

SYNOPSIS

SA 220 — Quality Control for an Audit of Financial Statements — *Effective since April 1, 2010*

The SA deals with the auditor's responsibilities regarding quality control procedures for an audit of financial statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer.

The underlined objective of the SA is that the auditor is to implement quality control procedures at the engagement level that provide him with reasonable [*a high, but not absolute, level of*] that —

- (a) the audit complies with professional standards and regulatory and legal requirements; and
- (b) the auditor's report issued is appropriate in the circumstances.

I. SA 220 requires that the **engagement partner** [*the partner or other person – a member of the Institute – who is assigned the responsible for the engagement and its performance*] **shall** —

- (a) take responsibility for the overall quality of audit engagement
- (b) remain alert (skeptical), through observation and making inquiries, for evidence of any non-compliance with relevant ethical requirements (*including by members of engagement team*)
- (c) determine, in the event of any non-compliance with the related ethical requirements by the members of the engagement team, the appropriate action in consultation with others in the firm
- (d) form a conclusion on compliance with the requirement of independence
- (e) be satisfied that —
 - appropriate procedures regarding acceptance and continuance of client relationships and audit engagements have been followed, and
 - determine that the conclusions reached are appropriate [*where the engagement partner obtains or comes across any information, which, if available earlier, would have cause the firm to decline the engagement, he is required to promptly communicate that information to the firm so that he and the firm can take necessary action*]
 - engagement team, and auditor's experts, if any, who are not part of the team, collectively have the appropriate competence and capabilities to
 - * perform the audit engagement in accordance with the professional standards and regulatory & Legal requirements, and

- * enable issuance of an auditor's report that is appropriate to the circumstances
- members of engagement team have undertaken appropriate consultation during the course of engagement both
 - * within the engagement team, and
 - * between the engagement team and others at appropriate level within or outside the firm
- the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted, and determine that such conclusions have been implemented.

(f) take responsibility for

- the direction, supervision and performance of the audit assignment in compliance with professional standards and regulatory and legal requirements, and
- the auditor's report being appropriate in the circumstances
- review being performed in accordance with the firm's review policies and procedures
- undertaking appropriate consultation on difficult or contentious matters

II. Where, for audits of financial statements of listed entities, and those other audit engagements for which the firm has determined that an engagement quality control review is required, the SA requires that the engagement partner, *inter alia*, 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
- not date the auditor's report until the completion of the engagement quality control review

III. The SA requires the engagement quality control reviewer to evaluate objectively the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. For such evaluation, the engagement quality control reviewer is required to, *inter alia*, undertake —

- * Discussion of significant matters with the engagement partner
- * Review of the
financial statements and the proposed auditor's report

selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached

- * Evaluation of the conclusion reached in formulating the auditor's report, and
- * Consideration as to whether the proposed auditor's report is appropriate

In the event of any difference of opinion, which it would not be wise to rule out altogether, arising 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 such differences of opinion.

- IV. Further, the SA requires the engagement partner to consider the results of the firm's latest monitoring process whether deficiencies noted in that information affect the audit engagement.

Since documentation is of utmost importance, the same need no emphasis.

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