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Basis for Conclusions ***ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

Basis for Conclusions ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 220.

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BASIS FOR CONCLUSIONS

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

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, *ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, and is not a substitute for reading the Standard.

Background

1. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's Strategic Direction, the AUASB's policy is to adopt the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), unless there is a compelling reason not to do so. In addition, the AUASB is required to make such amendments to the ISAs to ensure the Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements. Further amendments are made where there are compelling reasons to do so, and are made with a public interest focus. Refer to paragraph 10 of this Basis of Conclusions document for further detail on compelling reason amendments.
2. The IAASB issued ISA 220 *Quality Management for an Audit of Financial Statements* in December 2020.
3. In December 2016, the IAASB approved a combined project proposal to address the revision of ISQC 1¹, ISA 220² and ISA 600³. The project proposal combined the topics of quality control and group audits due to the interaction of the issues affecting these standards, while the timing of the projects took into account the degree of interaction between the various projects of the IAASB.
4. The IAASB objective in revising ISA 220 was to strengthen aspects of quality management for individual engagements by focussing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.
5. The IAASB released an exposure draft of proposed ISA 220 in February 2019 and in March 2019 the AUASB exposed the IAASB exposure draft to gather feedback from Australian stakeholders to inform its submission to the IAASB.
6. The AUASB received comment letters from 4 stakeholders and held roundtables in Sydney, Melbourne and Brisbane which were attended by over 50 stakeholders representing assurance providers from a range of audit firms, professional accounting bodies, academics, those charged with governance and preparers of financial statements.
7. Based on the feedback received, the AUASB provided a submission to the IAASB in July 2019. Refer to the [AUASB's full submission](#).
8. The AUASB monitored the development of ISA 220 to ensure that the issues included in the submission to the IAASB were appropriately addressed. Further details regarding the

¹ ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement*.

² ISA 220 *Quality Control for an Audit of Financial Statements*.

³ ISA 600 *Special Considerations—Audits of Group Financial Statements*.

development of ISA 220 and how the IAASB addressed feedback on their exposure draft can be found in the [ISA 220 Basis for Conclusions](#) on the IAASB’s website.

Scope

9. This Basis for Conclusions applies to ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

Major Issues raised by Respondents on Exposure

10. The adoption of international standards and any changes to adopted standards are governed by the AUASB’s policies regarding convergence with IAASB standards and harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board. The policies and procedures incorporate “compelling reasons” tests which must be used to support changes to the international standards (refer paragraph 1).
11. The AUASB received feedback from respondents on the Australian exposure of ISA 220 with the major issues included in the submission to the IAASB relating to:
- (a) The inconsistency between the engagement team definition in ISA 220 and proposed ISQM 1;
 - (b) The broader definition of engagement team and the practicality of meeting the requirements of proposed ISA 220; and
 - (c) The engagement partner being solely responsible for meeting all the requirements of the standard and whether certain requirements may be performed by other members of the engagement team or the firm’s systems could be relied upon.

The AUASB included these issues in its submission to the IAASB. Appendix 1 details all major feedback received from Australian stakeholders included in the AUASB’s submission to the IAASB and how those matters have been addressed in the final ISA 220.

Compelling reasons assessment

12. The adoption of international standards and any changes to adopted standards are governed by the AUASB’s policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB. The policies and procedures incorporate “compelling reasons” tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. Further to paragraph 1 of this Basis of Conclusions document, compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia.
13. The AUASB concluded that there were several non-judgemental Australian compelling reason amendments to make to the international equivalent of the standard. Such amendments are prefixed in ASA 220 as AUS paragraphs, the reasons for their insertion is summarised in the tables below.

The following AUS paragraphs have been included in ASA 220:

Change	Summary of Change
1	Paragraph Aus 1.1 is an additional Australian insertion. The paragraph has been included to remind the auditor that it is their responsibility to ensure compliance with all relevant legal, regulatory or professional obligations such as the <i>Corporations Act 2001</i> . This change has been made to conform with the Australian regulatory environment and statutory requirements.

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Change	Summary of Change
2	Paragraph Aus 12.1 replaces sub-paragraph 12(d) which has been deleted by the AUASB. The IAASB engagement team definition in sub-paragraph 12(d) contained reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of "... and auditors who provide direct assistance on an engagement" the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
3	Paragraph Aus 12.2 replaces sub-paragraph 12(h) which has been deleted by the AUASB. The IAASB definition of partner contained reference to "professional services engagement" which is not a term defined by AUASB Standards. The term has been replaced by an explicit reference to the types of engagements that are performed under the AUASB Standards, "audit, review, other assurance or related services engagement". This change is a significant terminology change and has been made to conform with principles and practices considered appropriate in Australia.
4	Paragraph Aus 12.3 replaces sub-paragraph 12(j) which has been deleted by the AUASB. The IAASB term "professional standards" is not used by the AUASB. The term has been replaced by a definition of Australian Auditing Standards which covers both auditing standards and ethical requirements through ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> . This change has been made to conform with the Australian regulatory environment.
5	Paragraph Aus 12.4 replaces sub-paragraph 12(k) which has been deleted by the AUASB. The AUASB defines relevant ethical requirements in accordance with ASA 102 which is done to give enforceable status to the APESB's APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> . This change has been made to conform with the Australian regulatory environment.
6	Paragraph Aus 26.1 replaces paragraph 26 which has been deleted by the AUASB. The ISA requirement contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of "...and internal auditors who provide direct assistance..." the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
7	Paragraph Aus A21.1 replaces paragraph A21 which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of references to direct assistance, the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
8	Paragraph Aus A31.1 replaces sub-paragraph A31(b) which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of "...internal auditors who provide direct assistance or ..." the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.

Change	Summary of Change
9	Paragraph Aus A62.1 replaces paragraph A62 which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of "...and individuals from within the entity's internal audit function who provide direct assistance on the audit" the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.

14. Additionally, the AUASB decided to not carry forward several Australian amendments to application and explanatory material from extant ASA 220. The nature of the amendments and the rationale for the AUASB's decision is outlined in the table below.

Nature of Australian amendments	Reason for AUASB decision
<i>Corporations Act 2001</i> specific references	The AUASB determined that there would be an overall reference to legal and regulatory requirements in the introductory section of ASA 220 rather than references spread throughout the standard, refer Aus 1.1. The inserted paragraph states that ASA 220 does not address the responsibilities for the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the independence or other assurance related requirements of the <i>Corporations Act 2001</i> .
Compliance with relevant ethical requirements	In line with the approach in ASQM 1, references to relevant ethical requirements will not be deleted and referenced to ASA 102 as there are a number of helpful references to specific sections of the code throughout the standard.

15. The IAASB has committed to providing implementation support materials including a first time through guide to assist practitioners with the adoption of ISQM 1. The AUASB will monitor all IAASB implementation support materials to consider if further implementation support is required locally to address implementation issues.
16. Appendix 1 details all major feedback received from Australian stakeholders included in the AUASB's submission to the IAASB and how the issues have been addressed in the final ISA 220. Further detail on how the IAASB have addressed global comments on their exposure draft is included in the [ISA 220 Basis for Conclusions](#).

Conclusion

17. The AUASB voted to approve and issue ASA 220 on 10 March 2021.
18. In reaching its conclusions the AUASB considered:
- (a) all stakeholder feedback;
 - (b) the IAASB's due process and consideration as to whether ISA 220 should be re-exposed;
 - (c) whether the amendments made to the standard by the IAASB since exposure were in response to submissions from stakeholders on the exposure draft, have not changed the fundamental approach and principles on which the standard is based, and did not require the re-expose of the standard.

* * *

Appendix 1

How more significant issues raised in the AUASB submission to the IAASB have been addressed in the final ISA 220

Matter #	AUASB Issue	Addressed in final ISA 220
1	<p>Monitoring and reviewing work of assignees</p> <p>The AUASB raised that it may be difficult to practically meet the requirements in paragraphs 11-13 on a larger audit engagement (such as a multinational or group audit), particularly allowing for the broader Engagement Team definition now contained in the proposed standard.</p>	<p>The IAASB has addressed this through:</p> <ul style="list-style-type: none"> - amending the “engagement team” definition and reworking the related application material. This included removing reference to “individuals engaged by the firm or a network firm” from the engagement team definition; - amending paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; - clarifying the nature, timing and extent of direction, supervision and review in more complex engagements, including differences between what is required for individuals outside of the firm’s network.
2	<p>Guidance Direction and Supervision</p> <p>The AUASB raised that the broader engagement team definition may cause problems for the engagement partner in meeting the proposed direction, supervision and review requirements.</p>	<p>The IAASB has addressed this through:</p> <ul style="list-style-type: none"> - amending the “engagement team” definition and reworking the related application material. This included removing reference to “individuals engaged by the firm or a network firm” from the engagement team definition; - amending paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; - revising the terms used to differentiate between requirements which must be performed by the engagement partner and those that are permitted to be assigned to appropriately skilled or suitably experienced members of the engagement team.

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Matter #	AUASB Issue	Addressed in final ISA 220
3	<p>Ambiguity of definitions across the QM suite in relation to Engagement Team</p> <p>The AUASB raised that the definition of engagement team may be interpreted differently under ISA 220 and ISQM 1 due to the different application and explanatory material that applied to the definition in ISA 220 not being replicated in ISQM 1.</p>	<p>The IAASB has addressed this through Members of each of the Taskforces working together to ensure alignment between the QM standards. The engagement team definitions are consistent between ISQM 1 and ISA 220 with the exception of application material which in the case of ISQM 1 links to ISA 220 for additional guidance in applying the definition in the context of an audit.</p>
4	<p>Engagement Partner’s role</p> <p>The AUASB raised that situations where there are multiple partners on an engagement should be dealt with as part of proposed revisions to ISA 220 to clarify the assigning of roles and responsibilities as well as situations where an individual other than the engagement partner signs the auditor’s report, either instead of or on behalf of, the engagement partner.</p>	<p>The IAASB has not addressed this as part of ISA 220 but has an on-going signing partner project to address where there are multiple partners on an engagement or where an individual other than the engagement partner signs the auditor’s report, either instead of or on behalf of, the engagement partner.</p>
5	<p>Reliance on Firm’s System</p> <p>The AUASB raised that the removal of the introductory paragraph contained in extant ISA 220 that “Engagement teams are entitled to rely on the firm’s system of quality control process, unless information provided by the firm or other parties suggests otherwise” in combination with other changes to specify requirements that must be performed by the engagement partner, could result in a duplication of effort between the firm and engagement partner.</p>	<p>The IAASB considered the feedback and additional application material was included in the final ISA 220 addressing this. Additionally, the IAASB clarified for paragraphs that must be fulfilled by the engagement partner, the engagement partner may rely on information from the firm or engagement team members to fulfill the requirement.</p>
6	<p>Roles of EP and EQR</p> <p>The AUASB raised whether an appropriate balance had been achieved between the role of the engagement partner under ISA 220 and the role of the EQR under ISQM 2. The level of work expected of the EQR in some areas appeared to be at the same level as an EP and, in the view of the AUASB, was not in line with the objectives and proportionate responsibilities of an EQR.</p>	<p>The IAASB considered whether the responsibilities of the engagement partner were appropriate in light of the responsibilities specified for the engagement quality reviewer in ISQM 2. The IAASB noted that the requirements for an engagement partner go much further because the full suite of ISAs are directed at “the auditor”, the definition of which includes the engagement partner.</p>

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Matter #	AUASB Issue	Addressed in final ISA 220
8	<p>Review of Technology</p> <p>The AUASB raised that ISA 220 could better consider the impact of new and emerging technology on all aspects of the engagement partner’s responsibilities.</p>	<p>The IAASB noted that the balance between respondents supporting the material on technological resources and those asking for more guidance indicated that an appropriate balance had been achieved overall. However, in response to the specific requests, the IAASB included additional application material on:</p> <ul style="list-style-type: none"> - The use of technological tools by engagement team members from another firm (see paragraph A65 of ASA 220); and - Actions that need to be taken by the engagement team when using IT applications that are not firm-approved (see paragraphs A66–A67 of ASA 220).
9	<p>Professional Scepticism</p> <p>The AUASB raised that the objective of ED paragraph 7 was unclear and appeared to lead engagement team members to question or ‘second guess’ their colleagues and/or the firm in meeting the requirements of the standard. The AUASB suggested that paragraph 7, and other appropriate areas of ISA 220, could more clearly emphasise how the engagement partner is responsible for establishing an environment that supports the exercise of professional scepticism and setting an appropriate ‘tone from the top’ across the engagement team.</p>	<p>The IAASB has addressed this through:</p> <ul style="list-style-type: none"> - Redrafting of paragraph 7; - significant redrafting of paragraph A27, although no new impediments to scepticism included; and - proposed future consideration by the ISA 220 Task Force of examples to be included as part of implementation material for the standard.