

SA 220 (AAS 17)

QUALITY CONTROL FOR AUDIT WORK

*(Effective for all audits relating to
accounting periods beginning on or after April 1, 1999)*

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Standard on Auditing (SA) 220*, "Quality Control for Audit Work" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of SAs. From the date this Standard on Auditing becomes effective, the "Guidance Note on Control of the Quality of Audit Work" issued by the Institute shall stand withdrawn.

* Issued in July, 1999.

¹ Published in the July 2007 issue of the Journal.

Handbook of Auditing Pronouncements-I

Introduction

1. The purpose of this Standard on Auditing (SA) is to establish standards on the quality control:
 - (a) policies and procedures of an audit firm regarding audit work generally; and
 - (b) procedures regarding the work delegated to assistants on an individual audit.
2. Quality control policies and procedures should be implemented at both the level of the audit firm and on individual audits.
3. In this SA, the following terms have the meaning attributed below:
 - (a) "the auditor" means the person with final responsibility for the audit;
 - (b) "audit firm" means either the partners of a firm providing audit services or a sole practitioner providing audit services, as appropriate;
 - (c) "personnel" means all partners and professional staff engaged in the audit practice of the firm; and
 - (d) "assistants" means personnel involved in an individual audit other than the auditor.

Audit Firm

4. The audit firm should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with Standards on Auditing (SAs).
5. Compliance with Standards on Auditing (SAs) is essential whenever an audit is carried out and requires the application of auditing procedures and reporting practices appropriate to the particular circumstances. An audit firm needs to implement appropriate quality control policies and procedures to ensure that all audits are carried out in accordance with Standards on Auditing (SAs).
6. The objectives of the quality control policies to be adopted by an audit firm will ordinarily incorporate the following:
 - (a) Professional Requirements: Personnel in the firm are to adhere to the principles of Independence, Integrity, Objectivity, Confidentiality and Professional Behavior.

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- (b) Skills and Competence²: The firm is to be staffed by personnel who have attained and maintain the Technical Standards and Professional Competence required to enable them to fulfil their responsibilities with Due Care.
 - (c) Assignment: Audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the circumstances.
 - (d) Delegation: There is to be sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality.
 - (e) Consultation: Whenever necessary, consultation within or outside the firm is to occur with those who have appropriate expertise.
 - (f) Acceptance and Retention of Clients: An evaluation of prospective clients and a review, on an ongoing basis, of existing clients is to be conducted. In making a decision to accept or retain a client, the firm's independence and ability to serve the client properly are to be considered.
 - (g) Monitoring: The continued adequacy and operational effectiveness of quality control policies and procedures is to be monitored.
7. The firm's general quality control policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented.

Individual Audits

8. The auditor should implement those quality control procedures which are, in the context of the policies and procedures of the firm, appropriate to the individual audit.
9. The auditor, and assistants with supervisory responsibilities, will consider the professional competence of assistants performing work delegated to them when deciding the extent of direction, supervision and review appropriate for each assistant.

²Refer to SA 200, "Basic Principles Governing an Audit".

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10. Any delegation of work to assistants would be in a manner that provides reasonable assurance that such work will be performed with due care by persons having the degree of professional competence required in the circumstances.

Direction

11. Assistants to whom work is delegated need appropriate direction. Direction involves informing assistants of their responsibilities and the objectives of the procedures they are to perform. It also involves informing them of matters, such as the nature of the entity's business and possible accounting or auditing problems that may affect the nature, timing and extent of audit procedures with which they are involved.

12. The audit programme is an important tool for the communication of audit directions. Time budgets and the overall audit plan are also helpful in communicating audit directions.

Supervision

13. Supervision is closely related to both direction and review and may involve elements of both.

14. Personnel carrying out supervisory responsibilities perform the following functions during the audit:

- (a) monitor the progress of the audit to consider whether:
 - (i) assistants have the necessary skills and competence to carry out their assigned tasks;
 - (ii) assistants understand the audit directions; and
 - (iii) the work is being carried out in accordance with the overall audit plan and the audit programme;
- (b) become informed of and address significant accounting and auditing questions raised during the audit, by assessing their significance and modifying the overall audit plan and the audit programme as appropriate; and
- (c) resolve any differences of professional judgement between personnel and consider the level of consultation that is appropriate.

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Review

15. The work performed by each assistant needs to be reviewed by personnel of at least equal competence to consider whether:

- (a) the work has been performed in accordance with the audit programme;
- (b) the work performed and the results obtained have been adequately documented;
- (c) all significant audit matters have been resolved or are reflected in audit conclusions;
- (d) the objectives of the audit procedures have been achieved; and
- (e) the conclusions expressed are consistent with the results of the work performed and support the audit opinion.

16. The following need to be reviewed on a timely basis:

- (a) overall audit plan and the audit programme;
- (b) assessments of inherent and control risks, including the results of tests of control and the modifications, if any, made to the overall audit plan and the audit programme as a result of tests of control;
- (c) documentation of the audit evidence obtained from substantive procedures and the conclusions drawn therefrom, including the results of consultations; and
- (d) financial statements, proposed adjustments in financial statements arising out of the auditor's examination, and the auditor's proposed observations/report.

17. The process of reviewing an audit may include, particularly in the case of large complex audits, requesting personnel not otherwise involved in the audit to perform certain additional procedures before issuing the auditor's report.

Effective Date

18. This Standard on Auditing becomes operative for all audits relating to accounting periods beginning on or after April 1, 1999.