

ASA 220
(March 2021)

Explanatory Statement

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

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Reasons for Issuing Auditing Standard ASA

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 220 *Quality Management 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 a Non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2011*, 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. The Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

This Auditing Standard conforms with ISA 220 *Quality Management for an Audit of Financial Statements*.

Purpose of Auditing Standard ASA 220 *Quality Management 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 the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner.

Main Features

This revised Auditing Standard is intended to clarify and strengthen the key elements of quality management at the engagement level. This is achieved by focusing on the critically important role of the engagement partner in managing and achieving quality on the audit engagement, and reinforcing the importance of quality to all members of the engagement team.

The revised Auditing Standard makes significant changes including:

- Amendments to the engagement team definition to recognise different and evolving engagement team structures;
- Clarifying requirements which are permitted to be assigned to appropriately skilled or suitably experienced members of the engagement team by using the term “the engagement partner shall take responsibility for...”. For other requirements, the standard intends that the requirement or responsibility be fulfilled by the engagement partner and cannot be delegated or assigned to other members of the engagement team. The engagement partner may obtain information from the firm or other members of the engagement team to fulfill the requirement or responsibility;
- A new resources section outlining that the engagement partner is responsible for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and appropriate actions where insufficient resources are provided by the firm.
- A new standback requirement where prior to dating the auditor’s report the engagement partner shall be satisfied that their involvement has been sufficient and appropriate to provide basis for taking overall responsibility for managing and achieving quality at the engagement level.

Operative Date

ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* is operative for financial reporting periods commencing on or after 15 December 2022.

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;
- use, as appropriate, the text of the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards;
- make amendments to ISAs as necessary to conform with the Australian regulatory environment and statutory requirements; and
- are capable of enforcement.

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 ISA 220 *Explanatory Memorandum ISA 220 Quality Management at the Engagement Level* was issued on 26 March 2019 with a 60 day comment period.

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

Regulatory Impact Statement

A Regulatory Impact Statement Preliminary Assessment (RIA) has been prepared in connection with the preparation of ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA *Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee 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 Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASA 220

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material dealing with the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner.

Main Features

This revised Auditing Standard is intended to clarify and strengthen the key elements of quality management at the engagement level. This is achieved by focusing on the critically important role of the engagement partner in managing and achieving quality on the audit engagement, and reinforcing the importance of quality to all members of the engagement team.

The revised Auditing Standard makes significant changes including:

- Amendments to the engagement team definition to recognise different and evolving engagement team structures;
- Clarifying requirements which are permitted to be assigned to appropriately skilled or suitably experienced members of the engagements and requirements intended to be fulfilled by the engagement partner;
- A new resources section outlining that the engagement partner is responsible for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and appropriate actions where insufficient resources are provided by the firm.
- A new standback requirement where prior to dating the auditor's report the engagement partner shall be satisfied that their involvement has been sufficient and appropriate to provide basis for taking overall responsibility for managing and achieving quality at the engagement level.

Human Rights Implications

This Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

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Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.