# PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 220

QUALITY CONTROL FOR AUDITS OF HISTORICAL FINANCIAL INFORMATION ENGAGEMENTS

[Draft: November 18, 2003]

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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. International Standards on Auditing (ISAs) are to be applied, as appropriate, in the audit or review of historical financial information.

ISAs contain basic principles and essential procedures (identified in bold lettering) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of an ISA to understand and apply the basic principles and essential procedures.

The nature of ISAs requires auditors to exercise professional judgment in applying them. In exceptional circumstances, an auditor may judge it necessary to depart from a basic principle or essential procedure of an ISA to achieve more effectively the objective of the audit. When such a situation arises, the auditor should be prepared to justify the departure.

Any limitation of the applicability of a specific ISA is made clear in the ISA.

In circumstances where specific basic principles, essential procedures or guidance contained in an ISA are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, the Public Sector Committee of the International Federation of Accountants so states in a Public Sector Perspective (PSP) at the end of the ISA. When no PSP is added, the ISA is to be applied as written to engagements in the public sector.

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. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on specific responsibilities of firm personnel regarding quality control procedures for audit engagements. This ISA is 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 (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, Other Assurance and Related Services Practices Engagements," 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.

4. 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 to enable the functioning of that part of the firm’s system of quality control relating to independence; and
   (c) Are entitled to rely, where appropriate, on the firm’s systems, for example 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 relevant independence requirements are satisfied, unless there is reason to believe otherwise through information provided by the firm or other parties.

Definitions

5. 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, and 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 role in the relevant jurisdiction;
   (b) “Engagement quality control review” – in connection with an audit engagement, a process designed to provide an objective evaluation, before the auditor’s report is issued, of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor’s report;
(c) “Engagement quality control reviewer” – a partner, other person in the firm or suitably qualified external consultant, or a team made up of such individuals, who has sufficient and appropriate experience and authority to provide an objective evaluation, before the auditor’s report is issued, of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor’s report;

(d) “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;

(e) “Firm” – a sole practitioner, partnership, or corporation or other legal entity of professional accountants;

(f) “Inspection” – in relation to completed audit engagements, those monitoring procedures designed to provide evidence about whether engagement teams have complied with the firm’s quality control policies and procedures;

(g) “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;

(h) “Monitoring” – a process that comprises both an ongoing consideration and evaluation of the firm’s system of quality control, and a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively;

(i) “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 under common control, ownership or management with the firm;

(j) “Partner” – any individual with authority, whether through office or otherwise, to bind the firm with respect to the performance of audits of historical financial information;

(k) “Personnel” – partners and staff;

(l) “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 relevant national ethical requirements;

(m) “Reasonable assurance” – a high, but not absolute, level of assurance;

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

(o) “Suitably qualified external consultant” – an individual who possesses the capabilities and 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 audits of historical financial information—engagements—or of an organization that provides quality control review services.

Leadership and Responsibilities for Quality on Audits

6. The engagement partner should be responsible on behalf of the firm for the overall achievement of quality control of, and the promotion of a quality-oriented internal culture on, each audit engagement to which that engagement partner is assigned.

7. The engagement partner sets an example regarding audit quality to the other members of the engagement team throughout all stages of the audit engagement. Ordinarily, this example is provided through the actions of the engagement partner and through appropriate messages to the engagement team and through the actions of the engagement partner. Such actions and messages emphasize:

(a) The importance of:
   (i) Performing work which complies with professional standards and applicable 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.

Ethical Requirements

8. The engagement partner should obtain an understanding of whether there are:
   (a) Potential threats to compliance with relevant ethical requirements; and
   (b) Appropriate safeguards in place to eliminate potential threats or reduce them to an acceptable level.

Such an understanding should be documented. Where unresolved issues are identified, these should be communicated to relevant firm personnel and resolved as appropriate consider whether members of the engagement team have complied with relevant ethical requirements.

9. Relevant ethical requirements relating to audit engagements ordinarily comprise Parts A and B of the IFAC Code together with applicable national requirements where these are more restrictive. The IFAC Code establishes the fundamental principles of professional ethics which are:
   (a) Integrity;
   (b) Objectivity;
   (c) Professional competence and due care;
   (d) Confidentiality;
(e) Professional behavior; and
(f) Technical standards.

10. 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.

140. 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, and where considered necessary, ethics specialists within or outside the firm, occur throughout the audit engagement as appropriate.

112. The engagement partner, together with members of the engagement team as appropriate, document the extent of inquiries and discussions that have taken place, including:

- Identified potential threats and safeguards adopted;
- The manner in which any issues arising have been resolved; and
- A conclusion on compliance with ethical requirements with respect to such issues.

Independence

123. The engagement partner should conclude on whether responsible for concluding on compliance with independence requirements applicable to the audit engagement. In forming the conclusion, the engagement partner should:

14. In concluding on compliance with independence requirements 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 by the firm, individuals within or outside the firm, or the client.

15. The engagement partner should:

(a) Obtain sufficient—relevant information regarding the engagement, including the scope of services provided to the client by the firm or and, where applicable, other network firms, to enable the engagement partner to identify and evaluate circumstances and relationships that create in order to evaluate whether there are potential threats to independence for the audit engagement;

(b) Evaluate information regarding identified breaches, if any, of the firm’s independence policies and procedures that determine whether they 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, or, if not possible, the matter is not resolved, to withdraw from the engagement;

(d) Communicate promptly to the firm regarding the matter so that appropriate action can be taken to resolve the matter; and

(de) Document conclusions regarding independence and any relevant discussions with the firm that support these conclusions.

16. 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 independence breaches of which they become aware.

17. If the most recent information circulated as a result of the firm’s monitoring process 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.

18. Where, in the judgment of the engagement partner, there is a threat to independence regarding the audit engagement for which it might not be possible to adopt safeguards that eliminate the threat or reduce it to an acceptable level, the engagement partner consults within the firm to determine the appropriate action to be taken, which may include eliminating the activity or interest that gives rise to the threat, or withdrawing from the audit engagement. Such discussion and conclusions are documented.

Acceptance and Continuance of Client Relationships and Specific Audit Engagements

149. The engagement partner should be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and specific audit engagements have been followed, and should document that conclusions reached in this regard have been documented.

1520. The engagement partner may or may not have been involved in initiating the acceptance or continuance decision-making process regarding the audit engagement. Regardless of whether the engagement partner was involved in that decision-initiated process, the engagement partner reviews the procedures performed for the most recent decision and concludes as to whether the decision remains appropriate.

216. The engagement team follows the firm’s procedures for acceptance and continuance of client relationships and specific audit engagements which include consideration of the following:

- The integrity of the principal owners, key management and those charged with governance of the entity;
17. The satisfactory completion of acceptance and continuance procedures does not eliminate the need for the engagement partner to maintain appropriate professional skepticism with regard to the client’s integrity throughout the engagement partner’s relationship with that client.

22. The decision on whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous 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, knowledge or expertise.

19. Where the engagement partner has obtained information that would have caused the firm to decline the appointment to the audit engagement had that information been obtained earlier, the engagement partner should communicate that information promptly to the firm to enable the firm to take the necessary action in conjunction with the engagement partner.

Assignment of Engagement Teams

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

21. The necessary appropriate capabilities and competencies expected of the engagement team as a whole include the following:
• Understanding and practical experience of audit similar engagements of a similar nature and complexity through appropriate training and participation.

• Understanding of professional standards and applicable regulatory and legal requirements.

• Appropriate technical knowledge, including relevant of auditing, accounting, tax and information technology knowledge at the appropriate level.

• Knowledge of specific relevant industries in which the client operates.

• Ability to apply professional judgment.

• Understanding of the firm’s quality control policies and procedures.

Engagement Performance

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

- Risk assessment and planning procedures.
- Performance of further audit procedures.
- Supervision.
- Documentation.
- Review.
- Reporting.
- Communicating with those charged with governance of the client entity.

236. The engagement partner directs of the audit engagement by informing 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.

247. It is important that all members of the engagement team understand the objectives of the work they are to perform. Appropriate team-working and training are necessary to assist less experienced members of the engagement team to understand the objectives of the work they are assigned.

258. Supervision includes the following:

• Tracking the progress of the audit engagement.
• Considering the capabilities and 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 engagement team members, including or the engagement partner. Reviewers consider whether:

(a) The work has been performed in accordance with professional standards and applicable 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) There are indications that suggest a need to revise the nature, timing and extent of work performed;

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

(f) Evidence obtained is sufficient and appropriate to support the auditor’s report; and

(g) The objectives of the engagement procedures have been achieved.

Before the auditor’s report is issued, the engagement partner, through should review of the working papers and discussion with the engagement team, should in order to be satisfied that they demonstrate that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.

The engagement partner’s review is conducted in a timely manner at appropriate stages during the engagement to allow for significant matters identified to be resolved on a timely basis to the engagement partner’s satisfaction before the auditor’s report is issued. Although the engagement partner’s review may need not cover all working papers, it covers critical areas of judgment, especially relating to difficult or contentious matters identified during the course of the engagement, significant risks and 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.
3129. 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 professional standards and applicable regulatory and legal requirements.

302. 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

313. **The engagement partner should:**

   (a) **Be responsible for the engagement team** encourage— and facilitate 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, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;

   (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are documented and agreed with the party consulted should be documented; and

   (d) The engagement partner is responsible for determining that conclusions resulting from consultations have been implemented.

324. Effective consultation with other professionals 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.

335. 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 that provide relevant quality control services. In such circumstances, appropriate arrangements are made to safeguard client confidentiality.

34. The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted, and is sufficiently complete and detailed to enable an understanding of:

   (a) The issue on which consultation was sought; and

   (b) The results of the consultation, including any decisions taken, the basis for those decisions and the manner in which they were implemented.
356. Where disputes or differences of opinion arise within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer during consultation, the engagement team should follow the firm’s policies and procedures for dealing with and resolving differences of opinion.

Engagement Quality Control Review

367. 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; and.

(c) 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.

For other audit engagements where an engagement quality control review is performed, the engagement partner follows the requirements set out in (a) to (c) above.

378. 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.

389. An engagement quality control review should include an objective evaluation of:

(a) The significant judgments made by the engagement team; and

(b) The conclusions reached in formulating the auditor’s report; and

(c) Other significant matters that have come to the attention of the engagement quality control reviewer.

40. The engagement quality control reviewer’s work is designed to provide a basis to conclude whether any matters have come to the reviewer’s attention that would cause the reviewer to believe that the audit engagement was not performed in accordance with professional standards and applicable regulatory and legal requirements or that the auditor’s report was not appropriate in the circumstances.

394. An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial statements and the auditor’s report, and, in particular, consideration of whether the auditor’s report is appropriate. It also involves, to the extent considered necessary by the engagement quality control reviewer.
reviewer, a review of selected working papers. The extent of the engagement quality control review depends on the complexity of the audit engagement and the risk that the auditor’s report might not be appropriate in the circumstances associated with the engagement and the experience of the engagement team. It does not reduce the responsibilities of the engagement partner.

40. The scope of an engagement quality control review includes consideration of the following:

- The engagement team’s evaluation of the firm’s independence in relation to the specific audit engagement.
- The significant risks identified during the engagement in accordance with ISA 315, “Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement,” and the responses to those risks in accordance with ISA 325, “Auditor’s Procedures in Response to Assessed Risks,” including the engagement team’s assessment of, and response to, the risk of fraud.
- The judgments made, particularly relating to significant risks.
- Whether appropriate consultation has taken place on difficult or contentious matters and the conclusions arising from those consultations.
- The significance and disposition of corrected and uncorrected misstatements.
- Whether appropriate matters have been considered for reporting to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
- Whether the selected documentation reviewed reflects the work performed and supports the conclusions drawn as a result of that work.
- Whether the auditor’s report is appropriate in the circumstances.

42. Additional information on engagement quality control reviews is included in ISQC 1, paragraphs 57–72.

Monitoring

413. 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:

(a) Whether deficiencies noted in that information may have an impact on the audit engagement in question; and

(b) Whether the measures taken by the firm to rectify the situation are sufficient in the context of that audit.

42. A deficiency in the firm’s system of quality control may or may does not, in and of itself, indicate that a particular audit engagement was not performed in accordance with professional standards and applicable regulatory and legal requirements or that the auditor’s report was not appropriate in the circumstances.
43.4 The engagement partner or engagement team should communicate with the responsible parties within the firm regarding any formal complaints or allegations (not including those that are clearly frivolous) about whether the work performed fails to comply with professional standards and applicable regulatory and legal requirements.

**Effective Date**

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

**Public Sector Perspective**

1. *This ISA is applicable in all material respects to the public sector.* The general principles contained in ISA 220 are applicable to auditors of public sector entities.

2. Some of the terms used in this ISA, such as “engagement partner” and “firm,” should be read as referring to their public sector equivalents. In general, public sector entities, like listed entities, may be of significant public interest. Many of the requirements applicable to the audit of listed entities are, therefore, likely to be relevant to the audit of public sector entities. Audits of significant public sector entities should be subject to the same standards as audits of listed entities. The significance of a public sector entity may be assessed by reference to a number of factors including business risk, public interest, political and/or public significance and the number and range of affected stakeholders.

3. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the considerations regarding the acceptance and continuance of client relationships and specific engagements, as set out in paragraphs 216–1822 of this ISA, may not be relevant.

4. Similarly, the independence of public sector auditors may be protected by statutory measures. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to ensure compliance with the spirit of paragraphs 12 and 13–18. This may include, where the public sector auditor’s mandate does not permit withdrawal from the engagement, disclosure of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

5. Paragraph 214 sets out *capabilities and competencies* expected of the engagement team. Additional *capabilities competencies* may be required in public sector audits, dependent upon the terms of the mandate in a particular jurisdiction. Such additional *capabilities competencies* may include an understanding of the applicable reporting arrangements, including reporting to parliament or in the public interest. The wider scope of a public sector audit may require the financial statements audit to include, for example, some aspects of performance auditing and a comprehensive assessment of the arrangements for ensuring legality and preventing and detecting fraud and corruption.