



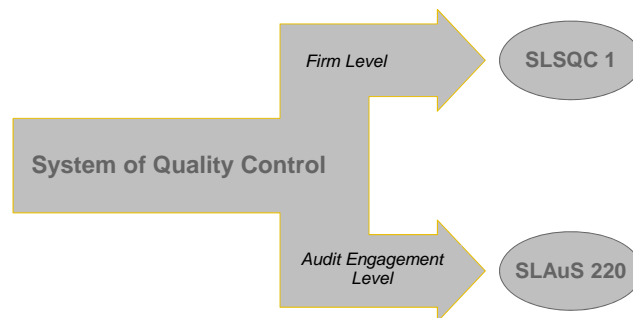
Sri Lanka Auditing Standards 220

Quality Control for Audit Work

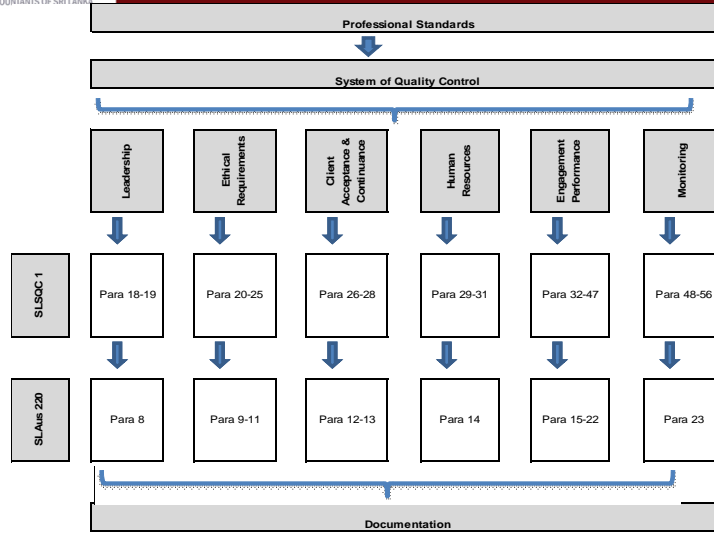
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Overview

Within the Context of the firm's system of Quality Control, engagement teams have a responsibility to implement quality control procedures that are applicable to the audit engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to Independence.



Quality Control Diagram



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Objective

Implement Quality Control Procedures at the Engagement Level providing reasonable assurance that;

Audit complies with professional standards and applicable legal and regulatory requirements.

The auditor's report issued is appropriate in the circumstances.

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Definitions

In this SLAuS, the following terms have been defined under Paragraph 07

- Engagement Partner
- Engagement Quality Control Review and Reviewer
- Engagement Team
- Firm
- Inspection
- Listed Entity
- Monitoring

- Network and Network Firm
- Partner
- Personnel
- Professional Standards
- Relevant Ethical Requirements
- Staff
- Suitably Qualified External Person

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Requirements

The Engagement partner shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements

- Leadership responsibilities for quality on audits
- Relevant ethical requirements
- Acceptance and continuance of client relationships and audit engagements
- Assignment of engagement teams
- Engagement performance
- Monitoring

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1. Leadership responsibilities for quality on audits

The Engagement partner shall take responsibility for the overall quality on each audit engagement & shall emphasize;

- The importance to audit quality of:
 - Performing work that complies with professional standards and applicable legal & regulatory requirements
 - Complying with firm's quality control policies & procedures
 - Issuing auditor's report that are appropriate in the circumstances
- The fact that quality is essential in performing audit engagements

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2. Relevant Ethical Requirements

The Engagement Partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.

The ICASL code establishes fundamental principles of professional ethics as follow;

- a) Integrity
- b) Objectivity
- c) Professional Competence & due care
- d) Confidentiality
- e) Professional Behavior

If matters come to the engagement partner's attention that members of the engagement team have not complied with relevant ethical requirements, he shall determine the appropriate action.

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2. Relevant Ethical Requirements - Independence

The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, he shall;

- a) Obtain relevant information to identify & evaluate circumstances and relationships that create threats of independence.
- b) Evaluate information on identified breaches whether they create a threat to independence to the audit engagement.
- c) Take appropriate action to eliminate such threats or reduce to an acceptable level by applying safeguards or if appropriate withdraw from the audit engagement.

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2. Threats of independence – Financial Interest

Example 1

You are a staff providing non-audit services to an upstream material non-client affiliate of ABC Co., a listed audit client. Your mother informs you that she owns shares of ABC Co., and the investment is material to your mother. Is this an independence issue?

No, this is not an independence issue. Your mother is a close family member. Independence Policy requirements prohibits a professional from being a member of the audit engagement team where a close family member holds a financial interest in the audit client that is material to the close family member. Determination of whether an investment is material to a close family member is based on facts and circumstances.

Since you are not a member of the audit engagement team, your role is not affected by your mother's investment, and does not cause an independence issue

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2. Threats of independence – Business Relationship

Example 2

XYZ Co., a listed audit client in the financial services sector, is developing a tax planning product for the financial services sector. XYZ Co. has asked ABC Firm to provide technical tax expertise related to the tax planning product and ABC Firm 's "approval" will be included in the final product sales material. Does this alliance arrangement raise an independence concern?

Yes, this does raise an independence concern. XYZ Co. is using ABC Firm 's expertise to sell its tax planning product. That creates an impression in the marketplace that ABC Firm and XYZ Co. have a business alliance.

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3. Acceptance and continuance of client relationships and audit engagements

The Engagement Partner
Shall be satisfied that;

- I. Appropriate procedures regarding the acceptance & continuance of client relationships and audit engagements have been followed.
- II. Conclusions reached in this regard are appropriate.

If the engagement partner obtains information that would have caused firm to decline the audit engagement, EP shall communicate that information promptly to the firm and the EP can take the necessary action.

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3. Acceptance and continuance of client relationships and audit engagements

Conclusions are Appropriate?

Integrity of the principal owners, key management and those in charge with governance of the entity

Engagement team is competent to perform the audit engagement and has required resources

Firm and the engagement team can comply with relevant ethical requirements

Significant matters arise during current or previous audit engagement and their implications to continue the relationship

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4. Assignment of Engagement teams

The Engagement Partner shall be satisfied that the engagement team and any auditor's experts collectively have the appropriate competence and capabilities to;

Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements.

Enable an auditor's report that is appropriate in the circumstances to be issued.

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4. Assignment of Engagement teams

Appropriate
competence and
capabilities

Practical experience with similar nature audit engagements

Understanding of professional standards and applicable legal & regulatory requirements

Technical expertise

Knowledge of relevant industries

Ability to apply professional judgement

Understanding of firm's quality control policies & procedures

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5. Engagement Performance

The Engagement partner shall take responsibility for;

- A. The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal & regulatory requirements.
- B. The auditor's report being appropriate in the circumstances

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5. Engagement Performance

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What
Matters?

- Responsibilities to plan and perform an audit with professional skepticism
- Responsibilities of respective partners
- The objectives of the work to be performed
- The nature of entity's business
- Risk related issues
- Problems that may arise
- The detail approach to the performance of the engagement

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5. Engagement Performance

Supervision includes;

- A. Tracking the progress of the audit engagement
- B. Considering the competence and capabilities of individual members of the engagement team
- C. Addressing significant matters arising during the audit engagement
- D. Identifying matters for consultation

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5. Engagement Performance - Review

- A. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies & procedures
- B. On or before the date of the auditor's report, the engagement partner shall through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.

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5. Engagement Performance - Review

**Partner
Review Areas**

- a) Effect of the control environment on assessed risks of material misstatement and the audit strategy
- b) Risks of material misstatement due to fraud and planned response
- c) Significant accounts, disclosures and relevant assertions and our risk assessment
- d) Overall audit strategy including materiality levels and significant audit issues with out action plan
- e) Corrected and Uncorrected misstatements
- f) Significant audit issues and resolutions
- g) Audit opinion
- h) Client communication Matters
- i) Engagement Archiving

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5. Engagement Performance - Review



- a) Performed in accordance with professional standards and applicable legal & regulatory requirements
- b) Significant matters have been raised
- c) Appropriate conclusions have taken place and documented
- d) Need for change in scope
- e) Work performed supports the conclusions reached and documented
- f) Sufficient & appropriate audit evidence have been taken to support auditor's report
- g) Objectives of the engagement procedures have been achieved

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5. Engagement Performance - Consultation

The Engagement partner shall;

- A. Take responsibility undertaking appropriate consultation on difficult or contentious matters.
- B. Be satisfied that members of the engagement team have undertaken appropriate consultation
- C. Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted
- D. Determine that conclusions resulting from such consultation have been implemented

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5. Consultation Events

- Voluntary change in accounting policy
- Deferred Tax assets that may not be recovered
- Going concern
- Modified audit report
- Basis for materiality
- Difference of professional opinion among team members
- First time adoption of IFRS
- Unclear responses from legal counsel
- Uncorrected misstatements
- Material inconsistency between other information and financial information

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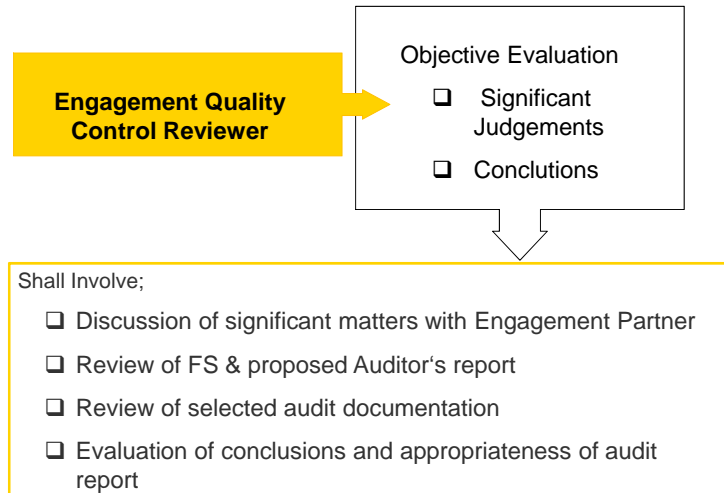
5. Engagement Performance – Engagement Quality Control Review

The Engagement partner shall;

- A. Determine that an engagement quality control reviewer has been appointed
- B. Discuss significant matters including those identified during the engagement quality control review
- C. Not date the auditor's report until the completion of the engagement quality control review

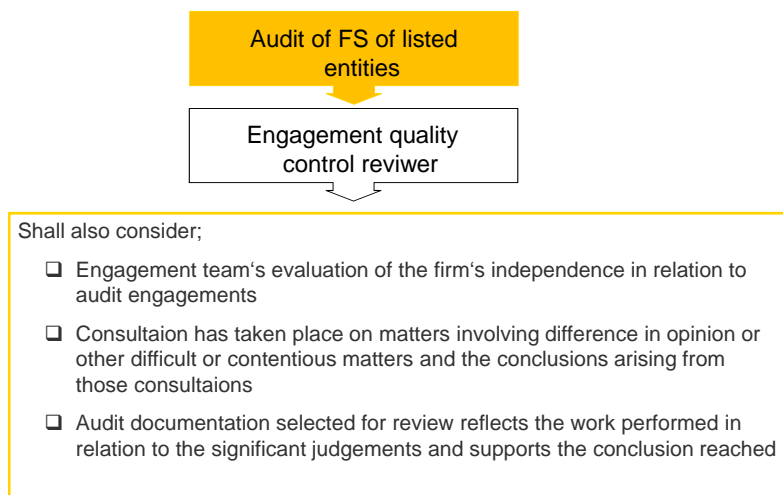
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5. Engagement Performance – Engagement Quality Control Review



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5. Engagement Performance – Engagement Quality Control Review



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5. Engagement Performance – Engagement Quality Control Review

Audit of FS of listed
entities

Other matters to evaluate
significant judgements

Include;

- Significant risks identified and the responses
- Judgements made particularly with respect to materiality and significant risks
- Significance and disposition of corrected and uncorrected misstatements
- Matters to be communicated to management and those charged with governance
- Other matters depending on the circumstances

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6. Monitoring

The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable other network firms and whether deficiencies noted in that information may affect the audit engagement.

A deficiency in the firm's system of quality control does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the auditor's report was not appropriate.

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7. Documentation

Audit Documentation

Shall include;

- Issues identified with respect to compliance with relevant ethical requirements and how they were resolved
- Conclusions on compliance with independence requirements and any relevant dissuasions with the firm
- Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements
- The nature and scope of, and conclusions resulting from consultations

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7. Documentation

Banner

the client name, year end, and the relevant section of the audit the work paper supports

References

any balance included in the work paper is cross referenced to other work papers as relevant for example lead schedule, account detail

Sources of information

where the information originated and we indicate the source by using tick marks

Documentation Concepts

Footing

any calculation included in the work paper is verified (Provided by Client)

Details

About the work done and Key findings

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7. Documentation

Leading Practices

1. Do work steps describe the nature, timing, and extent of the work to be performed?
2. Does each engagement work paper include a banner, reference, and describe the source of data included in the work paper?
3. Does each work paper cross reference to a lead schedule and include sufficient information about the work done?
4. Have appropriate tick marks been used, where applicable?
5. Has relevant indexing been used to organize audit documentation?
6. Has relevant indexing been used when naming work paper files?
7. Has a workbook approach been used to document the substantive procedures performed for a given account?
8. Does the information in lead schedules cross reference to applicable analytical procedures?
9. Has the "Financial Statements and Related Disclosures" section been used to document work steps performed and evidence gathered to support the financial statements?
10. Was the final review and sign off by the engagement team include in working papers on a timely manner?

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Summary

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Thank You