

EXPOSURE DRAFT

ED 10/09

(April 2009)

**Proposed Auditing Standard
ASA 220
*Quality Control for an Audit
of a Financial Report and
Other Historical Financial
Information* (Revised and
Redrafted)
(Re-issuance of ASA 220)**

Issued for Comment by the Auditing and Assurance Standards
Board



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 18 May 2009. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au.

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PREFACE

Reasons for Issuing ED 10/09

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard ASA 220 *Quality Control for Audits of Historical Financial Information* (Revised and Redrafted) pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has undertaken a programme to redraft, in “clarity” format, the entire suite of International Standards on Auditing (ISAs). Furthermore, International Standard on Quality Control 1 (ISQC 1) has been redrafted in clarity format. In some cases, and in accordance with normal practice, the ISAs have been revised in addition to being redrafted. The redrafted ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009. Systems of quality control in compliance with the redrafted ISQC 1 are required to be established by firms by 15 December 2009.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the ISAs and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted standards of the IAASB.

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Main Proposals

This proposed Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material regarding the auditor's responsibilities regarding quality control procedures for an audit of a financial report and other historical financial information. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 January 2010.

Main changes from existing ASA 220 *Quality Control for Audits of Historical Financial Information* (April 2006)

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 220 *Quality Control for Audits of Historical Financial Information* (April 2006), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard ASA 220, *Quality Control for Audits of Historical Financial Information* by no later than 18 May 2009. The AUASB is seeking comments on the main changes from the existing ASA 220. In addition, respondents are asked to consider and respond to the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing

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Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the main changes to the Requirements of this proposed Auditing Standard are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

AUASB Information Note

The IAASB has announced completion of the “Clarity” project. While all currently known conforming amendments are incorporated into this Exposure Draft, readers are advised that the AUASB may decide to make further conforming amendments, and other editorial changes.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* (Revised and Redrafted) pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

AUDITING STANDARD ASA 220

Quality Control for an Audit of a Financial Report and Other Historical Financial Information (Revised and Redrafted)

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

Introduction

Scope of this ASA

1. This Auditing Standard ASA deals with the specific responsibilities of the auditor regarding quality control procedures for audits of a financial report and other historical financial information. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. This Auditing Standard is to be read in conjunction with relevant ethical requirements.

System of Quality Control and Role of Engagement Teams

2. Quality control systems, policies and procedures are the responsibility of the audit firm. Under ASQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

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-
- (a) The firm and its personnel comply with Australian Auditing Standards and regulatory and legal requirements; and
 - (b) The reports issued by the firm or engagement partners are appropriate in the circumstances.¹

This Auditing Standard is premised on the basis that the firm is subject to ASQC 1. (Ref: Para. A1)

- 3. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control 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.
- 4. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. (Ref: Para. A2)

Effective Date

- 5. [Deleted by the AUASB. Refer Aus 0.3]

Objective

- 6. The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:
 - (a) The audit complies with Australian Auditing Standards and regulatory and legal requirements; and
 - (b) The auditor's report issued is appropriate in the circumstances.

Definitions

- 7. For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:

Aus 7.1 Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.

¹ See ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements*, paragraph 11.

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- (a) Engagement partner² means the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
 - (b) Engagement quality control review means a process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgements the engagement team made and the conclusions it reached in formulating the auditor's report. The engagement quality control review process is only for audits of financial reports of listed entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.
 - (c) Engagement quality control reviewer means a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the auditor's report.
 - (d) Engagement team means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm.³
 - (e) Firm means a sole practitioner, partnership, corporation or other entity of assurance practitioners.
- Aus 7.2 For the purposes of the *Corporations Act 2001*, a firm means an individual auditor, audit firm or audit company.
- (f) Inspection means in relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

² "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.

³ See ASA 620 (Revised and Redrafted), *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."

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- (g) Listed entity means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.
- (h) Monitoring means a process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.
- (i) Network firm means a firm or entity that belongs to a network.
- (j) Network means a larger structure:
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (k) Partner means any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (l) Personnel means partners and staff.
- (m) Australian Auditing Standards means Australian Auditing Standards issued by the Auditing and Assurance Standards Board (AUASB).
- (n) Relevant ethical requirements means ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of APES 110 *Code of Ethics for Professional Accountants*[‡] issued by the Accounting Professional and Ethical Standards Board (APESB), related to an audit of a financial report and an audit of other historical financial information.

[‡] As in force at the relevant time.

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- (o) Staff means professionals, other than partners, including any experts the firm employs.
- (p) Suitably qualified external person means an individual outside the firm with the competence and capabilities 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 financial reports or audits of other historical financial information or of an organisation that provides relevant quality control services.

Requirements

Leadership Responsibilities for Quality on Audits

- 8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.
(Ref: Para. A3)

Relevant Ethical Requirements

- 9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. (Ref: Para. A4-A5)
- 10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate 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.
(Ref: Para. A5)

Independence

- 11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement^{**}. In doing so, the engagement partner shall:
 - (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate

^{*} For example, Institute of Chartered Accountants in Australia, CPA Australia, and the National Institute of Accountants.

^{**} For example, see APES 110 (as in force at the relevant time) and the *Corporations Act 2001*

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- circumstances and relationships that create threats to independence;
- (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
 - (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A5-A7)

Acceptance and Continuance of Client Relationships and Audit Engagements

- 12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A8-A9)
- 13. 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. (Ref: Para. A9)

Assignment of Engagement Teams

- 14. 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:
 - (a) Perform the audit engagement in accordance with Australian Auditing Standards and regulatory and legal requirements; and
 - (b) Enable an auditor's report that is appropriate in the circumstances to be issued. (Ref: Para. A10-A12)

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Engagement Performance

Direction, Supervision and Performance

15. The engagement partner shall take responsibility for:
- (a) The direction, supervision and performance of the audit engagement in compliance with Australian Auditing Standards and regulatory and legal requirements; and (Ref: Para. A13-A15, A20)
 - (b) The auditor's report being appropriate in the circumstances.

Reviews

16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16-A17, A20)
17. 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. (Ref: Para. A18-A20)

Consultation

18. 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, 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 agreed with the party consulted; and
 - (d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para. A21-A22)

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Engagement Quality Control Review

19. For audits of financial reports 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;
 - (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) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. A23-A25)
20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgements 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 reports and the proposed auditor's report;
 - (c) Review of selected audit documentation relating to the significant judgements 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. (Ref: Para. A26-A27, A29-A31)
21. For audits of financial reports 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 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;

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- (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
- (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached.
(Ref: Para. A28-A31)

Differences of Opinion

22. 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.

Monitoring

23. 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 process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Ref: Para A32-A34)

Documentation

24. The auditor shall document:
- (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, and any relevant discussions with the firm that support these conclusions.
 - (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. (Ref: Para. A35)

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25. 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
 - (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the engagement team made and the conclusions they reached were not appropriate.

* * *

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Application and Other Explanatory Material

System of Quality Control and Role of Engagement Teams (Ref: Para. 2)

A1. ASQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for audit engagements. The system of quality control includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

ASQC 1 contains requirements which are at least as demanding as its international equivalent, ISQC 1 (Redrafted), as it addresses all the elements referred to in this paragraph and imposes obligations on the firm that achieve the aims of the requirements set out in ISQC 1 (Redrafted).

Reliance on the Firm's System of Quality Control (Ref: Para. 4)

A2. Unless information provided by the firm or other parties suggest otherwise, the engagement team may rely on the firm's system of quality control in relation to, for example:

- Competence of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to regulatory and legal requirements through the monitoring process.

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Leadership Responsibilities for Quality on Audits (Ref: Para. 8)

- A3. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise:
- (a) The importance to audit quality of:
 - (i) Performing work that complies with Australian Auditing Standards and regulatory and legal requirements;
 - (ii) Complying with the firm’s quality control policies and procedures as applicable;
 - (iii) Issuing auditor’s reports that are appropriate in the circumstances; and
 - (iv) The engagement team’s ability to raise concerns without fear of reprisals; and
 - (b) The fact that quality is essential in performing audit engagements.

Relevant Ethical Requirements

Compliance with Relevant Ethical Requirements (Ref: Para. 9)

- A4. APES 110 establishes the fundamental principles of professional ethics, which include:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behaviour.

Definition of “Firm,” “Network” and “Network Firm” (Ref: Para. 9-11)

- A5. The definitions of “firm”, “network”, or “network firm” in relevant ethical requirements may differ from those set out in this Auditing Standard. For example, APES 110 defines the “firm” as:

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- (a) A sole practitioner, partnership or corporation of professional accountants;
- (b) An entity that controls such parties through ownership, management or other means; and
- (c) An entity controlled by such parties through ownership, management or other means.

APES 110 also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 9-11, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

Threats to Independence (Ref: Para. 11(c))

- A6. The engagement partner may identify a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level. In that case, as required by paragraph 11(c), the engagement partner reports to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is legally permitted.

Considerations Specific to Public Sector Entities

- A7. Statutory measures may provide safeguards for the independence of public sector auditors. 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 promote compliance with the spirit of paragraph 11. This may include, where the public sector auditor’s mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 12)

- A8. ASQC 1 requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement

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with an existing client.⁴ Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity of the principal owners, key management and those charged with governance of the entity;
- Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm and the engagement team can comply with relevant ethical requirements; and
- Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

Considerations Specific to Public Sector Entities (Ref: Para. 12-13)

A9. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12, 13 and A8 may not be relevant. Nonetheless, information gathered as a result of the process described may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Assignment of Engagement Teams (Ref: Para. 14)

A10. An engagement team also includes a member using expertise in a specialised area of accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement.

A11. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.

⁴ See ASQC 1, paragraph 27(a).

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- Understanding of Australian Auditing Standards and regulatory and legal requirements.
- Technical expertise, including expertise with relevant information technology and specialised areas of accounting or auditing.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgement.
- Understanding of the firm's quality control policies and procedures.

Considerations Specific to Public Sector Entities

- A12. In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with legislative authorities and preventing and detecting fraud and corruption.

Engagement Performance

Direction, Supervision and Performance (Ref: Para. 15(a))

- A13. Direction of the engagement team involves informing the members of the engagement team of matters such as:
- Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional scepticism as required by ASA 200 (Revised and Redrafted).⁵
 - Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
 - The objectives of the work to be performed.

⁵ See ASA 200 (Revised and Redrafted), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 15.

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- The nature of the entity's business.
- Risk-related issues.
- Problems that may arise.
- The detailed approach to the performance of the engagement.

Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team.

A14. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

A15. Supervision includes matters such as:

- Tracking the progress of the audit engagement.
- Considering the competence and capabilities of individual members of the engagement team, including 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 matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.

Reviews

Review Responsibilities (Ref: Para. 16)

A16. Under ASQC 1, the firm's review responsibility policies and procedures are determined on the basis that work of less experienced team members is reviewed by more experienced team members.⁶

⁶ See ASQC 1, paragraph 33.

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A17. A review consists of consideration whether, for example:

- The work has been performed in accordance with Australian Auditing Standards and regulatory and legal requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the auditor's report; and
- The objectives of the engagement procedures have been achieved.

The Engagement Partner's Review of Work Performed (Ref: Para. 17)

A18. Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report:

- Critical areas of judgement, especially those relating to difficult or contentious matters identified during the course of the engagement;
- Significant risks; and
- Other areas the engagement partner considers important.

The engagement partner need not review all audit documentation, but may do so. However, as required by ASA 230 (Revised and Redrafted), the partner documents the extent and timing of the reviews.⁷

⁷ See 230 (Revised and Redrafted), *Audit Documentation*, paragraph 9(c).

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A19. An engagement partner taking over an audit during the engagement may apply the review procedures as described in paragraphs A18 to review the work performed to the date of a change in order to assume the responsibilities of an engagement partner.

Considerations Relevant Where a Member of the Engagement Team with Expertise in a Specialised Area of Accounting or Auditing Is Used
(Ref: Para. 15-17)

- A20. Where a member of the engagement team with expertise in a specialised area of accounting or auditing is used, direction, supervision and review of that engagement team member's work may include matters such as:
- Agreeing with that member the nature, scope and objectives of that member's work; and the respective roles of, and the nature, timing and extent of communication between that member and other members of the engagement team.
 - Evaluating the adequacy of that member's work including the relevance and reasonableness of that member's findings or conclusions and their consistency with other audit evidence.

Consultation (Ref: Para. 18)

- A21. Effective consultation on significant technical, ethical, and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:
- Are given all the relevant facts that will enable them to provide informed advice; and
 - Have appropriate knowledge, seniority and experience.
- A22. It may be appropriate for the engagement team to consult outside the firm, for example, where the firm lacks appropriate internal resources. They may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organisations that provide relevant quality control services.

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Engagement Quality Control Review

Completion of the Engagement Quality Control Review before Dating of the Auditor's Report (Ref: Para. 19(c))

- A23. ASA 700 (Revised and Redrafted) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial report.⁸ In cases of an audit of a financial report of listed entities or when an engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.
- A24. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.
- A25. Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in paragraphs 20-21, and where applicable, compliance with paragraph 22. Documentation of the engagement quality control review may be completed after the date of the auditor's report as part of the assembly of the final audit file. ASA 230 (Revised and Redrafted)⁹ establishes requirements and provides guidance in this regard.

Nature, Extent and Timing of Engagement Quality Control Review
(Ref: Para. 20)

- A26. Remaining alert for changes in circumstances allows the engagement partner to identify situations in which an engagement quality control review is necessary, even though at the start of the engagement, such a review was not required.
- A27. The extent of the engagement quality control review may depend, among other things, on the complexity of the audit engagement, whether the entity is a listed entity, and the risk that the auditor's report might not be appropriate in the circumstances. The performance of an engagement quality control review does not

⁸ See ASA 700 (Revised and Redrafted), *Forming an Opinion and Reporting on a Financial Report*, paragraph 41.

⁹ See ASA 230 (Revised and Redrafted), paragraphs 14-16 and A21-A24.

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reduce the responsibilities of the engagement partner for the audit engagement and its performance.

Engagement Quality Control Review of Listed Entities (Ref: Para. 21)

A28. Other matters relevant to evaluating the significant judgements made by the engagement team that may be considered in an engagement quality control review of a listed entity include:

- Significant risks identified during the engagement in accordance with ASA 315 (Revised and Redrafted),¹⁰ and the responses to those risks in accordance with ASA 330 (Revised and Redrafted),¹¹ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ASA 240 (Revised and Redrafted).¹²
- Judgements made, particularly with respect to materiality and significant risks.
- The significance and disposition of corrected and uncorrected misstatements identified during the audit.
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial reports of other entities.

Considerations Specific to Smaller Entities (Ref: Para. 20-21)

A29. In addition to the audits of financial reports of listed entities, an engagement quality control review is required for audit engagements that meet the criteria established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review.

¹⁰ See ASA 315 (Revised and Redrafted), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*.

¹¹ See ASA 330 (Revised and Redrafted), *The Auditor's Responses to Assessed Risks*.

¹² See ASA 240 (Revised and Redrafted), *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

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Considerations Specific to Public Sector Entities (Ref: Para. 20-21)

- A30. In the public sector, a statutorily appointed auditor (for example, an Auditor-General, or other suitably qualified person appointed on behalf of the Auditor-General), may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.
- A31. Listed entities as referred to in paragraphs 21 and A28 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.

Monitoring (Ref: Para. 23)

- A32. ASQC 1 requires the firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.¹³
- A33. In considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that audit.
- A34. A deficiency in the firm's system of quality control does not necessarily indicate that a particular audit engagement was not performed in accordance with Australian Auditing Standards and regulatory and legal requirements, or that the auditor's report was not appropriate.

¹³ See ASQC 1, paragraph 48.

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Documentation

Documentation of Consultations (Ref: Para. 24(d))

- A35. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:
- The issue on which consultation was sought; and
 - The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

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Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 220 *Quality Control for an Audit of Financial Statements* (Revised and Redrafted), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISA 220.

Tables of Differences — ASA 220 (Revised and Redrafted) and Extant ASA 220

Underlying Standard

ISA 220 *Quality Control for an Audit of Financial Statements* (Redrafted) is used as the underlying Auditing Standard for the purpose of re-drafting this proposed Auditing Standard. The underlying Auditing Standard will be amended for the following matters:

- Australian Laws and Regulations (including the *Corporations Act 2001*);
- Changes considered necessary because this Auditing Standard is a legislative instrument; and
- Changes considered necessary in the public interest.

Summary of Main Differences — ASA 220 (Revised and Redrafted) and Extant ASA 220

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and extant ASA 220.

Requirements in ASA (Revised and Redrafted) not in Extant ASA

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Scope			
1	1-4	1. This Auditing Standard deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial reports and other historical financial information. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. This Auditing Standard is to be read in conjunction with relevant ethical requirements.	New scope section included.

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p><i>System of Quality Control and Role of Engagement Teams</i></p> <p>2. Quality control systems, policies and procedures are the responsibility of the audit firm. Under ASQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> (a) The firm and its personnel comply with Australian Auditing Standards and regulatory and legal requirements; and (b) The reports issued by the firm or engagement partners are appropriate in the circumstances. <p>This Auditing Standard is premised on the basis that the firm is subject to ASQC 1. (Ref: Para. A1)</p> <p>3. Within the context of the firm’s system of quality control, engagement teams have a responsibility to implement quality control 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.</p> <p>4. Engagement teams are entitled to rely on the firm’s system of quality control, unless information provided by the firm or other parties suggests otherwise. (Ref: Para. A2)</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Objectives			
2	6	<p>The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:</p> <p>(a) The audit complies with Australian Auditing Standards and regulatory and legal requirements; and</p> <p>(b) The auditor's report issued is appropriate in the circumstances.</p>	New Objective included.
Definitions			
3	7	<p>For purposes of the Australian Auditing Standard, the following terms have the meanings attributed below:</p> <p>Aus 7.1 Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.</p> <p>(a) Engagement partner means the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p>(b) Engagement quality control review means a process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgements the engagement team made</p>	<p>New Definitions section included.</p> <p>(1) Shaded text contains new definitions not in the extant ASA.</p> <p>(2) Unshaded text contains definitions in extant ASA</p> <p>[Extant ASA 220 para 8—equivalent Explanatory Guidance]</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>and the conclusions it reached in formulating the auditor’s report. The engagement quality control review process is only for audits of financial reports of listed entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.</p> <p>(c) Engagement quality control reviewer means a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the auditor’s report.</p> <p>(d) Engagement team means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or a network firm.</p> <p>(e) Firm means a sole practitioner, partnership, corporation or other entity of assurance practitioners.</p> <p>Aus 7.2 For the purposes of the <i>Corporations Act 2001</i>, a firm means an individual auditor, audit firm or audit company.</p> <p>(f) Inspection means in relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>the firm’s quality control policies and procedures.</p> <p>(g) Listed entity means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.</p> <p>(h) Monitoring means a process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.</p> <p>(i) Network firm means a firm or entity that belongs to a network.</p> <p>(j) Network means a larger structure:</p> <p style="padding-left: 20px;">(i) That is aimed at cooperation, and</p> <p style="padding-left: 20px;">(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.</p> <p>(k) Partner means any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p> <p>(l) Personnel means partners and staff.</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>(m) Australian Auditing Standards means Australian Auditing Standards issued by the Auditing and Assurance Standards Board (AUASB).</p> <p>(n) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of APES 110 <i>Code of Ethics for Professional Accountants</i> issued by the Accounting Professional and Ethical Standards Board (APESB), related to an audit of a financial report and an audit of other historical financial information.</p> <p>(o) Staff means professionals, other than partners, including any experts the firm employs.</p> <p>(p) Suitably qualified external person means an individual outside the firm with the competence and capabilities 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 financial reports or audits of other historical financial information or of an organisation that provides relevant quality control services.</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Relevant Ethical Requirements			
4	10	If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate 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. (Ref: Para. A5)	Elevation of extant ASA Explanatory Guidance [Extant ASA 220 para 13—equivalent Explanatory Guidance]
Reviews			
5	16	The engagement partner shall take responsibility for reviews being performed in accordance with the firm’s review policies and procedures. (Ref: Para. A16-A17, A20)	No extant ASA equivalent.
6	19	<p>For audits of financial reports 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:</p> <ul style="list-style-type: none"> (a) Determine that an engagement quality control reviewer has been appointed; (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) Not date the auditor’s report until the completion of the engagement quality control review. (Ref: Para. A23-A25) 	<p>(1) Shaded text contains a difference to extant ASA – extant ASA uses the phrase “not issue” in [para 40].</p> <p>(2) Unshaded text is equivalent in meaning to the extant ASA Requirement.</p> <p>[Extant ASA 220 para 40—equivalent Requirement]</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Engagement Quality Control Review			
7	20	<p>The engagement quality control reviewer shall perform an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the auditor’s report. This evaluation shall involve:</p> <p>(a) Discussion of significant matters with the engagement partner;</p> <p>(b) Review of the financial reports and the proposed auditor’s report;</p> <p>(c) Review of selected audit documentation relating to the significant judgements the engagement team made and the conclusions it reached; and</p> <p>(d) Evaluation of the conclusions reached in formulating the auditor’s report and consideration of whether the proposed auditor’s report is appropriate. (Ref: Para. A26-A27, A29-A31)</p>	<p>(1) Shaded text has no extant ASA equivalent.</p> <p>(2) Unshaded text is equivalent in meaning to the extant ASA Requirement. [Extant ASA 220 para 42—equivalent Requirement]</p> <p>(3) Bold text is elevation of extant ASA explanatory guidance. [Extant ASA 220 para 43—equivalent Explanatory Guidance]</p>
8	21	<p>For audits of financial reports of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <p>(a) The engagement team’s evaluation of the firm’s independence in relation to the audit engagement;</p> <p>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</p>	<p>(1) Shaded text contains a difference in scope from the extant ASA equivalent. Extant ASA only refers to “audits of a financial report” and not “listed entities”.</p> <p>(2) Unshaded text is elevation of extant ASA Explanatory Guidance. [Extant ASA 220 para 44—equivalent Explanatory Guidance].</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached. (Ref: Para. A28-A31)	
Monitoring			
9	23	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 process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Ref: Para A32-A34)	No extant ASA equivalent.
Documentation			
10	24	<p>The auditor shall document:</p> <p>(a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.</p> <p>(b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.</p> <p>(c) <i>Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.</i></p>	<p>(1) Shaded text is elevation of extant ASA Explanatory Guidance. [Extant ASA 220 para 44—equivalent Explanatory Guidance].</p> <p>(2) Bold text is equivalent in meaning to extant ASA Requirement. [Extant ASA 220 para 15(d)—equivalent Requirement].</p> <p>(3) <i>Italics text</i> is equivalent in meaning to extant ASA Requirement.</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		(d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Ref: Para. A35)	[Extant ASA 220 para 17—equivalent Requirement]. (4) Unshaded/non-bold/non-italics text is equivalent in meaning to extant ASA Requirement. [Extant ASA 220 para 34(c)—equivalent Requirement].
11	25	<p>The engagement quality control reviewer shall document, for the audit engagement reviewed, that:</p> <p>(a) The procedures required by the firm’s policies on engagement quality control review have been performed;</p> <p>(b) The engagement quality control review has been completed on or before the date of the auditor’s report; and</p> <p>(c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the engagement team made and the conclusions they reached were not appropriate.</p>	No extant ASA equivalent.

Significant Differences in Guidance — ASA (Revised and Redrafted) and Extant ASA

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Guidance	Commentary
Engagement Quality Control Review			
1	A23-A25	<p>A23 ASA 700 (Revised and Redrafted) requires the auditor’s report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor’s opinion on the financial report. In cases of an audit of financial reports of listed entities or when an engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.</p> <p>A24. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer’s satisfaction on or before the date of the auditor’s report.</p> <p>A25. Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in paragraphs 20-21, and where applicable, compliance with paragraph 22. Documentation of the engagement quality control review may be completed after the date of the auditor’s report as part of the assembly of the final audit file. ASA 230 (Revised and Redrafted) establishes requirements and provides guidance in this regard.</p>	Additional to extant ASA, and provides further guidance on extant Requirements.

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Guidance	Commentary
Monitoring			
2	A32-A33	<p>A32. ASQC 1 requires the firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.</p> <p>A33. In considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that audit.</p>	Additional to extant ASA, and provides further guidance on extant Requirements.