## INTERNATIONAL STANDARD ON AUDITING 220

QUALITY CONTROL FOR AUDIT ENGAGEMENTS

### CONTENTS

<table>
<thead>
<tr>
<th>Paragraphs</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1 - 243</td>
</tr>
<tr>
<td>Definitions</td>
<td>354</td>
</tr>
<tr>
<td>Leadership and responsibilities</td>
<td>6 - 7</td>
</tr>
<tr>
<td>Compliance with Ethical requirements</td>
<td>4 - 61889</td>
</tr>
<tr>
<td>Leadership and responsibilities</td>
<td>7 - 98</td>
</tr>
<tr>
<td>Acceptance and continuance of client relationships and specific audit engagements</td>
<td>9 - 122424</td>
</tr>
<tr>
<td>Independence and objectivity</td>
<td>12 - 1419</td>
</tr>
<tr>
<td>Assignment of engagement teams</td>
<td>45 - 16241</td>
</tr>
<tr>
<td>Engagement performance</td>
<td>47 - 26352</td>
</tr>
<tr>
<td>Engagement quality control review</td>
<td>27 - 29358</td>
</tr>
<tr>
<td>Monitoring</td>
<td>30369</td>
</tr>
<tr>
<td>Effective Date</td>
<td>313740</td>
</tr>
</tbody>
</table>
International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services. ISAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISA including explanatory and other material contained in the ISA, not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

Introduction

1. Under International Standard on Quality Control 1 (ISQC 1), a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with applicable professional standards, regulatory and legal requirements and that the auditor’s reports issued by the firm or engagement partners are appropriate in the circumstances. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on specific quality control procedures for audit engagements. This ISA is intended to be read in conjunction with Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code).

2. The engagement team should implement quality control procedures that are applicable to the individual audit engagement.

3. Under International Standard on Quality Control 1 (ISQC 1), a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements and that the auditor’s reports issued by the firm or engagement partners are appropriate in the circumstances.

Engagement teams:

(a) Comply with quality control procedures that are applicable to the audit engagement:
(b) Provide the firm with relevant information as set out in paragraphs 16 and 22 below; and

(c) Rely where appropriate on the firm’s systems, e.g., in relation to the recruiting and formal training of human resources, and accumulation of information in order for the firm and its personnel to determine whether it satisfies relevant independence requirements are satisfied.

Definitions

In this ISA, the following terms have the meanings attributed below:

(a) “Engagement partner” – the partner or other person with sufficient and appropriate experience and authority in the firm who has responsibility for the audit engagement and its performance, for issuing the auditor’s report on behalf of the firm, and who is permitted by law, regulation or a professional body to act in the relevant jurisdiction;

(b) “Engagement team” – the individuals involved in performing an audit engagement, including any experts employed or engaged by the firm in connection with that audit engagement;

(c) “Firm” – a sole practitioner, partnership or corporation of professional accountants;

(d) “Listed entity” – an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body;

(e) “Network firm” – an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally;

(f) “Personnel” – partners and staff;

(g) “Professional standards” – IAASB engagement standards and relevant ethical requirements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants and national ethical requirements;

(h) “Staff” – individuals, other than the engagement partner, involved in performing audit engagements, including any experts employed or engaged by the firm in connection with that audit engagement; and

(i) “Suitably qualified external consultant” – an individual who possesses the competencies to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audit engagements or of an organization that provides review services.

The following terms defined in ISQC 1 are used in this ISA with the same meanings: engagement partner, engagement team, firm, listed entity, partner, professional standards, staff and suitably qualified external consultant.

Leadership and Responsibilities

The engagement partner should be responsible on behalf of the firm for the quality control of, and should promote a quality-oriented internal
87. The engagement partner provides a clear and consistent message regarding audit quality to the other members of the engagement team throughout all stages of the audit engagement. Ordinarily, this example is provided through messages to the engagement team, and through the actions of the engagement partner. Such messages and actions emphasizing:

(a) The importance of:

(i) Performing work which complies with applicable professional standards, regulatory and legal requirements;

(ii) Compliance with the firm’s quality control policies and procedures as applicable; and

(iii) Issuing auditor’s reports that are appropriate in the circumstances; and

(b) The fact that quality is essential in performing audit engagements.

Compliance with Ethical Requirements

468. The engagement partner should inquire of, and discuss with, other members of the engagement team, whether there are:

(a) Potential threats to the importance of compliance with relevant ethical requirements; and including the fundamental principles of professional ethics.

(b) Appropriate safeguards in place to eliminate potential threats or reduce them to an acceptable level.

Such inquiry and discussion should be documented. Where unresolved issues are identified, these should be communicated to relevant firm personnel and resolved as appropriate.

59. Relevant ethical requirements relating to audit engagements ordinarily comprise Parts A and B of the IFAC Code together with applicable national requirements. The IFAC Code establishes the fundamental principles of professional ethics and adopts a principles-based approach, providing a conceptual framework for applying those principles. The conceptual framework requires professional accountants to identify, evaluate and address threats to those principles. The fundamental principles which are:

(a) Integrity;
(b) Objectivity;
(c) Professional competence and due care;
(d) Confidentiality; and
(e) Professional behavior; and
(f) Technical standards.

610. The IFAC Code identifies the main categories of threat to the fundamental principles and general and specific safeguards against those threats. Part B of the IFAC Code includes a
conceptual approach to independence that takes into account threats to independence, accepted safeguards and the public interest.

11. Consideration of compliance with ethical requirements occurs first during client or engagement acceptance procedures. Inquiry and discussion regarding ethical matters between the engagement partner and other members of the engagement team occur throughout the audit engagement as appropriate.

12. The engagement partner, together with members of the engagement team as appropriate, document:
   (a) Identified potential threats and safeguards adopted;
   (b) The fact that appropriate consideration and discussions have taken place;
   (c) The manner in which any issues arising have been resolved; and
   (d) A conclusion on compliance with ethical requirements.

INDEPENDENCE

131. The engagement partner is responsible for concluding on compliance with relevant independence requirements applicable to the audit engagement.

14. In concluding on compliance with relevant independence requirements with regard applicable to the audit engagement, the engagement partner is entitled to rely on that part of the firm’s quality control system comprising policies and procedures regarding independence, unless informed otherwise. Such information may be received from by the firm, individuals within or outside the firm, or the client.

153. The engagement partner should:
   (a) Obtain sufficient information regarding the engagement, including the scope of services provided to the client by the firm or, where applicable, the other network firms, in order to evaluate whether there are potential threats to independence;
   (b) Evaluate information regarding identified breaches, if any, of its independence policies and procedures that represent a threat to independence for the audit engagement and that need to be addressed;
   (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by the application of safeguards;
   (d) Communicate promptly to the firm regarding the action taken to resolve the matter; and
   (e) Document conclusions regarding independence.

164. Engagement teams should provide the firm with relevant information to enable the functioning of that part of the firm’s system of quality control relating to independence. Engagement teams should notify the firm in a timely manner of identified independence breaches of which they become aware.

12. The engagement partner should:
   (a) provide the firm with relevant information about client engagements in respect of
which the firm and its personnel are required to be independent;

(b) obtain sufficient information regarding the scope of services provided to the client by the firm in order to evaluate whether there are conflicts with professional requirements;

c) obtain the most recent information circulated by the firm on the results of the monitoring process on that part of the firm’s system of quality control relating to independence and consider its impact on the audit engagement;

d) determine that independence requirements have been communicated to the engagement team including, where appropriate, those in other jurisdictions;

e) document conclusions regarding independence and the basis for those conclusions; and

(f) notify the firm in a timely manner of breaches of independence policies and procedures of which the engagement partner becomes aware.

131715 Where the most recent information circulated by the firm on the effectiveness of its system of quality control states that nothing has come to its attention to indicate that there are deficiencies in the system of quality control, the engagement partner is entitled to place reliance on that part of the system comprising policies and procedures regarding independence. If the most recent information circulated by the firm on the effectiveness of its system of quality control indicates that deficiencies have been found in either the design or operation of the policies and procedures regarding independence, the engagement partner:

(a) Ascertains whether the specific deficiencies noted by the monitoring review relate to the audit engagement in question; and

(b) Considers whether the measures adopted by the firm to rectify the situation are sufficient in the context of that audit engagement.

141846 Where in the judgment of the engagement partner there is a threat to independence regarding the audit engagement for which it is not possible to adopt safeguards that eliminate the threat or reduce it to an acceptable level, the measures adopted by the firm to rectify the situation are not sufficient, the engagement partner consults within the firm to determine whether it is appropriate to continue with, or withdraw from, the appropriate action to be taken, which may include withdrawing from the audit engagement. Such discussion and conclusions are documented.

Acceptance and Continuance of Client Relationships and Specific Audit Engagements

9129 The engagement partner should be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and specific audit engagements have been followed for those audit engagements for which that engagement partner is responsible and should document conclusions reached in this regard.

20 The engagement partner may or may not have been involved in the acceptance or continuance decision-making process regarding the audit engagement. Regardless of whether the engagement partner was involved in that decision, the engagement partner reviews the procedures performed and concludes as to whether the decision remains they have been appropriate.
The engagement partner, together with others within the firm as appropriate, documents acceptance and continuance of client relationships and specific audit engagements include consideration of the following:

- (a) the competence of the firm and the engagement team to undertake the engagement;
- (b) the independence of both the firm and the engagement team;
- (c) the integrity of the principal owners, management and those charged with governance of the entity;
- (d) the firm’s compliance with ethical requirements in relation to changes in appointment including communication with the existing or previous auditor;
- (e) conflicts, if any, with existing clients;
- (f) the adequacy of the firm’s ability to meet the reporting deadline; and
- (g) all identified significant risks associated with accepting the client or engagement.

Where issues have been identified, the manner in which they have been resolved is documented.

The decision on whether to continue a client relationship includes consideration of significant matters that have arisen during the current or prior audit engagement and their implications for the continuance of that relationship. For example, a client may have started to expand its business operations into an area where the firm does not possess the necessary competencies. The engagement partner provides information on a timely basis to appropriate firm personnel relevant to a decision to discontinue a client relationship.

Assignment of Engagement Teams

The engagement partner should be satisfied that the engagement team collectively has the necessary competencies to perform the audit engagement in accordance with applicable professional standards, regulatory and legal requirements, and to enable the issuance of an auditor’s report that is appropriate in the circumstances.

The necessary competencies expected of the engagement team as a whole include the following:

- Understanding and practical experience with similar engagements through appropriate training and participation.
- Understanding of applicable professional standards and applicable regulatory and legal requirements.
- Knowledge of auditing, accounting, tax and information technology at the appropriate level.
- Knowledge of specific industries and relevant regulatory or legal requirements.
- Ability to apply professional judgment.
- Understanding of the firm’s quality control policies and procedures.
Engagement Performance

The engagement partner is responsible for the direction and performance of the audit engagement in compliance with applicable professional standards, regulatory and legal requirements, and the issuance of an auditor’s report that is appropriate in the circumstances. This responsibility encompasses the following:

- (a) Risk assessment and planning procedures;
- (b) Performance of further audit procedures;
- (c) Supervision;
- (d) Documentation;
- (e) Review;
- (f) Reporting; and
- (g) Communicating with those charged with governance of the client entity.

Direction of the audit engagement involves the members of the engagement team being informed of their responsibilities, the nature of the entity’s business, risk-related issues, problems that may arise and the detailed approach to the performance of the engagement. The engagement team’s responsibilities include the maintenance of an objective state of mind and an appropriate level of professional skepticism and the performance of the work delegated to them in accordance with the ethical principle of due care. Members of the engagement team are encouraged to raise questions they may have with more experienced team members. Appropriate communication occurs both within the engagement team and with the client.

Supervision is closely related to both direction and review and includes the following:

- Tracking the progress of the audit engagement.
- Considering the competencies of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the audit engagement.
- Addressing significant issues arising during the audit engagement, considering their significance and modifying the planned approach as appropriate.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.

Work performed by members of the engagement team is reviewed by more experienced team members or the engagement partner. Reviewers consider whether:

(a) The work has been performed in accordance with applicable professional standards, regulatory and legal requirements, and, where applicable, in accordance with the work program;

(b) Significant matters have been raised for further consideration;
(c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;

(d) The work performed supports the conclusions reached and is appropriately documented; and

(e) The objectives of the engagement procedures have been achieved;

(f) the conclusions are consistent with the results of the work performed.

**24296. Before the auditor’s report is issued, the engagement partner should perform an overall review of the working papers.** The review is adequate to satisfy the engagement partner that the working papers contain sufficient appropriate audit evidence to support the conclusions reached and for the auditor’s report to be issued. Although the review may not cover all working papers, it covers:

(a) Critical areas of judgment, especially relating to difficult or contentious matters identified during the course of the engagement;

(b) Audit evidence relating to significant risks; and

(c) Other areas which the engagement partner considers important.

The engagement partner documents the extent and timing of the review. Matters arising from the review are resolved to the satisfaction of the engagement partner.

**22.** The engagement partner is responsible for communications with those charged with governance of the client entity. Such communication may be written or verbal and may take the form of general or specific reports to management or audit committees, for example reports regarding the client entity’s system of internal control.

**222730.** Where there is a change of engagement partner during the course of the current audit engagement, the new engagement partner undertakes a review of the work performed to the date of the change. The review procedures are sufficient to satisfy the new engagement partner that the work performed to the date of the review has been planned and performed in accordance with applicable professional standards, regulatory and legal requirements.

**242831.** Where more than one partner is involved in the conduct of an audit engagement, it is important that the responsibilities of the respective partners are clearly defined and understood by the engagement team.

**CONSULTATION**

**252932.** The engagement partner should encourage and facilitate appropriate consultation on difficult or contentious matters both within the engagement team and between the engagement team and others within or outside the firm. The conclusions resulting from such consultations should be documented and implemented. The engagement partner is responsible for determining that conclusions resulting from consultation have been implemented.

**26303.** Effective consultation requires that those consulted be given all the relevant facts that will enable them to provide informed advice, whether on technical, ethical or other matters.
Where appropriate, the engagement team consults individuals with appropriate knowledge, seniority and experience within or outside the firm.

344. In certain circumstances it may be appropriate for the engagement team to consult outside the firm, for example, where the firm lacks appropriate internal resources. In such circumstances, they may take advantage of advisory services provided by other firms, professional and regulatory bodies or commercial organizations. In such circumstances, appropriate arrangements are made to safeguard client confidentiality.

325. Where disputes arise during consultation, the engagement team follows the firm’s policies and procedures for dealing with and resolving differences of opinion.

Engagement Quality Control Review

27336. For audits of listed entities, or in other circumstances where the firm’s criteria require that an engagement quality control review be performed for an audit engagement, the engagement partner should:

(a) Determine that an engagement quality control reviewer has been appointed; and

(b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer.

28. The engagement partner does not issue the auditor’s report until the completion of the engagement quality control review, including resolution to the satisfaction of the engagement quality control reviewer of issues raised.

29347. For an audit engagement where, at the start of the engagement, the firm’s criteria do not require the performance of an engagement quality control review, the engagement partner is alert for changes in circumstances during the engagement that would require the performance of an engagement quality control review.

358. Information on engagement quality control reviews is included in ISQC 1 paragraphs 577 - 741.

Monitoring

340369. In accordance with ISQC 1, the firm’s system of quality control includes monitoring of quality control policies and procedures. The engagement partner considers the results of the monitoring process as evidenced in the latest information circulated by the firm and if applicable, other network firms, and considers whether deficiencies noted in that information may have an impact on the audit engagement in question. A deficiency in the firm’s system of quality control may or may not, in and of itself, indicate that a particular engagement was not performed in accordance with applicable professional standards, regulatory and legal requirements, or that the auditor’s report was not appropriate in the circumstances.

Effective Date

313340. This ISA is effective for audits of financial statements for periods commencing on or after 1 January 2005.