

Newsletter

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The International Auditing and Assurance Standards Board (IAASB) has issued Revised International Standard on Auditing (ISA) 220 – Quality Management for an Audit of Financial Statements, which deals with the revised standard that modernizes the approach to quality management and requires the engagement partner and engagement team to be proactive in managing and achieving quality.

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International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements

INTRODUCTION

ISA 220 (Revised) focuses on quality management at the audit engagement level and requires the audit engagement partner to actively manage and take responsibility for the achievement of quality, especially through sufficient and appropriate involvement throughout the engagement and adherence to the firm's policies or procedures and the requirements of ISA 220 (Revised).

It addresses the following:

- 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 as many of the auditor's responsibilities for quality management are specific to the engagement partner.

EFFECTIVITY DATE

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

OBJECTIVE

ISA 220 (Revised) emphasizes the auditor's objective about managing and achieving quality, rather than implementing quality control procedures. It focuses on a quality outcome at the engagement level. It links the work of the auditor in ISA 220 (Revised) to the other ISAs, including those dealing with the auditor's report. The objective of the standard is primarily accomplished through fulfilling the requirements of ISA 220 (Revised).

CHANGES OF DEFINITION IN THE ISA 220 (REVISED)

DEFINITION OF ENGAGEMENT TEAM

"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."

The changes in the definition recognizes that:

- regardless of location or employment status, if an individual is performing audit procedures, then that individual needs to be independent and their work needs to be appropriately directed, supervised, and reviewed.
- recognizes that engagement teams may be organized in various ways, including being located together or across different geographic locations or organized by the activity they are performing.
- includes application material to explain how the definition may be applied in different circumstances, such as group audits and service delivery centers,.
- explains how the application of the firm's policies or procedures may require different actions when the engagement team includes individuals from another firm who are neither partners nor staff of the engagement partner's firm; and;
- recognizes that individuals involved in the audit engagement may not necessarily be engaged or employed directly by the firm. These individuals may include personnel from a network firm, a firm that is not a network firm, or another service provider.

For example, the engagement team may include individuals such as:

- Individuals from firm's Information Technology (IT) team;
- The firm's experts in financial instruments or valuations;
- Individuals within a firm's service delivery centers;
- Component auditors in a group audit engagement;
- Individuals performing audit procedures relating to inventory at a warehouse or remote location (whether those individuals are from the firm or a network firm or another firm);
- Other partners performing direction, supervision and review responsibilities

MAJOR CHANGES ACCORDING TO SECTIONS OF REQUIREMENTS

Leadership Responsibilities for Managing and Achieving Quality on Audits

The requirements in this section set the overall approach to leadership of audit engagements including:

- The need to create an environment that emphasizes the firm's culture and expected behavior;
- The need for clear, consistent, and effective actions that reflect the firm's commitment to quality; and
- The engagement partner's responsibilities when assigning the design or performance of procedures, tasks, or actions to other members of the engagement team.

Relevant Ethical Requirements, Including Those Related to Independence

Extant ISA 220 requires that the engagement partner remain alert for non-compliance with relevant ethical requirements by members of the engagement team, determine the appropriate action if noncompliance comes to the engagement partner's attention, and conclude on compliance with independence requirements. In addition to enhancing these extant requirements, ISA 220 (Revised) includes new requirements and application material regarding:

- An understanding of the relevant ethical requirements, including those related to independence, and whether other members of the engagement team are aware of those requirements and the firm's related policies or procedures
- Threats to compliance with relevant ethical requirements
- Determining whether relevant ethical requirements, including those related to independence, have been fulfilled

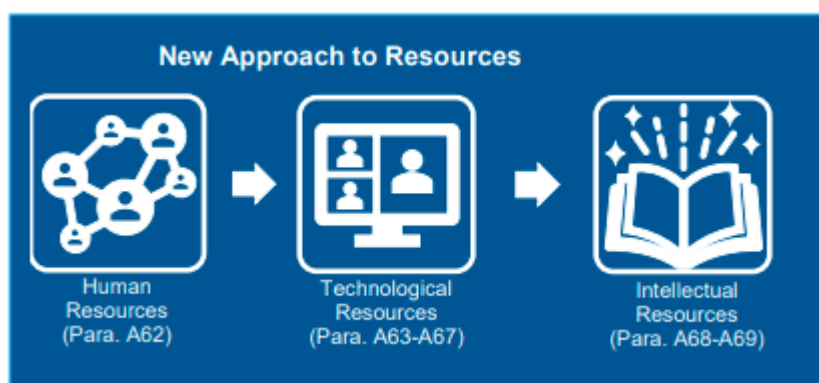
Acceptance and Continuance of Client Relationships and Audit Engagements

Extant ISA 220 requires that the engagement partner be satisfied that appropriate acceptance and continuance procedures are followed, determine that relevant conclusions in this regard are appropriate, and promptly communicate information to the firm that would have caused the firm to decline the audit engagement had that information been available earlier. In addition to retaining these extant requirements, ISA 220 (Revised) includes a new requirement and application material regarding information obtained in the acceptance and continuance process, which is to be taken into account in planning and performing the audit engagement in accordance with the ISAs.

Engagement Resources

Extant ISA 220 only deals with the assignment of engagement team members. A major change in ISA 220 (Revised) is that the standard now requires the engagement partner to take action if the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement. Appropriate actions include communicating with appropriate individuals, such as firm personnel with responsibility for resources or engagement quality management activities, about the need for additional or alternative resources.

New Approach to Resources



(Illustration above is lifted from IASSB ISA 220– First-time Implementation Guide)

Engagement Performance

Direction, Supervision and Review

ISA 220 (Revised) requires that the engagement partner take responsibility for the direction and supervision of the engagement team and the review of their work. Direction, supervision and review responsibilities may rest solely with the engagement partner or may be shared with other members of the engagement team.

ISA 220 focused on the engagement partner determining that the nature, timing and extent of direction, supervision and review is executed across the engagement in accordance with the firm's policies and procedures, professional standards, and other legal and regulatory requirements and is responsive to the audit engagement's nature and circumstances.

The engagement partner is required to review audit documentation:

- at appropriate points in time during the audit engagement.
- relating to significant matters and significant judgments.
- relating to other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities

The engagement partner does not need to review all audit documentation.

ISA 220 (Revised) also requires that the engagement partner review the financial statements, the auditor's report, and formal written communications to management, those charged with governance, or regulatory authorities. These were added to the standard to clarify and strengthen the auditor's responsibilities with regarding communications with external parties.

Engagement Quality Review

The revised standard still contains requirements and application material regarding the engagement partner's responsibilities relating to an engagement quality review. These largely focus on how the engagement partner and the engagement team interact with the engagement quality reviewer.

ISA 220 (Revised) includes a new explicit requirement for the engagement partner to cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.

Differences of Opinion

Extant ISA 220 requires that the engagement team follow the firm's policies and procedures for dealing with and resolving differences of opinion. In addition to enhancing this extant requirement, the revised standard includes a new requirement providing greater specificity on the engagement partner's role in handling differences of opinion. It requires the engagement partner to:

- Take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures;
- Determine that conclusions reached are documented and implemented; and
- Not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

ISA 220 (Revised) enhances and clarifies the extant monitoring and remediation requirement in ISA 220. The revised standard is premised on the basis that the engagement partner is responsible for dealing with the relevant aspects of the monitoring and remediation process, including:

- Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;
- Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39(a) and take appropriate action; and
- Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

Documentation

The revised standard now **requires the auditor to include in the audit documentation (if the audit engagement is subject to an engagement quality review) that the engagement quality review has been completed on or before the date of the auditor's report.**

Taking Overall Responsibility for Managing and Achieving Quality

ISA 220 (Revised) requires that, prior to dating the auditor's report, the engagement partner determine that he or she has taken overall responsibility for managing and achieving quality on the audit engagement. This also addresses the engagement partner's involvement throughout the audit and that the nature and circumstance of the engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with ISA 220 (Revised). This requirement is the capstone to the leadership responsibilities requirements.

Our View:

As ISA 220 (Revised) explicitly provides and detailed the responsibility of engagement partner to the achievement of audit quality, there may be a need to revisit policies, practice and audit documentations on whether sole practitioners or audit firms, satisfies the basic requirements provided in the standards. Likewise, sole practitioners or audit firms should make sure that appropriate and sufficient human, technological and intellectual resources are assigned and made available in a timely manner to enable the proper management of quality in every engagement.

One of the key changes in the ISA 220 is the definition of engagement team which stipulates that anyone performing auditing procedures must be self-sufficient, and that their work must be appropriately monitored, directed, and evaluated and to guarantee that the auditor conducts the audit freely and in an objective manner, the revised standard specifies that members of the engagement team must adhere to certain independence requirements.

For full text of the revised standard, please refer to the link below:

<https://www.ifac.org/system/files/publications/files/IAASB-International-Standard-Auditing-220-Revised.pdf>

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Comments and suggestions are welcome.

Editorial Board

- **Anthony D. Paño**
Partner/Head of QAU
anthony.pano@pkfrsbernaldo.com
- **Mary Rose A. Lorilla**
Quality Assurance Manager/
Quality Assurance Leader
maryrose.lorilla@pkfrsbernaldo.com
- **Charmaine S. de Guzman**
Assistant Quality Assurance Manager /
Assistant Quality Assurance Leader
charmaine.deguzman@pkfrsbernaldo.com
- **Baby Joy A. Bautista**
Senior Quality Assurance Associate/
Technical Review Leader
babyjoy.bautista@pkfrsbernaldo.com
- **Janna J. Pacis**
Senior Quality Assurance Associate/
Learning and Training Leader
janna.pacis@pkfrsbernaldo.com
- **Cherry Joy V. Andallon**
Senior Quality Assurance Associate/
Consultation Leader
cherryjoy.andallon@pkfrsbernaldo.com
- **Faye Coleen R. Pardo**
Quality Assurance Associate/
Ethics Leader
fayecoleen.pardo@pkfrsbernaldo.com