

ASA 220
(October 2009)

Explanatory Statement

ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information

Issued by the **Auditing and Assurance Standards Board**

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Australian Government

Auditing and Assurance Standards Board

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Contact Details

Auditing and Assurance Standards Board
Level 7
600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

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Reasons for Issuing Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as 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 Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

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 International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

Operative Date

ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

The purpose of the Auditing Standard is to establish Requirements and to provide Application and Other Explanatory Material dealing with the specific responsibilities of auditors in respect of quality control procedures for audits of a financial report and other historical financial information. It also

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addresses, where applicable, the responsibilities of the engagement quality control reviewer.

Main Features

The Auditing Standard:

- (a) establishes the leadership responsibilities of the engagement partner for quality on audits;
- (b) sets out the relevant ethical requirements, including independence;
- (c) sets out the process for the acceptance and continuance of client relationships and audit engagements;
- (d) sets out the assignment of an engagement team to the audit engagement;
- (e) sets out engagement performance requirements, including direction, supervision, reviews, consultations, quality control reviews;
- (f) outlines the monitoring process for compliance with the system of quality control; and
- (g) outlines the documentation requirements related to quality control for the audit engagement; including those related to the engagement quality control reviewer.

Preamble and Overall Objectives

ASA 220 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. ASA 220 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;

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- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the Requirements or the Application and Other Explanatory Material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 10/09 *Proposed Auditing Standard: Quality Control for an Audit of a Financial Report and Other Historical Financial Information* (Re-issuance of ASA 220), was issued on 14 April 2009 with a 34 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;

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- the significant costs, if any, and benefits, of compliance with any additional Requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulation Impact Statement

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in Clarity format, including ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

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

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 220 *Quality Control for Audits of Historical Financial Information* (April 2006), are:

1. The Auditing Standard is written in the 'clarity' format using the equivalent International Standard on Auditing (ISA 220 *Quality Control for an Audit of Financial Statements*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following Requirements included in the Auditing Standard are in part, or full, additional compared to the extant Auditing Standard:
 - (a) The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. 16)

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- (b) 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:
 - (i) Discussion of significant matters with the engagement partner;
 - (ii) Review of the financial reports and the proposed auditor's report;
 - (iii) Review of selected audit documentation relating to the significant judgements the engagement team made and the conclusions it reached; and
 - (iv) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. 20)
- (c) 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:
 - (i) The engagement team's evaluation of the firm's independence in relation to the audit engagement;
 - (ii) 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
 - (iii) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached. (Ref: Para. Aus 21.1)
- (d) 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,

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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. 23)

- (e) The engagement quality control reviewer shall document, for the audit engagement reviewed, that:
 - (i) The procedures required by the firm's policies on engagement quality control review have been performed;
 - (ii) The engagement quality control review has been completed on or before the date of the auditor's report; and
 - (iii) 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 it reached were not appropriate. (Ref: Para. 25)
- 3. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written; however, the equivalent meanings have been retained.
- 4. Certain guidance material in the extant Auditing Standard has been elevated to Requirements.
- 5. Application and Other Explanatory Material, linked to the additional Requirements listed at 2. above, is also included in the Auditing Standard.