

DECEMBER 2020

INTRODUCTION TO ISA 220 (REVISED)

Quality Management for an
Audit of Financial Statements



FACT SHEET

IAASB

International Auditing
and Assurance
Standards Board

BACKGROUND

WHAT?



ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner.

WHEN?



ISA 220 (Revised) is effective for audits of financial statements for periods beginning on or after December 15, 2022.

HOW?



The revised standard clarifies and strengthens 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.

WHAT OUTCOME IS THE REVISED STANDARD SEEKING TO ACHIEVE?



The changes are intended to:

- Encourage proactive management of quality at the engagement level.
- Keep the standard fit for purpose in a wide range of circumstances and in a complex environment.
- Emphasize the importance of professional skepticism and enhance the documentation of the auditor's judgments.



WHAT ARE THE SIGNIFICANT CHANGES?

MANAGING AND ACHIEVING QUALITY AT THE ENGAGEMENT LEVEL

The engagement partner's overall responsibility to manage and achieve quality on the engagement is demonstrated through sufficient and appropriate involvement throughout the audit engagement.



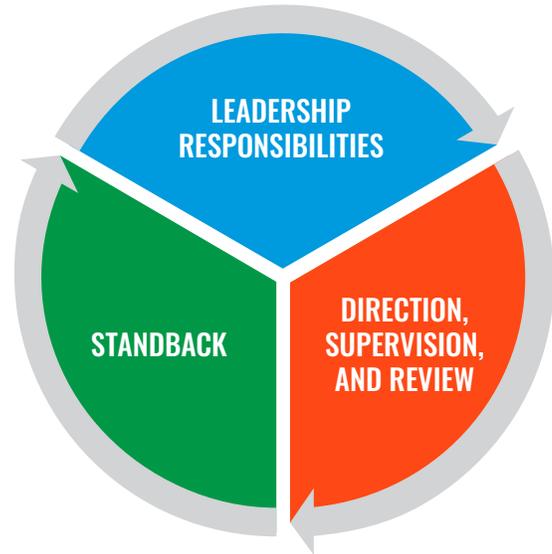
Engagement partner is responsible for **managing and achieving quality** at the engagement level.



Engagement partner is responsible for **determining the nature, timing and extent of direction, supervision and review**, in light of engagement circumstances.



Engagement partner shall be satisfied that **involvement has been sufficient and appropriate** to provide basis for taking overall responsibility.



ENGAGEMENT PARTNER INVOLVEMENT THROUGHOUT THE ENGAGEMENT

MODERNIZING ISA 220 FOR AN EVOLVING ENVIRONMENT



Changes have been made to the definition of the engagement team to recognize different and evolving engagement team structures.

+ ENGAGEMENT TEAM DEFINITION -

All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement...

...excluding an auditor's external expert and internal auditors who provide direct assistance on an engagement.



Changes in the definition recognize that, **regardless of where individuals are located or how they are related to the firm, if an individual is performing audit procedures** then he or she is to be appropriately directed and supervised and the work reviewed in accordance with ISA 220 (Revised).



WHAT ARE THE SIGNIFICANT CHANGES? (cont.)

CLARIFYING ENGAGEMENT PARTNER RESPONSIBILITIES



- The term “**the engagement partner shall take responsibility for...**” is used for those requirements that the engagement partner is permitted to assign to appropriately skilled or suitably experienced members of the engagement team.
- For other requirements, ISA 220 (Revised) expressly intends that the requirement or responsibility be fulfilled by the engagement partner and may need to obtain information from the firm or the engagement team to fulfill the requirement.



- The engagement partner is required to take into account **information obtained in the acceptance and continuance process** in planning and performing the audit engagement.



- Requirements and application material are **more explicit about what the engagement partner needs to review**, including a listing of examples of significant judgments in relation to the audit engagement.

ENGAGEMENT TEAM MAY DEPEND ON THE FIRM'S SYSTEM OF QUALITY MANAGEMENT



ISA 220 (Revised) clarifies that, ordinarily, **the engagement team may depend on the firm's policies or procedures**, unless (i) the engagement team's understanding or experience indicates that the firm's policies or procedures would not be effective or (ii) information provided by the firm or others indicates that the firm's policies or procedures are not operating effectively. This approach avoids the risk that the engagement team blindly relies on the firm's system of quality management.



ISA 220 (Revised) also **integrates the new quality management concepts in ISQM 1**, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, so that such concepts can be carried through at the engagement level.

WHAT ARE THE SIGNIFICANT CHANGES? (cont.)



PROFESSIONAL SKEPTICISM IS CENTRAL TO QUALITY MANAGEMENT



ISA 220 (Revised) also includes new material on **the importance of professional skepticism and professional judgment** in performing audit engagements.



Application material describes **impediments to professional skepticism, auditor biases, and actions** the engagement team can take.

RESOURCES

The engagement partner is responsible for determining that there are **sufficient and appropriate resources** assigned or made available on a timely basis and for taking appropriate action when insufficient or inappropriate resources are provided by the firm, among other matters.



HUMAN
RESOURCES

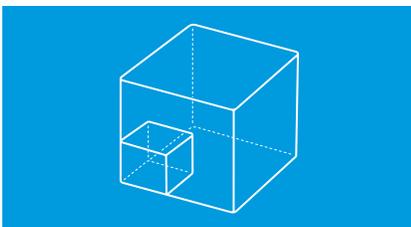


TECHNOLOGICAL
RESOURCES



INTELLECTUAL
RESOURCES

HOW IS SCALABILITY ADDRESSED?



The standard includes introductory material on scalability that the standard is intended to be applied in the context of the **nature and circumstances of each audit**. This includes audits carried out entirely by the engagement partner and those whose nature and circumstances are more complex.



Further implementation support materials are available on the IAASB website.

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