application material in the ISA to make the engagement partner's responsibilities for leadership and project management more explicit.

# Significant Matters



## Relevant ethical requirements

- ✓ ISA 220 provides that the ethical requirement of the engagement team should be strengthened regarding relevant ethical requirements and the engagement partner's role in dealing with relevant ethical requirements.



# Significant Matters



## Engagement resources

- ✓ The extant ISA 220 does not explicitly address the need for the engagement partner to be satisfied that sufficient time and resources are available to the engagement team
- ✓ Proposed ISA 220 addresses this gap through a new section on human, technological and intellectual resources.



# Significant Matters



## Engagement resources

- ✓ The extant ISA 220 does not explicitly address the need for the engagement partner to be satisfied that sufficient time and resources are available to the engagement team
- ✓ Proposed ISA 220 addresses this gap through a new section on human, technological and intellectual resources.

