

ISA 220 - Quality Control for an audit of financial statements

Presentation by: CPA Francis K. Langat

**AQA Virtual Symposium
11th August, 2021**

Course Outline



- ❑ An understanding of:
 1. The scope & Purpose of of ISA 220 - Quality Control for an audit of financial statements
 2. Requirements / elements of ISA 220
 3. Conclusion

ISA 220 - Quality Control for an audit of financial Statements



1. This International Standard on Auditing (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 engagement quality control reviewer.

ISA 220 – QC for an audit of financial – Scope Cont'd



2. Quality control systems, **policies and procedures** are the responsibility of the audit firm.
3. Within the context of the firm's system of QC, **engagement teams** have a responsibility to implement QC procedures that are applicable to the audit engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

ISA 220 – QC for an audit of financial – Scope Cont'd



4. Engagement teams are entitled to rely on the firm's system of QC, unless information provided by the firm or other parties suggests otherwise.

Components of Quality Control



1. Leadership Responsibility
2. Ethical Requirements
3. Independence
4. Acceptance & Continuance of client relationship & specific audit engagements
5. Assignment of engagement teams
6. Engagement performance
7. Consultation
8. Engagement Quality Control Review
9. Monitoring

Requirements of the standard – Leadership Responsibilities



- ❑ **Leadership Responsibilities** for Quality on Audits is on the engagement partner.
- ❑ The engagement partner shall ensure there is compliance with relevant **ethical requirements** by members of the engagement team by making observations at every stage.

Requirements of the standard

Cont'd



- ❑ In case the engagement partner observe 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.
- ❑ The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement.

Requirements of the standard

Cont'd



- ❑ The engagement partner shall be satisfied that appropriate procedures regarding the **acceptance and continuance** of client relationships and audit engagements have been followed.

Requirements of the standard

Cont'd



- ❑ If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

Requirements of the standard – Engagement Teams



- ❑ The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the **appropriate competence** and capabilities to:
 1. Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
 2. Enable an auditor's report that is appropriate in the circumstances to be issued.

Requirements of the standard - Engagement Performance



- ❑ The engagement partner shall take responsibility for:
 1. The direction, supervision and performance of the audit engagement; and
 2. The auditor's report being appropriate in the circumstances.
- ❑ The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.

Requirements of the standard - Engagement Performance – Cont'd



- ❑ On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate **audit evidence** has been obtained to support the conclusions reached and for the auditor's report to be issued.

Requirements of the standard - Consultation



- ❑ The engagement partner shall:
 - a. Take responsibility for the engagement team undertaking **appropriate consultation** on difficult or contentious matters;
 - b. Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement.

Requirements of the standard – Consultations cont'd



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

Requirements of the standard - Engagement QC Review



- ❑ For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
 - a. Determine that an engagement **quality control reviewer** has been appointed;

Requirements of the standard - Engagement QC Review



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

Requirements of the standard - Engagement QC Review– Cont'd



- ❑ The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
 - a. Discussion of significant matters with the engagement partner;
 - b. Review of the financial statements and the proposed auditor's report;

Requirements of the standard - Engagement QC Review– Cont'd



- c. Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
- d. Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

Requirements of the standard - Engagement Performance – Cont'd



- ❑ For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
 - a. The engagement team's evaluation of the firm's independence in relation to the audit engagement;
 - b. Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters.

Requirements of the standard - Engagement Performance – Cont'd



- ❑ Whether audit **documentation** selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. The engagement team's evaluation of the firm's independence in relation to the audit engagement;

Requirements of the standard - Differences of opinion



- ❑ If **differences of 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 of opinion.

Requirements of the standard - 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.

Requirements of the standard - Documentation



- ❑ The auditor shall include in the audit **documentation**:
 - a. Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
 - b. Conclusions on compliance with independence requirements that apply to the audit engagement,

Requirements of the standard - Engagement Performance – Cont'd



- c. Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
- d. The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

Requirements of the standard - Engagement Performance – Cont'd



- ❑ The engagement quality control reviewer shall document, for the audit engagement reviewed, that:
 - a. The procedures required by the firm's policies on engagement quality control review have been performed;
 - b. The engagement quality control review has been completed **on or before** the date of the auditor's report; and

Requirements of the standard - Engagement Performance – Cont'd



- c. The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.
- ❑ At this point the Quality Control process is complete.

Conclusion



- ❑ ISA 220 is intended to establish standards in respect to QC of audit of financial statements.
- ❑ Provide guidance on specific responsibility of firm personnel regarding QC procedures for audits of financial statements.
- ❑ ISA is to be read in conjunction with Part A and B of. [IFAC -code-of-ethics-for Professional Accountants.pdf](#)

THE END



THANK YOU