



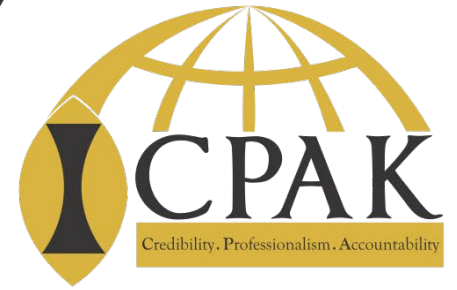
Quality Control for an audit of Financial Statement

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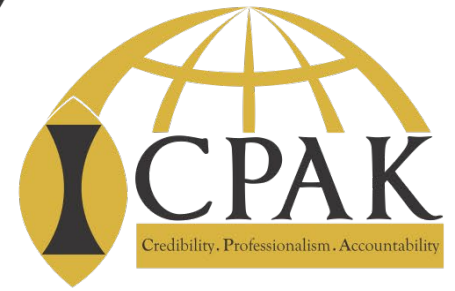
December 2021

Agenda



1. Introduction
2. ISA 220 Quality Control for an audit of financial statements
3. ISQM 1 and ISQM 2 provisions
4. Q&A

You will learn to:



1. Understanding the requirements of ISA 220
2. Quality requirements under ISQM 1
3. Quality requirements under ISQM 2

Introduction



“Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives.” ~William A. Foster

Quality may sometime conflicts with revenue targets

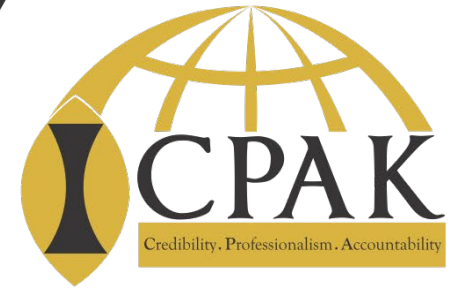
The man who has won millions at the cost of his conscience is a failure.

BC Forbes



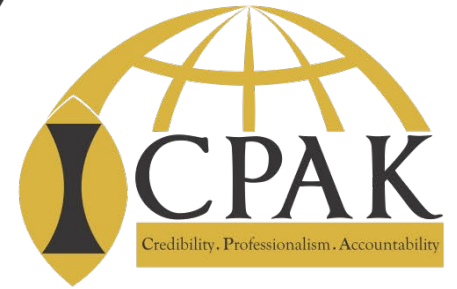
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Introduction



Audit Quality is the outcome of an audit executed in accordance with professional standards and applicable legal and regulatory requirements

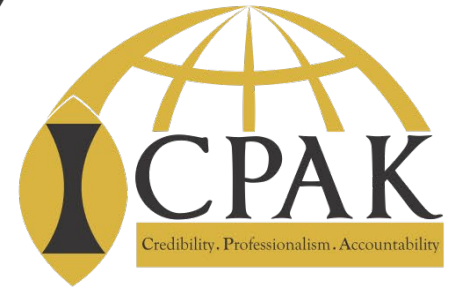
Scope of ISA 220



ISA 220 deals with the responsibilities of the auditor regarding quality control procedures for an audit of financial statements.

It also addresses where applicable the role of the EQCR

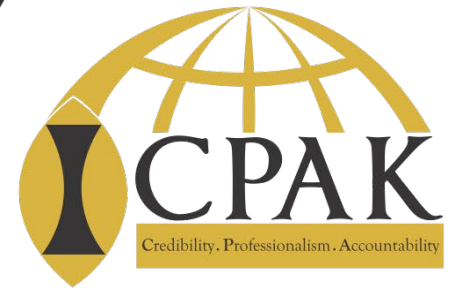
Objective of the Auditor under ISA 220



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.

Quality requirements of ISA 220



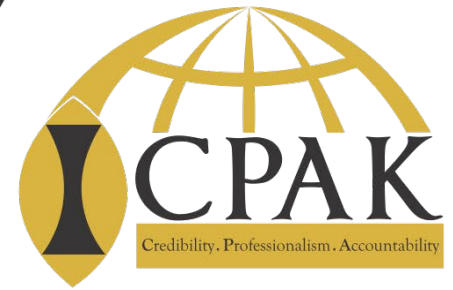
a) **Leadership Responsibilities for Managing and Achieving Quality on Audits**

- The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement

b) **Relevant Ethical Requirements, Including Those Related to Independence**

- The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable

Quality requirements of ISA 220



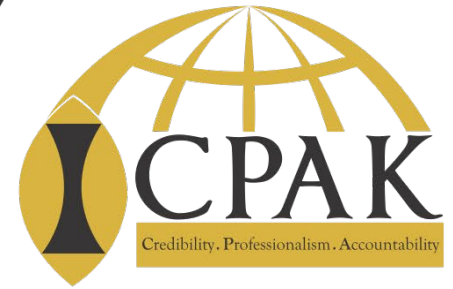
c) Acceptance and Continuance of Client Relationships and Audit Engagements

- The engagement partner shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed

d) Engagement Resources

- The engagement partner shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner

Quality requirements of ISA 220



e) Engagement Performance

- *Direction, Supervision and Review*
- *Consultation*
- *Engagement Quality Review*
- *Differences of Opinion*

Quality requirements of ISA 220



f) Monitoring and Remediation

g) Taking Overall Responsibility for Managing and Achieving Quality

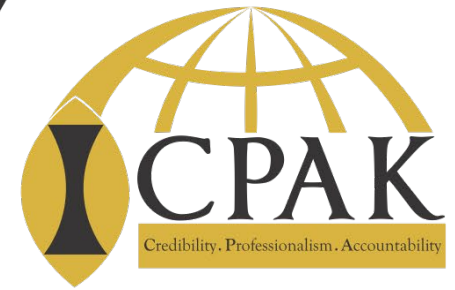
h) Documentation

ISA 220 addresses the following requirements:



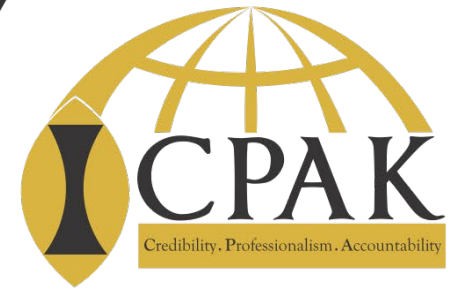
- ❑ The engagement partner is responsible for the overall quality on each audit engagement and:
 - Relevant ethical requirements including independence
 - Acceptance and continuance of client relationships and audit engagements
 - Assignment of engagement teams (appropriate skills)
 - Engagement performance: Direction, supervision, performance and reviews

ISA 220 addresses the following requirements (Cont'):



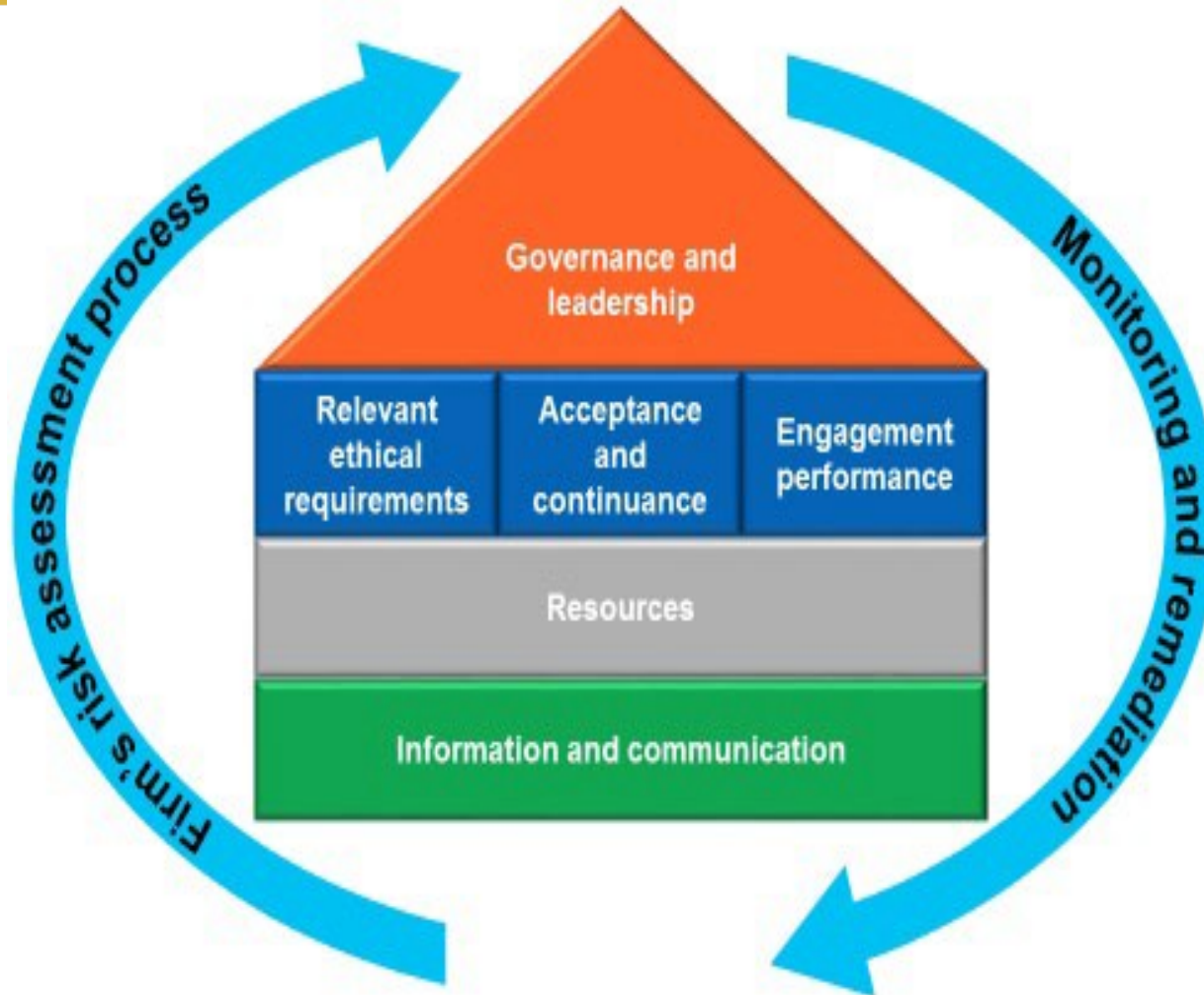
- ❑ The engagement quality control reviewer (EQCR):
 - Required for listed entities and any others determined by the firm.
 - Engagement partner responsible for-
 - ✓ Appointment of the EQCR
 - ✓ Discussing significant matters with EQCR
 - ✓ Not completing auditor's report before EQCR review

ISA 220 addresses the following requirements (Cont'):



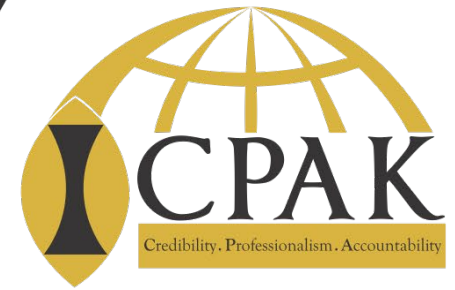
- Handling differences of opinion in the team
- Monitoring system of quality control at the firm
- Threats to independence
- Consultation requirements
- Documentation requirements on ethical requirements, conclusions reached on acceptance of clients, etc.

ISQM 1 - Components



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The firm's risk assessment processes



- ❑ ISQM 1 includes a new approach that focuses firms' attention on risks that may have an impact on engagement quality.
- ❑ The firm's risk assessment process is applied to the other seven components of the system of quality management.
- ❑ The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with reasonable assurance that the objectives of the system of quality management are achieved.

Establish quality objectives



Identify and assess quality risks



Design and implement responses

Identify risks

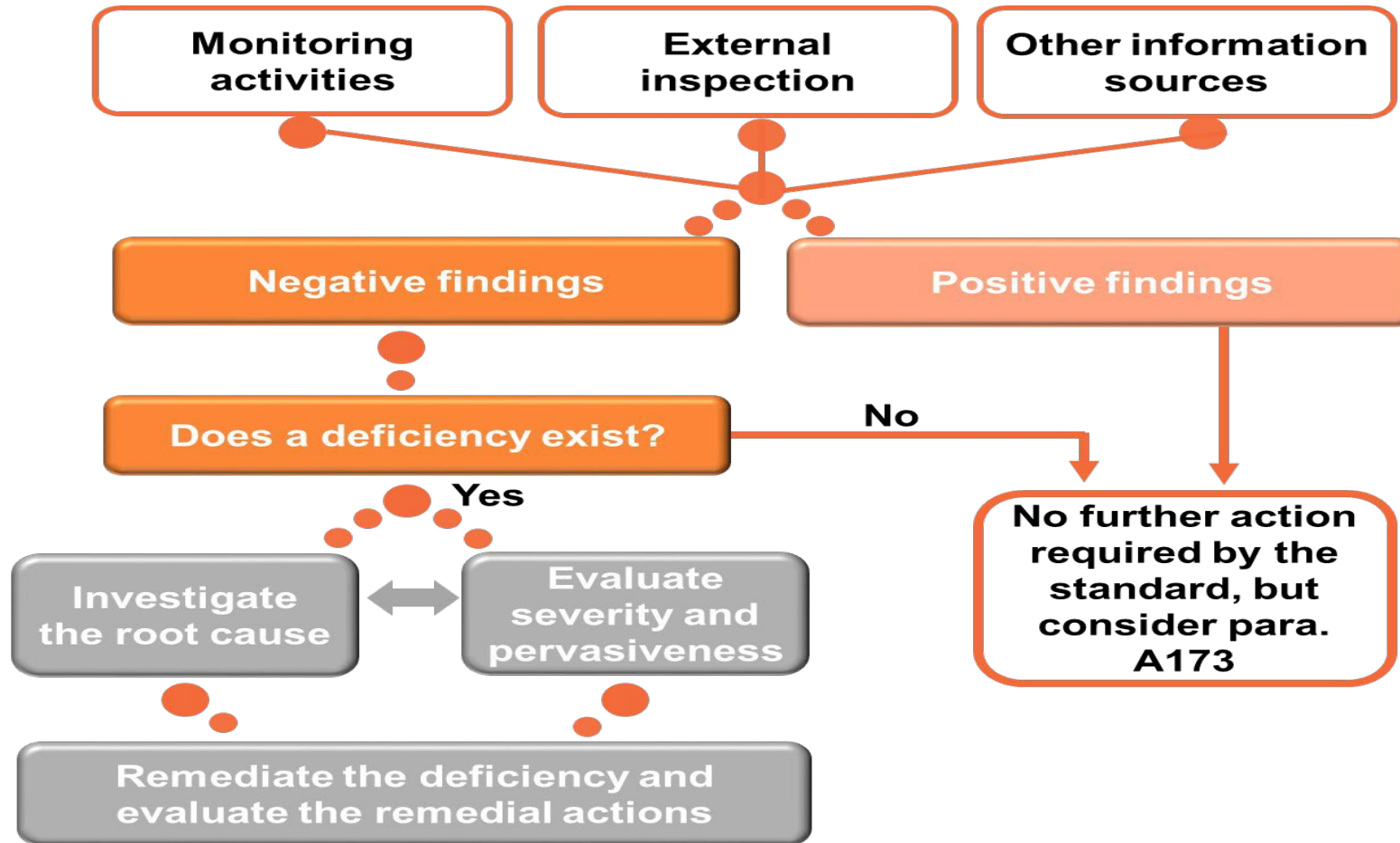
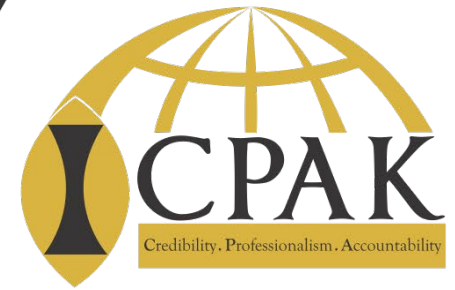


Step 1:
Identify the
quality risks

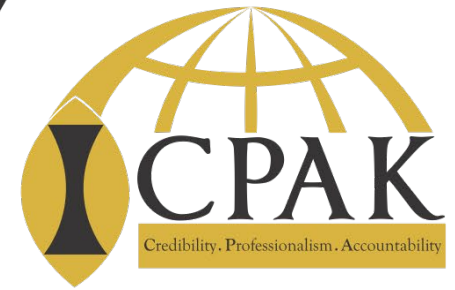
Step 2: Assess
the quality
risks



Evaluating Findings and Identifying Deficiencies



ISQM 2 – EQCR Appointment



ISQM 2 requires a firm's policy on appointment and eligibility of the engagement quality reviewer to address:

- The eligibility of the individual(s) within the firm responsible for the appointment of engagement quality reviewers.
- The eligibility of individuals to assist the engagement quality reviewer in performing the engagement quality review.
- The EQCR taking responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.
- Limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement for which the individual previously served as the engagement partner.

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ISQM 2 – EQCR Eligibility



Key considerations for the appointment and eligibility of EQCR include:

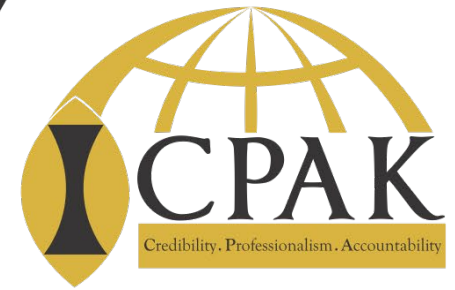
- Competence and Capabilities, Including Sufficient Time
- Appropriate Authority - a mechanism for the engagement quality reviewer to resolve issues when differences of opinion arise.
- Relevant Ethical Requirements, Including Objectivity – cooling off periods for previous engagement partners
- Use of External Resources to Perform the Engagement Quality Review (eligibility similar to internal appointments)
- Timing of the Engagement Quality Review
- Significant Judgments and Significant Matters
- Documentation

Expectations of Audit Quality Assurance, Review and Monitoring



- Implementation of SoQM 1 and 2 by 31 December 2022
- A documented system of monitoring engagement performance
 - ✓ Setting up audit quality metrics
 - ✓ Realtime monitoring of achievement of the metrics
 - ✓ Putting in place action plans to seal audit quality gaps
- Resource management
 - ✓ EQRC capacity and skills
 - ✓ Specialists in the audit (IT, Tax, Valuation etc.)
 - ✓ Appropriate experience for audit engagement teams

Expectations of Audit Quality Assurance, Review and Monitoring



- Audit quality reviews and determination of root causes for audit quality issues
 - ✓ Regulators – ICPAK
 - ✓ Peer reviews
 - ✓ Internal audit findings
- Evidence of controls in place to monitor audit quality goals and assess exceptions, if any.
- Enhanced systems to documentation of audit performance

Conclusion – Audit Quality Framework



Pillars & Foundations

- ✓ Associate with the right clients
- ✓ Have clear audit quality standards
- ✓ Audit tools to support quality
- ✓ Qualified personnel
- ✓ Commitment to technical excellence
- ✓ Performance of effective and efficient audits
- ✓ Continuous improvement programs

Critical Performance aspects

- ✓ Professional judgment and skepticism
- ✓ Direction, supervision and review.
- ✓ Mentoring and on the job coaching
- ✓ Critical assessment of audit evidence
- ✓ Appropriately supported and documented conclusions

Tone at the top

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