

# EFFECT OF QUALITY CONTROL STANDARD 220 IN AUDIT OF FINANCIAL STATEMENTS

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## ABSTRACT

*The purpose of this International Standard on Auditing (ISA) (220) is to establish standards and provide guidance on specific responsibilities of firm personnel regarding quality control procedures for audits of historical financial information, including audits of financial statements. This ISA is to be read in conjunction with parts a and b of the International Federation of Accountants (IFAC) code of ethics for professional accountants. This study sought to identify effect of quality control standard 220 in audit of financial statements. To achieve the study goals and for the purpose of collecting the necessary data, a questionnaire was developed and distributed on external auditors. The sample size of the study was (84) respondents. Data was analyzed using (Statistical Package for the Social Sciences (SPSS)). The study found that showed that quality control standard 220 (leadership responsibilities for audit quality, relevant ethical requirements, acceptance and continuance, assignment of engagement, engagement performance, monitoring documentation) was effect in audit of financial statements.*

**Keywords:** Quality Control Standard 220, Audit of Financial Statements.

## INTRODUCTION

There has been an increasing need to promote the profession of audit and improve its performance, especially after the uncertainty about the validity of the approach used by auditors. Due to the effective role of external audit in serving the different sectors, it was necessary to provide these services with the highest level of quality. In this context, there was a need to reassume the profession of audit by focusing on the processes of audit and standards quality that contribute to enhancing quality as well as measuring the impact degree of each of them on the level of quality in the light of the legislative restrictions imposed by laws, and the professional restrictions related to audit standards, conduct rules and profession ethics. All these requirements are due to the increased responsibility of the auditor and the increase of the work load enshrined by legislation (Amjed et al., 2019; Dehkordi et al., 2011; Nashwa, 2016). The subject of audit quality attracted the attention of scholars and practitioners in the domain of audit since the high quality of audit is viewed as the basic element for investors' trust in the

financial and non-financial data. Furthermore, it plays a vital Integrative role in contributing to the community's economic development and financial stability (Ilaboya et al., 2015). In the light of the persistent endeavor of international organizations and commissions to develop the profession by enhancing the commitment to high quality professional standards, the council of international audit standards was established; it belongs to the International Federation of Accountants (IFAC). This council replaced the committee of International Audit Applications (IAPC). We can say that the most prominent addition of this council to the previous publications is the international standard for control on the quality of corporate that performs the process of auditing financial statements as well as the other related services and processes. The council has also modified the international standard (220), "quality control to audit the financial statements". The standard (220) is the basic guide in the domain of audit quality for all the offices and corporate of audit in the countries that apply the international standards. The American Institute of Certified Public Accountants stated that the quality of audit is considered as a continuous and important issue in this profession due to its importance for all the parties interested in the service of audit (IAASB, 2017; Ali et al., 2015).

The standard (220) aimed to set the appropriate standards and provide directions about the surveillance of quality related to the policies and procedures in audit offices with regard to audit tasks in general and the procedures related to the duties delegated to the assistants of account auditors. The criterion addressed the necessity of implementing the policies of quality surveillance and their procedures at the level of the audit office and auditors, in that the audit office should implement those policies and procedures to ensure that the implementation of audit tasks takes place according to the international standards or the applied local standards. Based on the above mentioned, we can see that the concept of audit quality while reviewing accounts is considered as one of the concepts that gained a considerable professional and scientific interest at the international level due to its great importance, particularly in the light of the criticism directed towards the profession (IAASB, 2017; Deloitte, 2016).

### **The Study Problem**

Some researches and professional recommendations were conducted and cited in the advanced countries of the world in order to highlight the way of measuring and evaluate the service performance for the profession of audit. Improving the quality will be reflected on improving the performance of the accountant. There has been a contradiction regarding the methods available for surveillance on the quality of professional performance of accounts' auditors. This resulted in a certain situation taken by the professional organizations to enhance accounting, audit and review of the standards of audit and the rules of professional conduct with the aim of improving the quality of improving the quality of audit services and ensuring their stability at a distinctive level. Therefore, the concept of audit quality, the way of achieving and maintaining it as well as the way surveillance upon corporate emerged in order to verify the extent to which those corporate are committed to the directive standards that lead

to improving the quality of audit. Several studies addressed the importance and seriousness of audit profession at the economic and investment level. The most important procedures are related to corporate' governance, which is relevant to business corporate and the criteria of quality surveillance for audit companies. The international federation of accountants issued the criterion (220) "quality control for an audit of financial statements" in response to the requirements of international audit standard related to controlling audit quality. This study aimed at identifying the impact of the standard of quality control (220) on the audit quality of financial statements.

## MATERIALS AND METHODS

The key objective of this study is to identify the effect of quality control standard 220 in audit of financial statements. From this objective, the following sub-goals were derived:

1. Assessing the influence of leadership responsibilities for audit quality in audit of financial statements.
2. Identifying the effect of relevant ethical requirements in audit of financial statements.
3. Identifying the effect of acceptance and continuance of client relationships and certain engagements in audit of financial statements.
4. Identifying the effect of assignment of engagement in audit of financial statements.
5. Identifying the effect of engagement performance in audit of financial statements.
6. Identifying the effect of monitoring in audit of financial statements.
7. Identifying the effect of documentation in audit of financial statements.

## Literature Review

One of the efforts to improve audit quality is by implementing Quality Control System (QCS) provides reasonable assurance that the public accounting firms comply with professional standards and applicable legal and regulatory requirements, and reports issued by the firm or engagement partners are appropriate in the circumstances (SPM 1). In addition, the implementation of QCS also provides guidance for public accounting firm and public accountant in implementing quality control of the services produced by it (SPAP). The higher the level of QCS implementation conducted by the public accounting firm, the higher the level of trust of audit quality given to the client (Renianawati et al., 2016).

In SPAP 2013, the QCS is contained in the Quality Control Standard 1 (SPM1) and Standard Audit (SA) 220. SPM 1 and SA 220 states that the SPM consists of policies and procedures, which the policies and procedures shall include all elements specified in the standards. The policies and procedures are used as guidelines for public accounting firms to control the quality of services produced by public accounting firms. From the above explanation can be concluded that the elements that exist in the QCS are expected to improve the audit quality of public accounting firms (Murti, 2017; Kurnia et al., 2014; Hasbullah et al., 2014).

(Khansa Shahibah et al., 2020) In their study for assess to assess the effect of quality control system elements. This study finds that relevant ethical terms and independency affect audit quality and that professional skepticism moderates the effect of independence on audit quality, but it does not moderate the effect of relevant ethical terms on audit quality. The Nomus, (2018) proved role of audit firms operating in Jordan for improving the effectiveness of the quality of external audits in accordance with International Auditing Standard No. (220), in relation to (requirements professional quality, providing professional cadres and individuals with skills and competencies, distributing auditing tasks among the work team, quality inspection and quality control procedures) has study (Ramadhani et al., 2017). The effect of every element of Quality Control System (QCS). The results of this study indicate that from seven elements of QCS, only relevant ethical requirements that effect on audit quality. Furthermore, the study also found that professional commitment cannot moderate the relationship between the seven elements of QCS on audit quality. Al Akkari, (2016) shows the that the efficiency of the external auditor plays a major role with a positive connotation in improving the quality of the audit process when the auditor has sufficient experience in the practice of the auditing profession, and that the majority of auditors possess a high and medium level of independence of the auditor, but at the level of quality of the audit process the accounts were of a weak level, and it was also found that the degree of affiliation of the audit offices positively affects the quality of the external audit process. Staciokas & Rupsys, (2015) in his study and which concluded that the functions of external auditing, the scope of its work and its goals have evolved greatly and this function has become an important component of the internal control system that is reflected on the quality of the audit process. Meanwhile, in Kouaib & Jarbouib, (2014) study aimed to verify the impact of the quality of external auditing on the ownership structure of the Tunisian industrial and commercial sectors, in addition to showing the effect of external audit quality on profit management, and concluded that the quality of external audit has a negative impact on profit management in industrial companies It does not affect profit management in commercial companies. The cross-impact of both external audit quality and institutional ownership on profit management is negative in industrial companies, and there is no effect of this on profit management in commercial companies.

This study is an extension of the previous studies and is distinguished from others in its handling of effect of quality control standard 220 in audit of financial statements, as it targeted the views of auditors working in the audit offices in Jordan on matters related to that commitment. It is also distinguished by the fact that it contains the set of dimensions mentioned in the auditing quality standard No. 220, which constitutes the general framework on which the auditor is based in the audit offices operating in Jordan during the performance of his work and his commitment to the quality of the audit process.

## Research Hypotheses

Based on the study model, the following null hypotheses are formulated for the present study to make hypothetical answers to its questions:

*H01: There is no effect of leadership responsibilities for audit quality in audit of financial statements.*

*H02: There is no effect of relevant ethical requirements in audit of financial statements.*

*H03: There is no effect of acceptance and continuance of client relationships and certain engagements in audit of financial statements.*

*H04: There is no effect of assignment of engagement in audit of financial statements.*

*H05: There is no effect of engagement performance in audit of financial statements.*

*H06: There is no effect of monitoring in audit of financial statements.*

*H07: There is no effect of documentation in audit of financial statements.*

## Research Design

This study focuses on quantitative research refers to the systematic investigation of social phenomenon *via* statistical data. The quantitative research also provides statistical and numerical data to further depicts the results of the research. As a comparison with the qualitative approach, quantitative approach has a more reliable hypothesis analysis to allow the researcher to further prove the hypothesis of the research being analyzed. Apart from that, using the statistical and numerical element extracted from the research analysis will allow a legitimate discussion and allow the analysis to be published for further extensive research. The Quantitative Research Method also filters out external aspects which can cause the research to be diverted to a wrong path to prove the hypothesis. (Neuman, 2005; Polit & Beck, 2005).

**Population and sampling:** The study population consists of 41 audit firms operating in Jordan, licensed and practicing auditing firms, with about 84 licensed and practicing auditors (source: Securities commission), and practicing the audit function on companies operating in Jordan. As for the study sample, intentional sample was taken from the auditors working in 41 offices and their number 84 external auditors. As the questionnaires were distributed with in all office, *i.e.* 41. Questionnaires were and 72 were returned, at a rate of (88%). Of the total number of distributed questionnaires approved in the statistical analysis.

## Reliability Analysis

The reliability testing was conducted to obtain the Cronbach's alpha reliability coefficients for all dimensions quality control standard 220 and audit of financial statements. Reliability can be defined as the degree to which a variable measures what it intends to measure or project its true value. Therefore, if the same measure used repeatedly, it will provide or depict a more reliable measurement which will show greater consistency compared to less reliable measure (Hair, 2006) and the value depicted by the Cronbach's alpha coefficient will assess the reliability of each factor. Furthermore, Nunnally, (1978) suggest that using Cronbach's alpha, value greater than 0.7 indicates good internal consistency. Apart from that, Hair, (2006)

suggest that reliability estimated between 0.6 and 0.7 represents the lower limit of acceptability in quantitative research study. Alpha values below 0.6 are considered to be poor internal consistency (Sekaran, 2009). Thus, higher Cronbach's alpha value or closer to 1.0, the higher the reliability of the measured items (Sekaran, 2009). The Results illustrated that overall Cronbach's alpha coefficient score for the instrument of the study was good (0.89).

## DISCUSSION OF RESULTS

### Descriptive Analysis for the Scales

<b>Table 1</b> <b>ILLUSTRATES THE MEANS AND STANDARD DEVIATIONS FOR</b> <b>STUDY VARIABLES</b>				
Item #	Quality control standard 220	M	S	Rank
1	Leadership responsibilities for audit quality	4.11	0.95	1
2	Relevant ethical requirements	3.95	1.11	4
3	Acceptance and continuance	3.93	0.91	5
4	Assignment of engagement	3.88	0.95	6
5	Engagement performance	4	1.05	3
6	Monitoring	4.03	1.08	2
7	Documentation	3.41	0.86	7

Table 1 shows the dimension analysis for quality control standard 220. Based on the findings, the overall score for the subscale was good (M=3.41, STD=0.86). In specific, all items were perceived as very good. Accordingly, the descriptive statistics concerning for dimensions (quality control standard 220) considered to be good in terms of level from the perspective of the study's sample (auditors).

The Results of this study also shows that the paragraphs related (Audit of Financial Statements) was very good (M=3.98, STD=1.03). Accordingly, the descriptive statistics concerning (Audit of Financial Statements) is considered to be good in terms of level from the perspective of the study's sample.

## Testing Hypothesis

To test hypothesizes of this study; a multiple regression test was used. Table (2) Shows the obtained results of the independent variables (quality control standard (220) in (Audit of Financial Statements)) that were used in the model this study.

<b>Table 2</b> <b>TEST OF STUDY HYPOTHESES</b>						
<b>Model</b>	<b>B</b>	<b>F</b>	<b>t</b>	<b>R</b>	<b>R square</b>	<b>Sig.</b>
Leadership responsibilities for audit quality	0.84	168.7	13.349	0.837	0.705	0
Relevant ethical requirements	0.77	100.45	10.023	0.846	0.715	0
Acceptance and continuance	0.65	245.8	15.678	0.765	0.585	0
Assignment of engagement	0.73	741.3	27.226	0.83	0.688	0
Engagement performance	0.75	415.3	20.379	0.65	0.422	0
Monitoring	0.79	578.8	24.057	0.737	0.544	0
Documentation	0.71`	403.3	17.68	0.743	0.553	0

According to Table 2 the results of simple regression test, the first null hypothesis H01 is rejected, which means that a there is statistical effect of effect of quality control standard 220 (Leadership responsibilities for audit quality) in audit of financial statements. The R overall value is 0.837, at level 0.05. The R Square overall value is 0.705, and according to the Beta value, the type of this effect is positive. This means that any improvement in Leadership responsibilities for audit quality will improve audit of financial statements. Null hypothesis H02 is rejected, which means that a there is statistical effect of effect of quality control standard 220 (relevant ethical requirements) in audit of financial statements. The R overall value is 0.846, at level 0.05. The R Square overall value is 0.715, and according to the Beta value, the type of this effect is positive. This means that any improvement in relevant ethical requirements will improve audit of financial statements. H03 also was the R overall value is

0.765, at level 0.05. The R Square overall value is 0.585, and according to the Beta value, the type of this effect is positive. This means that any improvement in acceptance and continuance will improve audit of financial statements. H04 also was the R overall value is 0.830, at level 0.05. The R Square overall value is 0.688, and according to the Beta value, the type of this effect is positive. This means that any improvement in assignment of engagement will improve audit of financial statements. H05 and according to the Beta value, over there effect is positive engagement performance in audit of financial statements. The R overall value is 0.650, at level 0.05. The R Square overall value is 0.422. This means that any improvement in engagement performance will improve audit of financial statements. H06 and according to the Beta value, over there effect is positive monitoring in audit of financial statements. The R overall value is 0.737, at level 0.05. The R Square overall value is 0.544. This means that any improvement in monitoring will improve audit of financial statements. H07 and according to the Beta value, over there effect is positive documentation in audit of financial statements. The R overall value is 0.743, at level 0.05. The R Square overall value is 0.553. This means that any improvement in Documentation will improve audit of financial statements.

## CONCLUSIONS

The researchers believes that the application of standard 220 related to quality control on auditing works, accomplishes the objectives related to that, as it includes items related to acceptance and maintenance of clients. quality control standard 220 included the necessity for auditing offices to implement quality control policies and procedures that are designed to ensure that all audits have been conducted in accordance with international auditing standards or appropriate national standards or practices so that they are established at two levels: at the level of the audit office, and at the level of each audit process separately (ISA 220 standard for auditing quality control procedures).

Standard 220 sheds light on the policies and procedures that the audit office follows in its performance of the audit process, in addition to the procedures related to delegating works to assistants so that these policies and procedures must be applied at the level of the audit office and individual audits, in order to ensure that the office serves the relevant parties in a manner appropriately and in accordance with the auditing standards, and according to this standard, the elements of quality control of the audit process and the policies and procedures necessary.

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