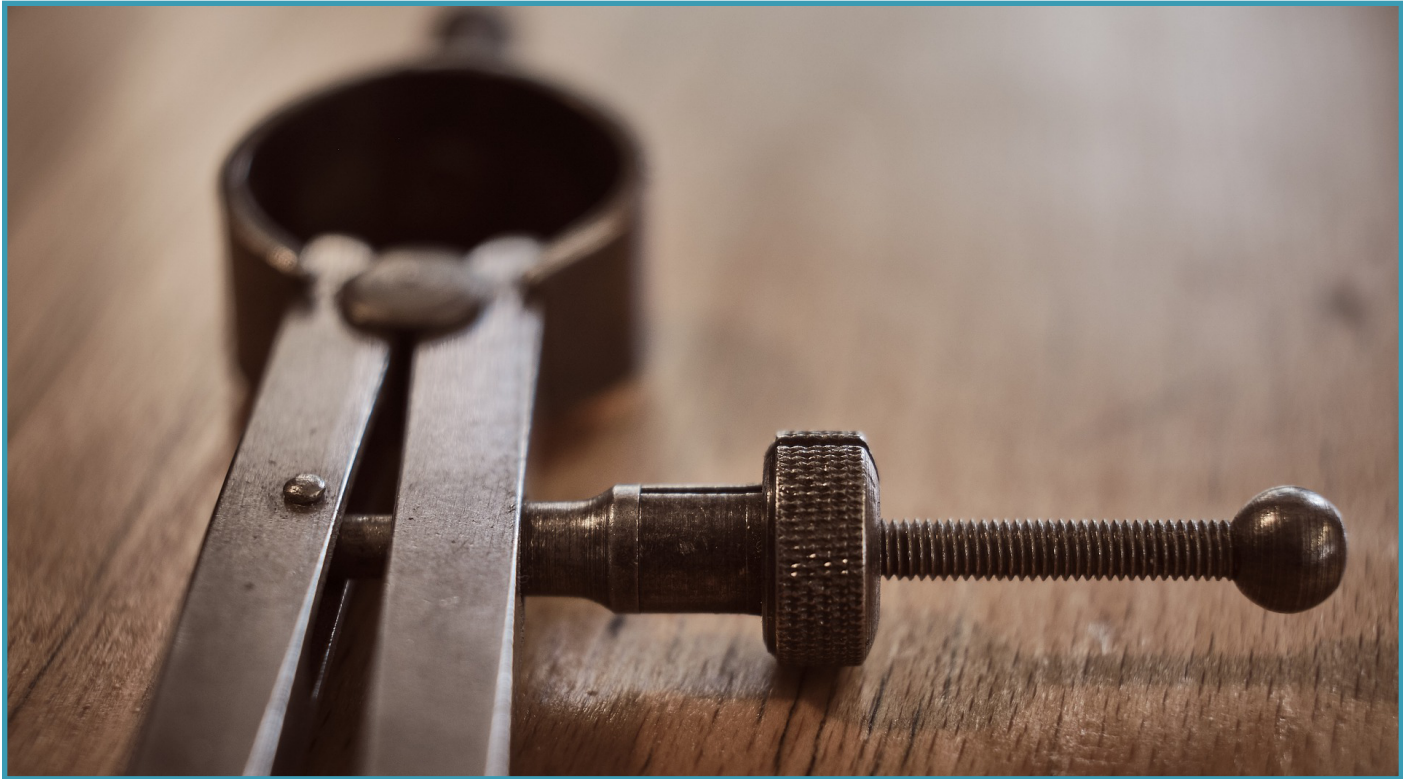


Quality Assurance Manual



NEW ZEALAND
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Foreword

The main purpose of this Manual is to emphasise the importance of the Quality Assurance (QA) function for supreme audit institutions (SAIs), and highlight the benefits that should be derived from undertaking these reviews at regular intervals. In order to be useful and relevant, such a Manual must strike a balance between concepts and practice. This Manual has been designed with that in mind. In the appendices of the Manual are job aids (templates and checklists) which are intended to provide practical 'how to' guidance on the quality assurance review process. These guidance and tools have been adapted from various sources and follow international best practice.

When the world at large is clearly striving for achieving the highest quality for the least possible time and cost, audit work needs to be at least in line with this shift. In fact, SAIs should remain a step ahead of other organisations since they have to set the right example, particularly in the public sector. As such, SAIs should work towards providing consistently high-quality audit products and services that meet stakeholder expectations in the most efficient and cost-effective way. This must be achieved whilst maintaining a high degree of integrity, accountability and competence. Quality must be embedded in all areas of the SAI's activities. All these factors lead to the need for SAIs to implement robust QA systems.

This Manual provides the necessary guidance and tools to assist SAIs in implementing comprehensive quality assurance processes. The guidance and tools highlighted have been adapted from various sources and follow international good practice. All SAIs should consider implementing the core elements of this handbook. However, prior to doing so, certain customisation may be necessary to suit each SAI's unique needs. In addition, SAI staff may have to be trained in QA issues and practices in order to be able to make best use of this Manual.

This Manual builds on the previous one that was issued in 2015 and has been updated by the representatives from PASAI and international consultant who possess rich experience in the functioning of SAIs in developing countries, financial auditing and quality assurance standards and practices. We are grateful to them for their dedication to the project and appreciate their valuable contributions.

The Manual outlines:

- the fundamentals of Quality Assurance (QA) and how it differs from Quality Controls;
- the relevant auditing standards;
- the establishment of QA function;
- the QA review process;
- carrying out a Peer Review; and
- assessing the work of sub-contracted out work by the SAI.

PASAI hopes that its members will use this manual to enhance their quality assurance processes.



John Ryan
PASAI Secretary-General
Controller and Auditor-General of New Zealand

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ACRONYMS

AFROSAI-E	African Organisation of English Speaking Supreme Audit Institutions
AQCR	Audit quality control reviewer
ASOSAI	Asian Organisation of Supreme Audit Institutions
CAAT	Computer assisted audit techniques
CIS	Computer Information Systems
HR	Human Resources
FA	Financial Audit
IDI	INTOSAI Development Initiative
IFAC	International Federation of Accountants
IFPP	INTOSAI Framework of Professional Pronouncements
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standard on Auditing
ISSAI	International Standards of Supreme Audit Institutions
ISQC	International Standards for Quality Control
IT	Information technology
MOU	Memorandum of Understanding
PA	Performance audit
PASAI	Pacific Association of Supreme Audit Institutions
PRAI	Pacific Regional Audit Initiative
QA	Quality assurance
QAR	Quality assurance review
QARRF	Quality assurance review recording form
QC	Quality control
QCQ	Quality control questionnaire
QMS	Quality management system
SAI	Supreme Audit Institution
WP	Working Paper

Chapter 1 - INTRODUCTION

1.1 PURPOSE OF QUALITY ASSURANCE MANUAL

All supreme audit institutions (SAIs) should work towards providing consistently high-quality audit products and services that meet stakeholder expectations in the most efficient and cost-effective way. This must be achieved while maintaining a high degree of integrity, accountability, and competence. Quality must be embedded in all areas of an SAI's activities. All these factors lead to the need for SAIs to implement robust Quality Assurance (QA) systems.

The main purpose of this manual is to emphasise the importance of QA in the effective delivery of an SAI's mandate. In addition, it has been produced to help SAIs conduct Quality Assurance Reviews (QARs) in their respective jurisdictions. It is envisaged that this manual will be used in different ways:

- SAIs without a QA manual should use this as a basis for developing their own.
- SAIs that have a QA manual should use this to consider where their existing manual may be improved.

The main reference on quality for SAIs is the ISSAI 140 (Quality Control for SAIs). The purpose of ISSAI 140 is to "assist SAIs to establish and maintain an appropriate system of quality control which covers all their work."

Principle 11.6 of INTOSAI-P 12 states; "SAIs should establish a monitoring process that ensures that the SAI's system of quality control, including its quality assurance process, is relevant, adequate and operating effectively".

The extent to which SAIs comply with the requirements in the standards will differ depending on the resources available to them. Without adequate resources, it may not be practicable for some SAIs in the PASAI region to fully comply. The design and implementation of an SAI's quality control policies and procedures, and/or who may be involved in the QARs, may be carried out through alternative arrangements. Such arrangements are detailed throughout this Manual.

1.2 ABOUT THE MANUAL

The purpose of this Manual is to provide guidance for quality assurance reviewers in conducting QA review as well as to help financial, compliance and performance auditors to understand the value of Quality Control System and quality assurance reviews for SAIs. It provides more emphasis on suggesting detailed guidance and tool for conducting QA review at the audit engagement level, while at the same time the need to conduct the QA at the institutional level is also considered in the context of ISSAI 140.

The guidance is organised into nine chapters. They are:

- Chapter 1 – Introduction to the Quality Assurance Manual;
- Chapter 2 - contains introduction and basic concepts related to Quality Assurance;
- Chapter 3 - describes six elements of Quality Control System as per ISSAI 140;

- Chapter 4 - is about setting up Quality Assurance Function. It describes some options on how to set up a QA function and to operationalise it in SAIs;
- Chapter 5 - is about Quality Assurance Review Process. It mentions the quality assurance at institutional and engagement levels. It describes the QA process at audit engagement level and provides guidance to conduct QA review;
- Chapter 6 - describes the nature and use of QA review tools for three types of audit for conducting QA review at the audit engagement level;
- Chapter 7 – describes the considerations for an SAI when carrying out the reviews of audit work carried out by sub-contractors on financial audit;
- Chapter 8 – is about Quality assurance of audits in an IT environment; and
- Chapter 9 – is about Peer Review and it also contains a sample checklist that could be used by the assessors;

To be useful and relevant, we have attempted to strike a balance between concepts and practices by including templates, checklists, and samples in the appendices that can serve as useful aids. The purpose of these aids is to provide practical "how to" guidance on the QAR process.

Chapter 2 - CONCEPTS AND RELATED TERMS

2.1 DEFINITIONS

Quality - The degree to which inherent characteristics of an audit fulfils requirements. These characteristics include significance, reliability, objectivity, relevance, timeliness, clarity, efficiency and effectiveness.

Quality Control (QC) - The QC process consists of the systems and practices designed to ensure that SAIs issue reports that are appropriate in the circumstances, and in keeping with applicable standards, rules, practices, and procedures.

Quality Assurance (QA) - provides independent assurance to the head of the SAI that the quality control systems and practices in the organisation are working effectively and that the SAI is issuing appropriate reports. It is the mechanism established by a SAI to ensure that:

- Necessary quality controls are established and are being implemented; and
- Potential ways of strengthening or otherwise improving quality controls are identified.

Quality assurance focuses on the design and operation of the quality control system by persons independent of the system /audit under review. The purpose of quality assurance is not to criticise systems/audits but to help ensure that audit products and services meet required standards and international best practice to meet the needs of the SAIs stakeholders.

2.2 QUALITY ASSURANCE REVIEW VERSUS QUALITY CONTROL

Quality Assurance is the process of comparing what is required of a product and what is actually being provided to the users of that product. Thus, Quality Assurance provides independent assurance to the Head of SAI that the established quality control systems and practices in the organisation are working effectively and that appropriate reports are being issued.

Quality control within a SAI consists of the policies and the procedures that have been put in place to assure that its audit work is of a consistently high quality. SAI should establish and maintain its system of quality control to provide it with reasonable assurance that the SAI and its personnel comply with professional standards and applicable legal and regulatory requirements; and the audit reports issued are appropriate in the circumstances.

Although sometimes quality control and quality assurance are used interchangeably, there are differences in scope and meaning of the two terms. The following table presents some of these differences.

Quality control and quality assurance

	QUALITY CONTROL	QUALITY ASSURANCE
1. What is it?	Involves the policies and procedures through which the SAI ensures that all phases of the audit (from pre-engagement to reporting and follow-up) are carried out in compliance with ISSAIs.	It is the process through which an SAI assesses and monitors the system of quality control, including periodic inspection of audit engagements. This assessment is designed to ensure the SAIs system of quality control is working effectively and that individual audits are carried out in compliance with ISSAIs.
2. Who does it?	Is a line function and the responsibility lies with the SAI management	It is an independent function.
3. Who is responsible?	It is the responsibility of every staff member of the SAI and every team member of an audit engagement to ensure quality of audit	It is the responsibility of the specific team or person assigned.
4. When?	Takes place throughout the audit engagement.	Normally takes place after the issuance of an audit report. The review could also take place before issuance of the audit report, but this is not always the case, and is done only in exceptional cases.
5. What is the conclusion?	No conclusion as such, but the line function within the audit team ensures the quality of audit by complying to requirements of ISSAIs.	The independent reviewer concludes as to what extent an audit engagement complied with the requirements of ISSAIs

2.3 TYPES OF QUALITY ASSURANCE REVIEWS (QARs)

There are two types of Quality Assurance Reviews (QARs) which are described below:

2.3.1 INTERNAL REVIEW

Internal reviews are periodic reviews carried out by the SAI to meet the ongoing monitoring requirements of ISSAI 140 or other quality control frameworks. Internal reviews can be conducted by an established Quality Assurance unit or through a peer review mechanism involving different divisions, units, or sections.

2.3.2 EXTERNAL REVIEW

An external review is done by parties external to the SAI and may include another SAI from within the PASAI region, a private auditing firm, management consulting firm, academic expert, or regulatory body.

The task involves performing a QAR for the SAI by appraising the quality of its audit activity. This is done by providing independent assurance of audit quality to management, the board, audit committee, external auditors, as well as those who rely on the work of the audit activity. Persons who are involved in performing the review must be qualified, independent from the organisation, and do not have any real or apparent conflict of interest. The QARs need to take into account the relevant ISSAI or ISA or best practice as well as the terms agreed on between partner SAIs. For PASAI, this would include reviews facilitated by the PASAI Secretariat or peer reviews arising out of reciprocal agreements between SAIs. Given the SAI commitments, it is also advisable to use private auditing firms, consultants, academic expert or regulatory bodies like the 'Professional Accountancy Organisation' in the SAI country to facilitate these reviews in an efficient and effective manner.

2.4 WHAT ARE THE BENEFITS OF CONDUCTING QARs?

A QAR allows the SAI to benchmark its practices against relevant standards (ISSAI 140 for example) and international best practice. The findings of the QAR will allow the SAI to:

- Assess its efficiency and effectiveness;
- Evaluate its current needs in conjunction with future goals of the SAI;
- Appraise the risk to the SAI if the staff are performing below satisfactory levels or are not in conformity to professional standards, applicable legal and regulatory requirements and the SAI's policies and procedures; and
- Plan and implement strategies for upgrading SAI's policies and procedures and knowledge and skills of staff. The ultimate benefit being an improved SAI with the facilities and ability to produce audit reports appropriate to the circumstances.

2.5 SCOPE AND APPROACH FOR QUALITY ASSURANCE REVIEWS

The external entity undertaking the QAR should scope of the QAR, but it should include all the activities that are being carried out by the SAI. It involves assessing the controls in place and determining whether they are being followed and whether they are consistent with the relevant standards.

2.5.1 INSTITUTIONAL LEVEL QARS

The objective of an institutional level QAR is to assess whether the SAI has an adequate quality management system (QMS) in place, and the extent to which it is functioning effectively. An institutional level QMS is not specifically focused on any specific type of audit; rather, it affects all types of audits and services that an SAI is expected to deliver as per its mandate. As such, an institutional level QAR can provide useful input for developing, or updating, the SAI's strategic plan.

2.5.2 INSTITUTIONAL AUDIT ENGAGEMENT QARS

These are QARs done at the level of individual audit engagements. The primary objective of individual audit level QARs is to assess the extent of compliance by audit teams with the SAI's approved audit methodology for the given type of audit. They may also help draw conclusions on the extent to which the SAI's approved audit methodology is aligned with international good practice. Individual audit level QARs may be conducted before issue of the audit report (pre-issuance) or after (post audit).

Internal QA reviews at the engagement level can be conducted before the report is issued ("hot review") and/or after issuance of the report ("cold review"). Hot review is conducted with a prime objective to ensure compliance with relevant auditing standards and achieving engagement objectives. Cold review is conducted with a view to check whether and SAI's quality control procedures and system have been followed, and how they can be improved in the future audits, if there were deficiencies in engagement performance.

Chapter 3 - THE QUALITY CONTROL SYSTEM

3.1 INTRODUCTION

Management of the SAI are responsible for establishing a robust system of quality control within the organisation¹. The main objective of the quality control system is to provide a reasonable assurance that:

- (a) personnel comply with professional standards and regulatory and legal requirements; and
- (b) reports issued are appropriate in the circumstances.

Effective management of the established quality control system will enable the SAI to:

- Assess the overall context of the organisation to define who is affected by the SAI work and what they expect. This will enable the SAI to clearly state its objectives and identify new business opportunities.
- Put the SAI clients first, making sure the SAI consistently meet client needs and enhance their satisfaction. This can lead to delivery of improved audit services and better standards of living for the citizenry.

¹ ISQC 1 and ISSAI 140

3.2 ELEMENTS OF QUALITY CONTROL SYSTEM

The quality control system of a SAI includes all the documented policies (a format of the policy is at Appendix 4 of this manual) and procedures necessary to achieve the above goal. In order to do that management of the SAI need to understand the processes directly or indirectly contributing to the quality of their primary output or product – the audit reports. Both the ISQC1 and ISSAI 140 draws on the private sector IFAC standard, ISQC1) outline the main quality control requirements for a SAI which contain six elements that form part of the quality control cycle, as shown below.

3.3 ISSAI 140 REQUIREMENTS

Six Elements of Quality Control Framework – ISSAI 140



3.1.1 LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE SAI

The Head of the SAI and the SAI top management should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all its work. Such policies and procedures should be set by the Head of SAI, who retains overall responsibility for the system of quality control. The Head of the SAI may however delegate authority for managing the SAI's system of quality control to a person or persons with sufficient and appropriate experience.

The quality control policies and procedures should not only be adopted, but also implemented by being communicated to SAI personnel adhered to and thereto should be monitored.

ISSAI 140 Requirement

The key principle of leadership responsibilities under ISSAI 140 states; *'The SAI should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all of its work. Such policies and procedures should be set by the head of the SAI, who retains overall responsibility for the system of quality control'.*

In addition to the application guidance provide in ISSAI 140, the SAIs may adopt the following methodology to address this principle:

- Having a policy that explicitly acknowledges that the Head of the SAI has the overall responsibility for the quality of all work performed by the SAI, unless the role for quality assurance is delegated to a person or persons with sufficient and appropriate experience to assume that role;
- The leadership of the SAI establishes a quality assurance function to get assurance that policies and procedures lead to the performance of work that is compliant with the professional standards and applicable legal and regulatory requirements and that audit reports that have been issued were appropriate under the circumstances;
- The leadership of the SAI consistently promotes a quality-oriented internal culture through communiques, policies, procedures and during meetings; The identification of weaknesses in the quality control system is viewed as an opportunity to improve rather than assign blame;
- The SAI's mission, emphasise the paramount importance of audit quality and are consistently reinforced and followed by the leadership in practice;
- The leadership of the SAI ensures that there are sufficient resources for the development, documentation and implementation of quality control procedures;
- The leadership ensures that its messages and directives to all staff emphasise the importance of consistently implementing SAI's quality control policies and procedures;
- Such messages are incorporated in the SAI's internal documentation and training materials and reflected in performance appraisals; and
- Leadership "leads by example".

3.1.2 RELEVANT ETHICAL REQUIREMENTS

The second element of a system of quality control described in the ISA 140 is relevant ethical requirements. As ethical behaviour is a key component in establishing and sustaining the needed trust and reputation, the fundamental principles of professional ethics in the INTOSAI Code of Ethics (ISSAI 130) is one of the prerequisites for the functioning of every SAI.

The Code is based on five fundamental values:

- (a) Integrity – to act honestly, reliably, in good faith and in the public interest;
- (b) Independence and objectivity – to be free from circumstances or influences that compromise, or may be seen as compromising, professional judgement, and to act in an impartial and unbiased manner;
- (c) Competence – to acquire and maintain knowledge and skills appropriate for the role, and to act in accordance with applicable standards, and with due care;
- (d) Professional behaviour – to comply with applicable laws, regulations and conventions, and to avoid any conduct that may discredit the SAI; and
- (e) Confidentiality and transparency – to appropriately protect information, balancing this with the need for transparency and accountability.

ISSAI 140 Requirement

The key principle of leadership responsibilities under ISSAI 140 states; *An SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements.*

In addition to the application guidance provide in ISSAI 140, the SAIs may adopt the following methodology to address this principle:

- The SAI has policies and procedures designed to provide it with reasonable assurance that the SAI and its personnel comply with relevant ethical requirements².
- The SAI has policies and procedures designed to provide it with reasonable assurance that the SAI, its personnel and others subject to independence requirements maintain their independence as required by relevant ethical requirements.
- The policies and procedures required include ensuring there is sufficient information available on the scope of services provided, requiring personnel to notify the office of circumstances and relationships that could create a threat to independence and the accumulation and communication of relevant information to personnel.
- The SAI has policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations.

² ISSAI 130

- The SAI identifies and evaluates circumstances and relationships that create threats to independence and where such threats are identified, takes appropriate action to eliminate or minimise them.
- The SAI has policies and procedures that set out criteria for determining the need for safeguards to reduce familiarity threats to an acceptable level and, where applicable, rotational requirements for engagement leaders and engagement quality control reviewers, particularly for listed entities.
- The SAI obtains written confirmation at least once per year of compliance with its policies and procedures on independence from staff that are required to be independent by relevant ethical requirements.
- The SAI ensures that personnel adhere to the professional ethics of integrity, objectivity, professional competence, due care, confidentiality and professional behaviour.

3.1.3 ACCEPTANCE AND CONTINUANCE

The third element of a system of quality control described in the ISA 140 is acceptance and continuance. SAIs need to establish policies and procedures to cover the requirements of the ISSAI 140 which document the procedures for the acceptance and continuance of client engagement/s. SAIs are according to their legal framework mandated to audit public sector entities. Before the audit assignments the SAI must provide itself with reasonable assurance that it will only carry out audits and other work where the SAI.

ISSAI 140 Requirement

The SAIs shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

- a) is competent to perform the engagement and has the capabilities, including time and resources, to do so;
- b) can comply with relevant ethical requirements; and
- c) has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity.

In addition to the application guidance provide in ISSAI 140, the SAIs may adopt the following methodology to address this principle:

- The SAI may map the entity mandated to be audited with the desired level of competencies required for auditing such entities and the actual competencies possessed by SAI staff currently. The competencies could be determined both in terms of professional qualification and experience.

Based on this mapping, a gap if any can be ascertained and addressed accordingly for audit engagement acceptance and continuance. A template for this mapping exercise is provided as Appendix 1.

- Similarly, a resource mapping can also be conducted to ascertain entities mandated for auditing vis-à-vis the availability of SAI staff and annual budget allocated for this purpose. A template to conduct this mapping is suggested as Appendix 2.
- The need to declare compliance to a Code of Ethics as suggested above may be re-enforced while considering engagement acceptance and continuance.
- The SAI may adopt a the Know Your Entity (KYE) concept by gathering basic information from entities mandated for audit on an annual basis. This information may have to be updated on a regular basis. The template for KYE is suggested as Appendix 3.

3.1.4 HUMAN RESOURCES

The fourth element of ISSAI 140 requires the SAI to establish Human Resource policies and procedures. It is also important for a SAI to have a 'Human Resource Management Strategy to manage its staff or human resource. The SAI's most important asset is its staff. In order to fulfil its mandate and perform high quality audits the SAI must ensure that it has sufficient resources (personnel and, where relevant, any parties contracted to carry out work for the SAI) with the competence, capabilities and commitment to ethical principles necessary to carry out its work in accordance with relevant standards and applicable legal and regulatory requirements; and enable the SAI to issue reports that are appropriate in the circumstances.

SAIs should promote learning and training for all staff to encourage their professional development and to help ensure that personnel are trained in current developments in the profession. SAIs should ensure that quality and ethical principles are key drivers of performance assessment of personnel and any parties contracted to carry out work for the SAI.

ISSAI 140 Requirement

The SAI shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to:

- (a) perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
- (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances³.

³ ISQC-1, pars 29

In addition to the application guidance provide in ISSAI 140, the SAIs may adopt the following methodology to address this principle:

- SAIs should ensure that they establish a comprehensive and robust human resource policy and procedures that give appropriate emphasis to quality and commitment to the SAI’s ethical principles. The policies should include:
 - recruitment and selection of staff (and the qualifications of recruited staff);
 - performance evaluation; - professional development;
 - capabilities (including sufficient time to perform assignments to the required quality standard);
 - competence (including both ethical and technical competence);
 - career development;
 - promotion;
 - compensation; and
 - the estimation of personnel needs.
- Personnel Management encompasses hiring, assigning personnel to engagements, professional development, and advancement activities. Accordingly, the HR related policies and procedures established by the SAI may ensure that:
 - Those hired possess the appropriate characteristics, skills and work experience to enable them to perform competently.
 - the estimation of personnel needs.
 - Work is assigned to personnel having the degree of technical training and proficiency required in the circumstances.
 - Personnel participate in general and specific continuing professional education and other professional development activities that enable them to fulfil responsibilities assigned, and satisfy applicable continuing professional education requirements.
 - Personnel selected for advancement have the qualifications necessary for fulfilment of the responsibilities they will be called on to assume.⁴

⁴CQ Section 10 AICPA

- The SAI may ensure that engagement leaders are given responsibilities for each audit engagement. The SAI policies and procedures should require identification of the engagement leader to the entity management and those charged with governance, ensure that the engagement leader has the appropriate competence, capability, and authority to perform the roles and the responsibilities of the engagement leader are clearly defined and communicated.⁵

3.1.5 PERFORMANCE OF AUDITS AND OTHER WORK

It is important that the QA policy and procedures developed by the SAI to ensure engagement quality describe the responsibilities of the audit team (auditor, team leader, manager) regarding review, supervision and quality control procedures for the audit engagements. It also should address, when applicable, the responsibilities of the engagement quality control reviewer.

ISSAI 140 Requirement

The audit work carried out by the SAI must be consistent and of good quality. The SAI is responsible for establishing routines and procedures that line management and reviewers of the audit, exercise proper quality control of the audits. Such quality control procedures should include:

- a) matters relevant to promoting consistency in the quality of the work performed;
- b) supervision responsibilities; and
- c) review responsibilities.

In addition to the application guidance provide in ISSAI 140, the SAIs may adopt the following methodology to address this principle:

- SAIs should ensure appropriate policies, procedures and tools, such as audit methodologies are in place for carrying out the range of work that is the responsibility of the SAI, including work that is contracted out.
- SAIs should establish policies and procedures that encourage high quality and discourage or prevent low quality and that they consider the ISSAI 130 Ethics standard into account. This includes creating an environment that is stimulating, encourages proper use of professional judgment and promotes quality improvements. All work carried out should be subject to review as a means of contributing to quality and promoting learning and personnel development.

⁵Quality Assurance for Financial Audits (CAROSAI).

- SAIs should ensure appropriate quality control policies and procedures are in place (such as supervision and review responsibilities and engagement quality control reviews) for all work carried out (including financial audits, performance audits, compliance audits). SAIs should recognise the importance of engagement quality control reviews for their work and, where an engagement quality control review is carried out, matters raised should be satisfactorily resolved before a report is issued by the SAI. These policy and procedures also should address engagement quality reviews as required by ISSAI 140.
- SAIs should ensure that all documentation (such as audit work papers) is the property of the SAI, regardless of whether the work has been carried out by SAI personnel or contracted out.
- SAIs should ensure appropriate procedures are followed for verifying findings to ensure those parties directly affected by the SAI's work have an opportunity to provide comments prior to the work being finalised, regardless of whether or not a report is made publicly available by the SAI.
- SAIs should ensure that they retain all documentation for the periods specified in laws, regulation, professional standards and guidelines.

3.1.6 MONITORING

Monitoring is the last and an important element of SAI's Quality Control system. It is the monitoring of SAI's quality control policies and procedures. **This monitoring is often referred to as quality assurance** and needs to cover all six elements described in ISSAI 140, the five elements above as well as the monitoring system itself.

The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:

- Adherence to professional standards and applicable legal and regulatory requirements;
- Whether the system of quality control has been appropriately designed and effectively implemented; and
- Whether the SAI's quality control policies and procedures have been appropriately applied, so that reports that are issued by the SAI are appropriate in the circumstances.

ISSAI 140 Requirement

A SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and are operating effectively. The monitoring process should:

- a) include an ongoing consideration and evaluation of the SAI's system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI;
- b) require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility; and
- c) require that those carrying out the review are independent (i.e. they have not taken part in the work or any quality control review of the work.)

In addition to the application guidance provided in ISSAI 140, the SAIs may adopt the following methodology to address the key principle stated above:

- SAIs should ensure that their quality control system includes independent monitoring of the range of controls within the SAI (using personnel not involved in carrying out the work). However, this may not be feasible in every SAI owing to lack of professional staff capacity and the size of SAIs. In such a situation, the SAI may engage a peer SAI, or another suitable body, to carry out an independent review of the overall quality control system.
- If work is contracted out, SAI should seek confirmation from a senior official (normally at partner level in the case of a private company) that the contracted firms have effective system of quality control in place.
- If the work is contracted out to an individual consultant, the SAI should seek some evidence of their work that they have carried out QA.
- SAIs should ensure the results of monitoring of the system of quality control are reported to the Head of the SAI in a timely manner, to enable the Head of the SAI to take appropriate action.
- Where appropriate, SAIs should consider engaging another organisation or other suitable body, to carry out an independent review of the overall system of quality control (such as a peer review – more details can be found at chapter 9).
- For smaller SAIs, they should consider engaging the PASAI Secretarial to carry out an independent review of their overall system of quality control.
- Where appropriate, SAIs may consider other means of monitoring the quality of their work, which may include, but not be limited to:
 - Independent academic review;
 - Stakeholder surveys;
 - Follow-up reviews of recommendations; or
 - Feedback from audited organisations (e.g. client surveys).

- SAIs should have procedures for dealing with complaints or allegations about the quality of work performed by the SAI.
- SAIs should consider whether there are any legislative or other requirements to make monitoring reports public or to public complaints or allegations related to the work carried out by the SAI.

3.1.7 SUMMARY – QUALITY CONTROL SYSTEM

This chapter mainly with the quality control system, its purpose and the six elements of the quality control system. The SAIs need to ensure that it has sufficient QA policies and procedures developed, approved on each element of the QCS and communicated to all the personnel working in the SAI. The very existence and awareness of these procedures are vital in creating a quality consciousness within the SAI. The monitoring function established in the SAI should carryout assessments from time to time to provide assurance that all the elements of the Quality Control Systems are working effectively as intended and the policies and procedures developed remain relevant and reflects the changes brought to the standards and the working environment.

Chapter 4 - SETTING UP OF QUALITY ASSURANCE FUNCTION IN SAI

4.1 INTRODUCTION

ISSAI 140 states that the SAI shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.

Monitoring consists primarily of understanding the SAI's control system and determining whether, and to what extent, this control system is operating effectively. It also includes developing recommendations to improve the system, especially if weaknesses are detected and if standards have changed. The monitoring of the Quality Control System in SAIs would normally be done by the Quality Assurance Function which has been set for that purpose.

4.2 ISQC 1 AND ISSAI 140 REQUIREMENTS

ISQC 1 (Objective) – A SAI should establish and maintain a system of quality control to provide it with reasonable assurance that:

- a) the SAI and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- b) reports issued by the firm or engagement partners, are appropriate in the circumstances.

ISSAI 140 element 6 (Objective) – A SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and operating effectively. The monitoring process should:

- a) include an ongoing consideration and evaluation of the SAI’s system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI;
- b) require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility; and
- c) require that those carrying out the review are independent (i.e. they have not taken part in the work or any quality control review of the work).

Monitoring consists primarily of understanding the SAI’s quality control system and determining whether and to what extent this system is operating effectively and efficiently. It also includes developing recommendations to improve the system, especially if weaknesses are detected.

This monitoring requirement can be fulfilled by considering different means. Establishing an independent QA function within the SAI is one of them. The monitoring of the Quality Control System in SAIs would normally be done by the Quality Assurance Function which has been set up for that purpose or by engaging external reviewer.

4.3 OBJECTIVES OF THE QUALITY ASSURANCE FUNCTION

The objectives of the QA function should be in line with ISSAI 140 which states that the SAI should develop monitoring policies and procedures which would include objective consideration and evaluation of:

- The degree of compliance with quality control policies and procedures, and adherence to professional standards and regulatory and legal requirements;
- The appropriateness of audit methodologies, other guidance materials and technical resources provided to SAI staff for implementation;
- The SAI’s quality assurance and ethics culture (including evidence that there is compliance with policies and procedures as they relate to independence);
- The content, timing, and effectiveness of communications to SAI staff concerning quality control issues (including information on weaknesses within the system which have been identified and any corrective actions to be taken, as well as suggested improvements to the system as a result of any evaluations); and
- Determination of the effectiveness of the follow-up once the process has been completed (for example, are the necessary modifications undertaken on a timely basis).

The main aim of the quality assurance function within the SAI is to provide assurance to the Head of the SAI that the office’s system of quality control is appropriately designed and effectively implemented and that audit reports that have been issued are appropriate.

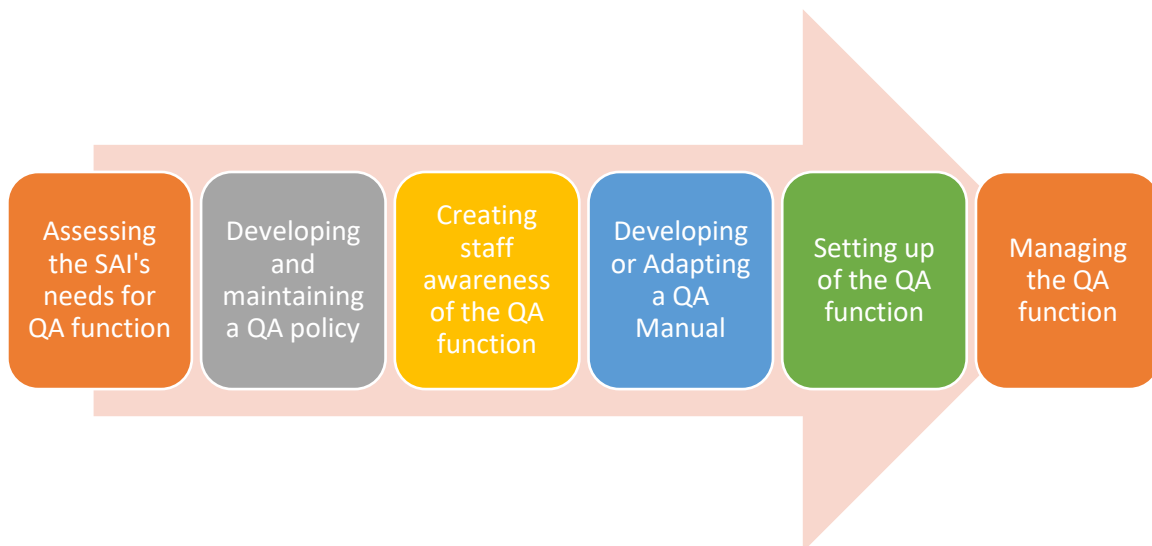
When weaknesses in quality control are identified at either the institutional or individual audit levels, the quality assurance function suggests strategies for correcting those weaknesses. Quality assurance is therefore an ongoing process to ensure the SAI and its staff follow the quality control system, and providing ongoing assurance to the Head of the SAI that audit reports that have been issued are appropriate. To assess the QA system in a SAI, IDI have developed the SAI Performance Management Framework⁶ which is a useful tool to assess the current status of the SAI against the QA standards.

SAI 4 – Dimension (iii) Quality Control System

The SAI has a system of quality control in place for all its work (audit and non-audit activities, for example procurement processes) which has the following characteristics:

- a) A SAI should establish policies and procedures designed to promote quality as essential in performing all of its work.
- b) Quality control policies and procedures are clearly established and the Head of the SAI retains overall responsibility for the system of quality control.
- c) The Head of the SAI may delegate authority for managing the SAI's system of quality control to a person or persons [considered individually or collectively] with sufficient and appropriate experience to assume that role.
- d) The SAI has establish[ed] systems to consider the risks to quality which arise from carrying out the work.
- e) SAIs should consider their work programme and whether they have resources to deliver the range of work to the desired level of quality. To achieve this, SAIs should have a system to prioritise its work in a way that takes into account the need to maintain quality.

4.4 KEY STEPS IN SETTING UP A QA FUNCTION



⁶ <https://www.idi.no/elibrary/well-governed-sais/sai-pmf/426-sai-pmf-2016-english/file>

4.4.1 ASSESSING THE SAI'S NEEDS FOR THE QA FUNCTION

In order to set up a QA function, the SAI should conduct an assessment of the needs of the QA function. The purpose of conducting the assessment exercise is to identify the gaps between the best practice and actual practice of QA within the SAI. The assessment also helps to determine the requirement of quality assurance policy, detailed guidelines, tools, staff, budget as well as other infrastructure for the QA function.

The assessment exercise could be conducted either by the internal staff of the SAI (creating a task force) at middle and higher management levels or another SAI and / or organisations of SAIs like PASAI Secretarial, ASOSAI, INTOSAI, IDI, etc.

While conducting an assessment the following aspects need to be considered:

- Qualification of the team members;
- Positioning of the task force with respect to management's influence;
- Consideration of the future involvement of the task force members in QA
- activities;
- Terms and reference aspects such as duties, responsibilities, time frame,

etc.

The assessment tools may include:

- SAI Performance Management Framework Report, if the SAI had conducted SAI PMF⁷ assessment. This is the most important tool in measuring the performance of this function and the overall performance of the SAI.
- ISSAI Compliance Assessment Report (iCAT), if the SAI had conducted ISSAI compliance assessment of its audit practices;
- QA reports and annual report of the SAI;
- survey, questionnaires, interviews, focus group discussions and review of documents, including of SAIs with experience in QA.

While assessing needs of the QA function the followings factors may be considered:

- Size of the SAI;
- Existing QA and QC practices in the SAI;
- INTOSAI and IFAC standards and guidelines on audit quality control and quality assurance;
- Rules and regulation of requiring a QA function;
- Nature, and average annual number, of audits undertaken by SAI;
- Status of quality controls in SAI;

⁷ <https://www.idi.no/elibrary/well-governed-sais/sai-pmf/426-sai-pmf-2016-english/file>

- Number and level of qualification of SAI staff; and
- Media/stakeholder interests, in particular the legislature or Parliament.

The overall result of this assessment should assist the SAI in determining between the different models and approaches for setting up the QA function.

4.4.2 DEVELOPING AND IMPLEMENTING THE QUALITY ASSURANCE POLICY

As noted in the overview of ISQC 1, the Head of the SAI is expected to assume ultimate responsibility for the system of quality control. A system of quality control for the SAI is an essential prerequisite for quality assurance to have relevance. In other words, a key objective of the QA function is to provide assurance on the design and implementation of the SAI's system of quality control. A comprehensive QA policy approved by the Head of the SAI emphasises the importance of the QA function in ensuring quality.

The Head of the SAI can appoint a team to oversee the production of the QA policy with a reasonable period to complete the assignment. This team should consist of experienced middle level staff, supervised by a senior manager who is experienced in the work of the SAI and has a good knowledge of applicable auditing standards.

The team should benchmark the draft policy to ISQC 1 and ISSAI 140 requirements to ensure that the final agreed policy is complete and relevant. Some of the issues that a QA policy should address include:

- purpose of the QA policy;
- structure and objectives of the QA function;
- reporting lines within the function and within the SAI;
- authority given to and qualifications required of the head and members of the QA function;
- responsibilities and operating principles including:
 - nature, frequency and scope of QA reviews; and
 - reporting by the QA function including annual reporting, reporting on results of reviews of audit engagements and on the performance of the function; and
 - how to address disagreement between QA reviewers and line function at audit engagement level including the need to provide an opportunity for the audit engagement leader to express an opinion if he/she does not agree with the QA reviewer's findings.

If the SAI already has a QA policy in place, it can be updated to meet the requirements of ISSAI 140 or other best practices, and/or to incorporate any changes in the audit processes.

The SAI may review the QA policy periodically and when necessary, incorporate changes to reflect new professional, policy, legal or regulatory requirements. When undertaking this

review, the SAI can consider lessons learnt about past QC and QA practices and reports as well as international developments in auditing, QC and QA.

A sample QA policy can be seen at Appendix 4.

4.4.3 CREATING STAFF AWARENESS OF THE QUALITY ASSURANCE FUNCTION

Staff awareness is a critical aspect for the implementation of an effective QA function. Quality control is the responsibility of all the staff at the SAI from the Head of the SAI of Audit down to the Junior staff members and requires a clear understanding of the office's quality control framework.

As part of the understanding of the office's overall quality control framework, the staff members should understand the role and importance of the quality assurance function in contributing to the quality objectives of the organisation. The QA unit of the SAI together with senior management should create awareness at all levels of staff of the role and importance of QA.

It is advisable that the Head of SAI should provide a forum for questions and answers to clarify any staff concerns and for them to provide important feedback on the QA process. The QA function might be provided with this responsibility. This will enable greater understanding of the role and importance of the QA function in contributing to overall quality in the SAI.

4.4.4 DEVELOPING OR ADAPTING A QUALITY ASSURANCE MANUAL

After adopting a QA policy, there will be a need for the SAI to compile a more detailed Manual, or handbook, that specifies how to conduct QA in practice. Most SAIs can customise the relevant chapters of this manual to their own situation. Alternatively, such a handbook can be compiled by a team of staff members experienced in QA.

If a decision is taken by the SAI to compile their own QA Manual, a champion to oversee the project and a team should be appointed for the project. The SAI must train all its audit staff in QA as soon as the policy and handbook have been finalised so that the concept is well understood and it is not seen as a threat by the organisation.

4.4.5 SETTING UP THE QUALITY ASSURANCE FUNCTION

The SAI has a number of options for setting up a QA function. Establishing a stand-alone QA unit is one of approach. In the case of being a small office, it may not always be feasible to set up a separate QA unit. Assigning experienced staff to QA can have a negative impact on the overall work of such a small office with a limited number of experienced auditors. The needs, the size of the office, the competence of staff and the expected cost and benefits can affect the approach to QA taken by the office.

The following considerations may be considered by the SAI when determining which model and approach to follow:

- the size of the SAI;
- number and geographical locations of its offices;
- whether the SAI has the resources, capacity and competency to perform QA reviews;
- results from previous QA reviews;
- the risks associated with the auditee and specific audit engagements; and
- the independence of the QA reviewer.

The specific model and approach selected by the SAI may also be dependent on the following circumstances:

- It may not always be feasible to set up a separate QA unit within small SAIs. Engaging experienced staff to the QA unit may have a detrimental impact on the overall output and work of the SAI given the limited number of experienced staff to conduct audits.
- A small SAI that may have the required skills, capacity and competencies to conduct QA reviews however may not have the funds to set up a QA Unit. In such cases, the SAI may consider an internal QA review using selected staff(s) from a different unit, division or form a committee independent of the audit being reviewed.
- SAIs with a limited number of staff, capacity and competencies may consider an external review, using the service of another SAI, a regional QA team, experts or an independent academic review.

For high-risk audits or specific technical audit engagements, the SAI management may consider an external review using the service of an expert, professional body or a consultant to carry out the QA review. However, this arrangement may not be practical for smaller SAIs due to cost implication.

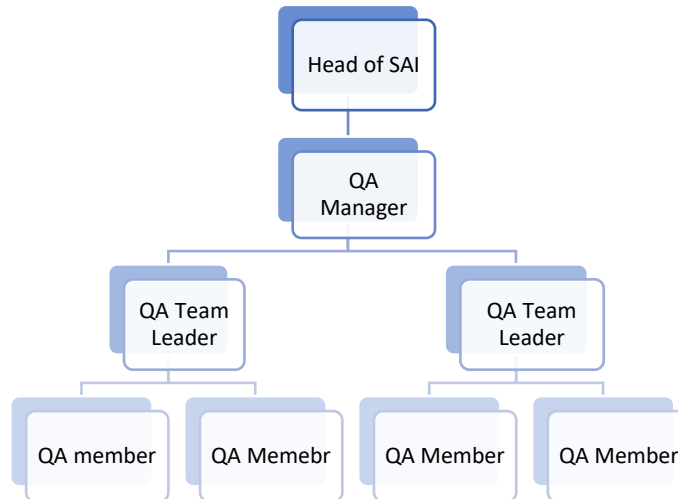
The QA Review models and approaches adopted by some SAIs can be referred to **Appendix 5**.

The functions of the quality assurance team

The team will review the adequacy of, and compliance to, QCs at SAI level as well as at individual audit level. The QA reports should identify weaknesses and propose recommendations for consideration and follow-up action by SAI management. The team will also conduct follow-ups to assess the status of implementation of their recommendations. They will assess the outcome of those recommendations that were implemented, and identify reasons for non-implementation of any particular recommendation.

Structure and Roles of quality assurance team

In setting up the QA function, the SAI should determine the type of structure that suits its environment. The structure of the QA function should be designed to allow for clear line of responsibilities and reporting, and to allow for the necessary reviews of individual work. An example of a suggested structure is depicted below:



The roles of the different levels of QA function are briefly explained below:

QA Manager or Director

The QA manager or director, as the head of the QA unit, will report to the Head of the SAI, and will be responsible for overall aspects of the QA function including the development of the unit operational plan. He or she will also formulate strategies to undertake the QA function and measure outcomes of the QA function.

Team leader

The team leader will report to the QA Manager or Director and assume the overall responsibilities in the following stages:

Planning stage:

- establish review objectives, scope, time, and targets;
- formulate the review methodology;
- delegate the responsibilities to team members; and
- design the review programme.

Conducting stage:

- provide advice and necessary guidance to the team members about the plan, objectives, and on conducting the review;
-

-
- monitor and assure the QAR process is in keeping with QA standards, policies, and procedures; and
 - analyse the findings and articulate the conclusions and recommendations.

Reporting and follow-up stage:

- write or review the audit reports and discuss and present the findings to the QA Manager or Director; and
- follow up on any outstanding issues.

Team members

The team members will be responsible to the team leader for the following:

- conducting the review, based on the plan agreed on in the planning stage and according to standards and procedures;
- gathering evidence to support findings through interviews, documentation reviews, and observations;
- preparing and documenting necessary working papers to support findings; and
- preparing a draft report on the findings.

The responsibilities of a team manager can be carried out by a QA committee. The responsibilities of team leaders and team members may be carried out by a single person (if there are capacity issues within the SAI) who will report directly to the Head of SAI or through the QA committee to the Head of SAI. However, it should be noted that whether QARs are conducted by a team or a single person, the procedures recommended in this manual should always be followed.

Competencies of quality assurance staff

The QA team should collectively possess the following competencies:

- analytical skills;
- ability to synthesise;
- interpersonal skills;
- communication skills;
- facilitation skills;
- audit experience in all areas;

- managerial abilities;
- negotiation skills; and
- assertiveness.

The reviewers should be auditors who are experienced and skilled in implementing the SAI's audit procedures. In order to be credible, quality reviewers should have skills equal to or preferably higher than those who performed the audit. Possession of the above-mentioned skills enable team members to implement review practices effectively and produce a credible report. It can also add value if the team has other skills relevant to the audit being reviewed such as IT auditors or those with skills in financial and compliance audit or performance audit.

Understandably, it can be a significant challenge to identify and establish such a team, and in many cases all the requisite skills and experience may not be available in the QA team. In such cases, the possibility of using external experts for limited purposes should be considered.

4.4.6 *MANAGING THE QUALITY ASSURANCE FUNCTION*

Managing the QA function efficiently and effectively requires the SAI to develop a plan which entails recruiting the right staff for the function, providing the requisite resources, training, monitoring performance against targets, holding the team accountable and embarking on a programme of continuous improvement.

The Quality Assurance function should meet the following standards:

1. *Implement Code of Ethics*⁸

The QA team should also have appropriate ethical values. These values include the following:

- Independence, objectivity, and impartiality
 - The reviewer should be independent from the audit entities and the audit team. Quality reviewers should behave in a way that demonstrates their independence. The following criteria should be considered in this regard:

Independence:

- The reviewer should not be a member of the audit team, and should not be selected by the audit team;
- A senior SAI official should be responsible for selection and appointment of the reviewers;
- The reviewer should not make decisions for the audit team.

⁸ ISSAI 130

- Integrity
 - Integrity is the core value of a Code of Ethics. Reviewers have a duty to adhere to high standards of behaviour (for example, honesty and openness) in their work and in their relationships with the staff of audited entities. To sustain confidence, the conduct of reviewers should be above suspicion and reproach. Reviewers should not indulge in any corrupt practices.
 - Reviewers should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities, which could influence or be perceived as influencing their independence and integrity.
- Conflict of interest
 - Care should be taken that advice and consultation of the reviewer do not lead to a conflict of interest.
- Professional secrecy
 - Reviewers should not disclose information obtained in the reviewing process to third parties, neither verbally nor in writing, except for the purposes of meeting the QAR objectives.
- Professional competence and due care
 - Reviewers have a duty to conduct themselves in a professional manner at all times, and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality.
 - Reviewers must not undertake work they are not competent to perform.
 - Reviewers should know and follow applicable auditing, accounting and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the SAI. They must also have sufficiently long experience of audit work in order to pick up low quality and identify the root causes.

2. *Develop an Annual/Operational Plan and Individual Review Plans*

To guide the activities of the QA function, the Manager of the QA team should prepare an annual plan, aligned with the strategic direction of the SAI and ultimately that of the QA function. The annual plan should be reflective of the operational plan for the QA activities proposed by the SAI and identify the resources required for the reviews. The annual QA plan should be submitted to the head of the SAI for approval.

In preparing the annual QA plan, the QA manager and the teams within the division/departments may select the audit engagement mainly based on risks faced by the entity and, significant issues highlighted in the previous audit reports.

3. *Supervision*

The team leader for the QA review should maintain adequate supervision over the team and monitor the progress of the work. To ensure that all work is carried out in a professional and timely manner and in accordance with the QA policy and procedures, there should be evidence of supervisory reviews in the QA review documentation. The extent and nature of the supervision will depend upon such factors as the number of persons in the team, their experience, expertise, qualifications and aptitude. To enhance the supervisory and review function, the QA function could consider using a checklist for monitoring and supervising QA reviews.

4. *Accountability and Reporting*

The SAI should, as part of its strategies to improve the QA team, evaluate everyone's performance annually. This will enable the SAI to identify the strengths of individuals and identify the areas that need improvement to be more effective and efficient in their respective roles.

The QA function may consider submitting quarterly Quality Assurance and performance reports to the Head of the SAI. The reports should outline the unit's accomplishments in relation to the operational plan and also take into account the SAI PMF framework⁹ as to whether the SAI has consistently complied with SAI 4 Dimension 3 (QC system) and 4 (QA system).

5. *Performance and Peer Reviews*

To continuously monitor the effectiveness of the QA function, the SAI should develop and implement a QA improvement programme that covers all aspects of the QA review practice. A peer review of the SAI's QA practice conducted periodically would satisfy this requirement. The peer review may be carried out by capable staff selected by the Head of the SAI or an external organisation.

The SAIs can work with the PASAI Secretariat in organising peer reviews to ensure compliance with SAI-4 Dimensions 3 and 4.

⁹ <https://www.idi.no/elibrary/well-governed-sais/sai-pmf/426-sai-pmf-2016-english/file>

4.5 PRINCIPLES OF THE QUALITY ASSURANCE REVIEWER

The SAI shall establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfil the responsibility¹⁰.

The SAI may wish to implement a declaration statement for the Quality Assurance Reviewer/s to complete in order to ensure that they comply with the principles of the QAR. An example of the declaration is included at Appendix 6.

To ensure that the Quality Assurance Review process provides useful outcomes (improved audit quality) based on evidence, the following principles must be adhered to by all members of the Quality Assurance Team. At all times the members of QA reviewer team will demonstrate:

- Professionalism, by having sufficient knowledge and application of International Standards of Supreme Audit Institutions (ISSAIs) on financial audit or performance audit or compliance audit;
- Ethical conduct and behaviour, through the demonstration of integrity, confidentiality and professional behaviour;
- Fair presentation, through the obligation to report truthfully and accurately;
- Due professional care, through the application of diligence and fair judgement in conducting the QA review;
- Independence, by being independent of the audit team and free from bias and conflict of interest;
- Objectivity, by having an objective state of mind and ensuring that the findings and conclusions are based only on the evidence; and
- Evidence-based approach, through the development of QA review evidence that is verifiable and based on samples of audit files selected for review.

Chapter 5 - QUALITY ASSURANCE REVIEW PROCESS

5.1 THE QUALITY ASSURANCE REVIEW PROCESS AT INSTITUTIONAL LEVEL

The focus of a review at the institutional level is not just on audit issues but on the institution. It is therefore recommended that personnel with managerial skills and experience in areas like human resources and adequate understanding of the accountability processes and relationships in the public sector should be used to carry out reviews at institutional level.

¹⁰ ISQC 2

The staff who carry out institutional level reviews should have a good knowledge and understanding of ISSAIs especially the levels 1 and 2 and which are:

- INTOSAI-P 1 – The Lima Declaration
- INTOSAI-P 10 – Mexico Declaration on SAI Independence
- INTOSAI-P 20 – Transparency and Accountability
- ISSAI 130 – Code of Ethics
- ISSAI 140 – Quality Control for SAIs

Before starting on the review, the reviewers need to understand the quality control system of their SAI. During this process, they should gather background information which would be used to come up with the review plan.

The need for quality assurance at the institutional level is to ensure that the quality control systems put in place for all functionalities including its core function of auditing provide for quality both about its output as well as to the organisation. The quality assurance at the institutional level should encompass the review of the elements on quality control systems as mentioned in ISSAI 40.

5.1.2 CONDUCTING THE INSTITUTIONAL LEVEL REVIEW

The main techniques to be used by the review team will be interviews and examinations of documented policies and procedures. The team should note that different levels of staff should be interviewed and not just the Head of SAI. During a review at institutional level the reviewers should interview the line function management at different levels in the SAI and staff in research and development, training, quality assurance, governance and human resources. The team should among other things perform reviews on the policies and procedures of the SAI.

As explained in Chapter 3, the basis for the establishment of the quality control system is ISSAI 140 which provides for the standards on quality control systems and based on the principles adapted as necessary by the SAIs. The review of each element within the Quality Control System will provide the SAIs with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequately designed and are being effectively implemented. The Quality Assurance review should, therefore, be conducted for each element, i.e:

- 1) Leadership Responsibilities for quality within the SAI;
- 2) Relevant Ethical Requirements;
- 3) Acceptance and continuance;
- 4) Human Resources;
- 5) Performance of Audits and other Works; and
- 6) Monitoring, for providing assurance at an institutional level.

5.1.3 THE INSTITUTIONAL REVIEW CHECKLIST

The QAR team should use the Institutional Review checklist which is at Appendix 7 for the Institutional Level reviews. By using the checklist, the review team will be able to determine whether the SAI's processes and procedures adhere to the requirements of standards and are in accordance with the institutional perspective framework.

Apart from the questionnaire, other data gathering techniques include interviews, focus groups, examination of documented policies, procedures, and physical observations. The team should note that data and information should be gathered from different levels of staff across functional units, and not just the Head of SAI or a few functional units. This is important to ensure data quality and to understand different perspectives on the same issues.

5.2 THE QUALITY ASSURANCE REVIEW PROCESS AT THE AUDIT ENGAGEMENT LEVEL

Individual level QARs are carried out on individual audits to assess the adequacy of the audit in keeping with ISSAI and the SAI's audit manual, policies, and procedures. QARs at individual level can be carried out pre-issuance or post-audit.

5.2.1 FINANCIAL AUDITS

"The purpose of an audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework." (ISSAI 200:16)

"In conducting an audit of financial statements, the overall objectives of the auditor are: a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and b) To report on the financial statements, and communicate the results of the audit, in accordance with the auditor's findings." (ISSAI 200:17)

5.2.2 COMPLIANCE AUDITS

"The objective of compliance auditing is to enable the SAI to address whether the activities of public sector entities are in accordance with applicable authorities governing those entities". (ISSAI 400:13).

"Compliance auditing is the independent assessment of whether a subject matter is in compliance with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities which govern the audited entity." (ISSAI 400:12).

“Compliance auditing may encompass the assessment both of compliance with formal criteria of regularity and/or with the general principles of sound public sector financial management and conduct of public sector officials of propriety. While regularity is the main focus of compliance auditing, propriety may be pertinent due to the public-sector context where expectations concerning sound financial management and the conduct of public sector officials also exist”. (ISSAI 400:13).

“Applicable “authorities include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed upon terms or general principles of sound public sector financial management and conduct of public sector officials”. (ISSAI 400:29).

5.2.3 PERFORMANCE AUDITS

“Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is a room for improvement” (ISSAI 300:9). This is achieved by examining performance against suitable criteria, and by analysing causes of deviations from criteria or problems. The aim of performance audit is to answer key audit questions and to provide recommendations for improvement.” (ISSAI 100:22).

The recommendations together with the full text of the audit report aims at contributing to significant improvement of the conduct of government operations and programmes, by leading to changes such as lowering costs; simplifying administration; enhancing the quality and quantity of services; or improving effectiveness, impact or the benefits to society (ISSAI 300:40).

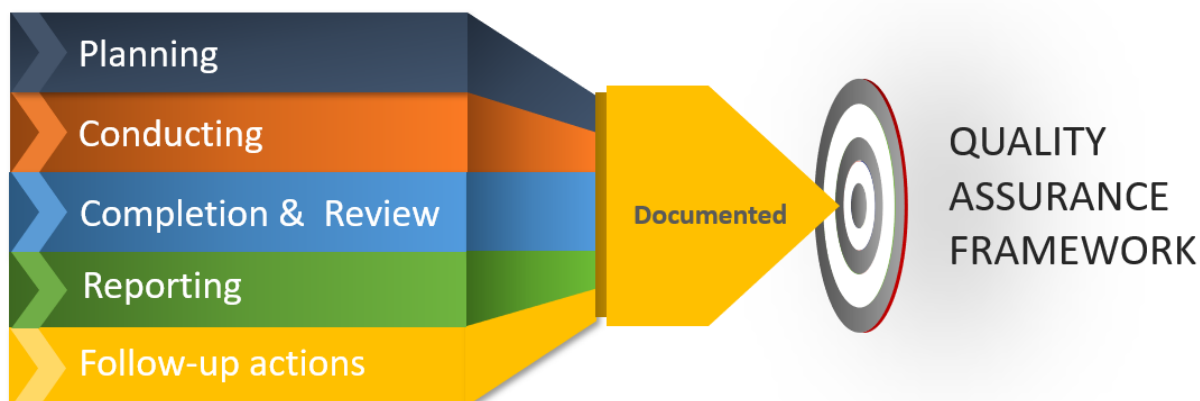
5.2.4 FOR ALL QUALITY ASSURANCE REVIEWS

The quality assurance review process should duly incorporate approaches that will provide assurances that quality control measures put against these core functions are adequate and serve their intended purposes. The processes and methodologies are the same for all types of audits, except for the QA tools that have been developed by IDI separately.

5.3 QUALITY ASSURANCE REVIEW PROCESS

The diagram below suggests the overall process of conducting the QA review at the audit engagement level. The review is to be conducted by a team independent of audit engagement team, who will provide objective findings and conclusions as to whether the audit process has been followed, and that the audit has been conducted in accordance with ISSAIs. The SAI management is required to take corrective action, based on the findings and recommendations of the QA review.

Quality Assurance Review Process



5.3.1 PLANNING THE QUALITY ASSURANCE REVIEW

This initial step provides the reviewer inputs to be able to define the QAR objective and scope, identify the key areas for QAR at the SAI level or select appropriate audits for QAR at the Financial Audit or Compliance or Performance Audit level, decide methodology and define roles and responsibilities of the QAR team.

Define the objective of the QA review: The QA team should define the objective of the QA review. Generally, the overall objective of QA review at the engagement level is to ascertain whether an audit engagement has met all requirements of ISSAIs relevant to the audit. Besides, the team may also set other sub-objectives such as ascertaining; the quality of the audit work documented by the engagement team, the systematic documentation of audit process being followed, the quality of referencing done for each audit work, etc.

Overall strategy for QA review: The QA team may determine the overall strategy to facilitate in conducting the QA review effectively and efficiently. The strategy may include matters dealing with institutional level issues, QA team management, the levels of review within the QA team, areas of focus, duration of the review, communication with the Head of the SAI and the engagement team, etc. This can be documented in the QA review plan, which can be updated on a continuous basis.

Scope, timeline and approach of the review: The scope of the review may be influenced by the objective of the QA review. The scope of the review should include the TOR for the review. The extent of review should also be included in the scope as to whether the review is only to ascertain the compliance to requirements of ISSAIs, or ascertaining the overall quality of audit work performed and documented by the audit engagement team.

Establishing an understanding of audit engagement: The QA review team should establish an understanding of the audit engagement on which the QA review is planned. The audit of complex entities or objects entails performing detailed audit procedures at audit engagement level, which in turn would require QA team to allocate adequate time for the review. The complexities of audit engagement should also be considered while preparing the overall strategy for QA review.

Establishing an understanding of audit methodology: The QA reviewer should be conversant with the audit methodology used for conducting the audit. The QA team can gather understanding of SAI's audit methodology at the planning stage, and document accordingly. This will also form the basis of designing the specific and general QA review procedures.

QA Review methodology: At the planning stage, the QA team needs to determine the methodology for review. The methodology may, among others, include review of audit files and, interview of audit engagement team including the audit supervisor. The information and documents to be gathered for QA review will depend on the QA methodology.

Designing QA review procedures: While the specific QA review procedures are expected to be included within the QA tool in the form of checklist, the general procedures can be designed to review the overall quality of the audit work planned and performed by the audit engagement team. An illustration on general procedures is given in Appendix 8.

5.3.2 CONDUCTING THE QUALITY ASSURANCE REVIEW

The second phase of the QA review at the engagement level is conducting the QA review. In this phase the review team can use the Quality Assurance (QA) tool for different types of audits and other relevant work programmes detailing the specific methods and checklists in obtaining evidence to support the findings and observations. In other words, the review team will perform the QA review procedures designed at the planning phase, and gather evidence which will form the basis for conclusions and recommendations at a later stage. Conducting the QA review involves the following activities:

Application of QA tool: The IDI has developed QA tools for three types of audit (compliance, financial and performance audit) to assist in conducting the QA review at the audit engagement level. The tools are developed based on ISSAIs on these three types of audit, and three handbooks in these respective streams of audit suggesting methodologies for conducting the ISSAI based audit. The tools contain the QA checklists, which are specific procedures to apply on audit engagement file to ascertain whether the requirements of ISSAIs have been complied. The checklist can be modified and customised to the need of the SAI, and an audit engagement. The status of compliance to requirements of ISSAIs can be

recorded within the fields provided in the tool. The step-by-step guidance on how to use the tool is provided separately in the respective tools for compliance, financial, and performance audit.

Performing General Procedures for QA review: The performing of specific procedures provided in the form of QA checklist will confirm the compliance to relevant requirements of ISSAIs in an audit. The QA review should also consider the overall quality of the audit as to whether the documentation of audit work was done appropriately, the working paper referencing is done properly and easy to follow, etc. In this regard, the QA review team also needs to perform the general procedures as suggested in Appendix 8 and record the conclusion accordingly.

Gather Evidence of QA review: There are several methods that can be used to gather information for evidence during the quality assurance review process. The most common of these are: interviews, reviews of documents, physical observations, use of focus groups/discussion groups (often including stakeholders) and surveys.

- **An interview** is a data and information collection procedure in the form of a carefully planned set of questions. Thus, a set of key questions that may not have been included in the QA tool may be framed in advance for this purpose.
- **Document review** is the process of gathering information from various types of documents relevant to the different elements and sub elements of the SAI's management system. This can be obtained through establishing contact with a coordinator at the SAI well ahead of time, provide a comprehensive list of documents required, agree on a date with the coordinator by which the documents would be made available; compare documents received with documents requested and organise the material in such a way that it is available to all members of the review team.
- **Physical observation** is a visual process made by the QAR team to record what they see using a checklist sheet made on ongoing activities, processes or discussions of physical surroundings/environment, infrastructure, technology and support services. This might also give the insight of the behaviours of SAI's personnel for the processes or activities offered at that time and assess whether these follow official requirements.
- **Focus group** is a process of discussion on a given concern with a group of people managed by a facilitator. It involves the use of a sequence of key questions and can be a powerful technique for gathering information on the SAI's functions, challenges and strategies. Ensure that the focus group meetings are held for different

categories of staff and management across functional units. It is advisable not to mix people from different hierarchy in the same group. The facilitator needs to have good facilitation skills, which is one of the key critical factors for the success of focus group discussions.

- **A survey** is a data collection technique, mainly using a questionnaire, prepared and sent to a specific group of stakeholders. The analysis of the answers is made by the reviewer.

Monitor the quality of review: Ideally the review team would consist of a team leader and team members. The work done by the team members should be reviewed by the team leader, and should be documented accordingly. Within the given QA function at the SAI, the Head of the Division may also assume the role of monitoring the quality of the review.

5.3.3 COMPLETION AND REVIEW

The third phase of the QA review process is the completion and review. All information gathered and observations made must be recorded carefully, to support the evidence on conclusions drawn by the reviewers. Preferably, the information obtained through performing of review procedures such as using the checklist or from the quality assurance (QA) tool should be summarised and record comments against each question, to be able to formulate an overall conclusion. At this phase the QA team evaluates and validates the findings. The completion and review stage of the QA involves the following activities:

Evaluate QA review findings: After gathering the evidence, the reviewer is required to undertake an analysis of information. Most of the information gathered using techniques such as document review, interviews and focus groups are likely to contain qualitative data that requires analysis and classification, and thus the reviewer may require thorough analytical skills to analyse information to construct meaningful findings and recommendations.

The findings recorded by the review team must be evaluated against evidence gathered as to its sufficiency and appropriateness. The information obtained from the application of QA tool and performing of general procedures will generally form the evidence for findings.

Discuss findings with the audit engagement team: While the review team is expected to engage in continuous discussion with the audit engagement team throughout the process of QA review, the draft findings of the review must be discussed with the team before finalisation and issuance of the report. This provides an opportunity for the team to explain further and produce documents on the observations raised by the team. The QA team can also maintain a QA Event Diary to record discussion held with the team during the review, and to record other matters relevant to the review being performed.

Draw conclusion and make recommendations: Upon evaluating the findings, and assessing the sufficiency and appropriateness of evidence, the QA team needs to draw a conclusion, and propose recommendations for those areas where there is a need for improvement or requires corrective action. The recommendations may cover areas both at the institutional level and audit engagement level, and the external factors that may have affected the quality of the audit. The reviewer needs to take due care since these findings and recommendations might not only influence the audit, but also serve as finding gaps in the SAI's management system, identify factors contributing to those gaps and suggest measures for addressing those gaps.

The recommendations proposed in the report should be specific, measurable, attainable, realistic, and can be implemented within a given time frame. They should also be made to a specific addressee. Having these characteristics in the report would ease the follow-up at a later stage in the QA review process.

5.3.4 REPORTING ON THE RESULTS OF THE QUALITY ASSURANCE REVIEW

After the findings on QA review have been evaluated, and discussed with the engagement team, the QA review team prepares the QA report. The reporting phase is an important element of QA review through which the results of the QA review are communicated to either the Head of SAI or other appropriate authorities within the SAI. The reporting phase of the QA review involves the following activities:

Discuss preliminary QA review findings with the management: The QA review team having completed the review, and evaluated the findings, the team should hold discussions with management to ensure that the findings are clearly understood and accurate. The discussions of the findings could be in a written format or a face-to-face meeting. However, whichever the format is used, the team should prepare discussion points based on the findings and document the explanations/responses provided to the team.

Prepare a draft report on the overall review results: After the discussion with management, the team should:

- Re-evaluate the findings against the explanations/responses given;
- Conduct further investigation based on additional evidence presented especially for those significant matters on which there were differing opinions;
- Discuss and agree on the findings;
- Agree on the amendments to be made to the draft report including additional findings to be included in the report to be submitted to the Head of SAI; and
- Discuss the recommendations and the implementation timeline.

Exit Meeting: The draft QA review report which forms the basis for the final report should be discussed at a meeting with the Head of SAI and/or with senior management in accordance with their defined roles and responsibilities. The discussion of the draft report will alert senior management to the contents of the final report. The team should use the feedback /responses received to finalise the final report.

After the discussions of the draft report with senior management, the QA review team may have further review work to do especially on contentious issues. Senior management may have a different view or may provide additional information the team did not have before.



Action plan: Senior management's response to the draft report should include an action plan to implement the recommendations provided in the report. Although action plans are usually prepared after receiving the final report, they can also be prepared during the exit meeting and incorporated in the final report. Senior management would be required to prioritise which recommendations to implement first. Some factors that may be considered in prioritising recommendations for implementation are:

- Impact of the recommendation on the SAI;
 - positive impacts in implementing the recommendation; and
 - negative impacts on not implementing the recommendation
- Seriousness of the deficiency and need for immediate action;
- Applicability of recommendation given the circumstances e.g. SAI mandate, government policy or country's development stage (e.g. the use of auditing software if no IT infrastructure in place); and
- Availability of resources.
- A good action plan should:
 - Have a description of specific detailed actions management intends to take;
 - Include deadlines for implementation; and
 - Include the assignment of responsibility.

Writing the QA report: A good QA review report should be:

- clear and understandable - there should be no ambiguous statements that could lead to misinterpretation;
- concise - the report should not be longer than it needs to be, without unnecessary information

- readable - the report should not include overly technical language or elaborate language as these may distract the reader from the main objective of the report;
- reader friendly the reader of the report should be able to follow the logical flow of the report from the objective to the overall conclusion.
- balanced - consider the positive and negative findings as stated below:

 <p>Positive findings</p> <p>Identification of good practices, and instances where SAI's system of quality control is designed and implemented in a way that meets the requirements of ISSAI 40, ISSAIs applicable at audit engagement level, SAI Policies and any other related standards or regulations.</p>	 <p>Negative findings</p> <p>Identification of instances of non-compliance to requirements of ISSAI 40, ISSAIs applicable at audit engagement level, SAI Policies and any other related standards or regulations.</p> <p><i>All material negative observations should be reported precisely by stating the nature and extent of the findings, stating the facts that the reviewer observed.</i></p>
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Issuance of QA Report: The final report of each QA review should be signed by the QA review manager/supervisor (depends on SAI QA function) and should be addressed to the Head of SAI. The Head of SAI may require quarterly or half yearly reporting so that they can monitor progress against the QA review unit's operational plan. This is also good management practice. This will allow for serious matters relating to the breakdown of quality controls in the SAI's current practice to be brought to their attention for timely remedial action.

A QA review Reporting Template is suggested at Appendix 9.

5.3.5 FOLLOW UP OF QUALITY ASSURANCE REVIEW RECOMMENDATIONS

The follow-up mechanism is yet another important element within the QA review process to ensure the action plan proposed by the SAI management or the Head of the SAI to continuously improve the quality has been implemented. The follow-up can be commenced after a time frame as specified in the policy of the SAI after issuance of the report (*may be quarterly, half-yearly or annually*). Follow-up actions are carried out by the QA review team to ensure that the agreed action plan has been implemented or adequate steps are being taken to implement.

The SAI's QA review policy should stipulate the timeframe for management to report on their progress with the implementation of the corrective actions. The QA review team should perform follow-up tests to confirm the effectiveness of the corrective actions.

The follow-up activity should be done in accordance with the SAI's QA review policy and should consider:

- If the proposed actions have been implemented;
- If the actions taken correct the underlying deficiency that leads to the original finding or observation;
- If actions have not been implemented as planned, the QA review team should determine the rationale behind the inaction. The follow-up report status should be submitted to the Head of the SAI for further actions if required. Further actions may include, but not restricted to, the following:
 - Seeking further explanations from those responsible for implementing the actions;
 - Cautioning those who are behind in meeting the deadlines for implementation;
 - Identifying alternate options and discussing with management their applicability and practicality; or
 - Re-prioritising and discarding those proposed plans of action which cannot be implemented.

Chapter 6 - QUALITY ASSURANCE TOOL (AUDIT ENGAGEMENT LEVEL)

6.1. PURPOSE OF THE QUALITY ASSURANCE TOOLS

While the ISSAI Compliance Assessment Tool (iCAT)¹¹ has been revised to be made available to the users as a needs assessment tool in implementing the ISSAIs, it has been, at the same time, been repositioned as the QA tool at the IDI. Based on three types of audit as defined in ISSAI 100, the IDI has developed three QA tools on Financial, Performance, and Compliance Audit.

The QA tools are regarded as a review and assessment product that has been specifically tailored to assist the quality assurance reviewers to conduct the QA review of three types of audits conducted by the SAIs. The focus of the QA tools is to produce a linkage between the

¹¹ <https://www.idi.no/elibrary/professional-sais/icats/icats-english/1117-200227-idi-fa-icat-v1-english-It-revision>

audit process and the ISSAIs to review whether the ISSAI’s have been implemented in the audit process to promote reliable, relevant and credible audits.

These tools will assist the QA reviewer to review the audit conducted in accordance with the ISSAIs, and the basis to conclude to what extent an audit has met the requirements of ISSAIs, and recommend the measures for further improvement.

The SAIs can adapt and modify the tools based on their ISSAI based audit methodology.

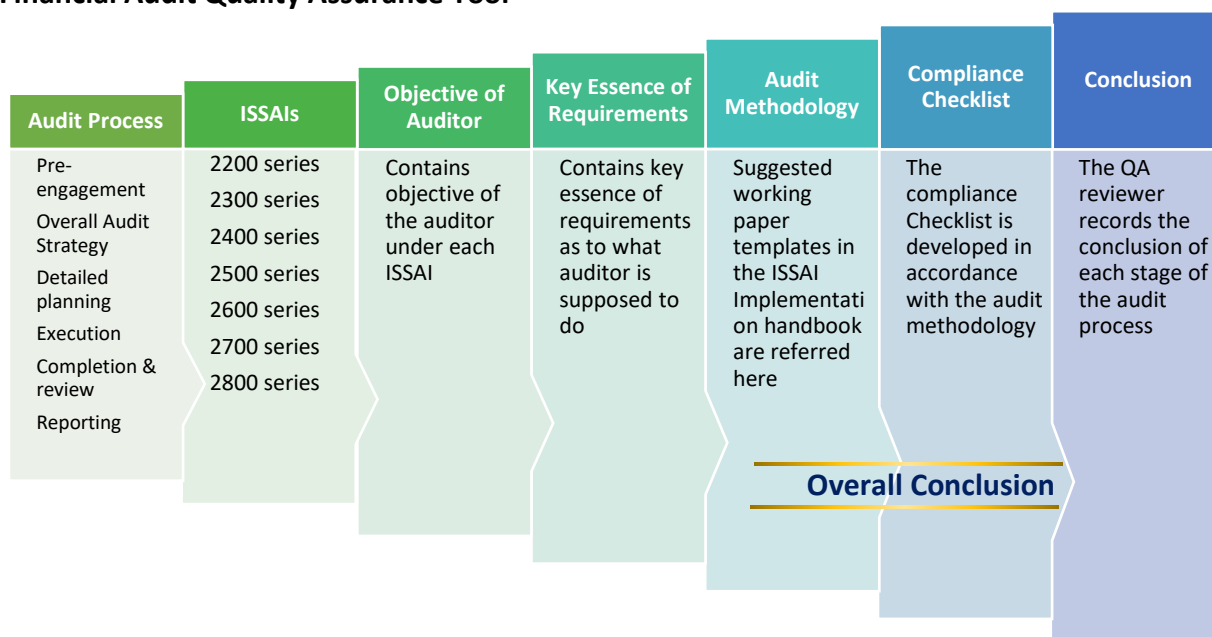
6.2. BASIS OF DEVELOPING THE QUALITY ASSURANCE REVIEW TOOLS

The QA tools were developed based on the ISSAIs and IDI’s ISSAI Implementation handbooks related to three types of audit. The QA tools thus consider all ISSAIs and audit working paper templates suggested in the ISSAI Implementation Handbooks of financial, performance, and compliance audits.

6.3. ABOUT THE FINANCIAL AUDIT QUALITY ASSURANCE TOOL

Considering the structure of financial audit ISSAIs, the following approach has been followed to develop the QA tool:

Financial Audit Quality Assurance Tool



6.3.1 AUDIT PROCESS

The tool reflects the entire audit process from pre-engagement to reporting. To claim that the audit was conducted in accordance with ISSAIs, the auditors should have followed the audit process as per ISSAI requirements and documented it accordingly in the audit files which provides the evidence of compliance with all the requirements that are relevant to an audit.

By incorporating ISSAI requirements in the QA tools, it enables the QA reviewer to see that the auditor has followed the audit process accordingly in conducting the audit.

6.3.2 ISSAI NUMBERS AND NAME OF ISSAIs

The tool includes ISSAI numbers and name of ISSAIs, and these are accordingly linked to each stage of the audit process. This ensures that all ISSAIs are included in the audit (the new IFPP needs to be consulted since the renumbering of ISSAIs is in under progress).

6.3.3 OBJECTIVE OF THE AUDITOR

The objective of the auditor reflected under each ISSAI is included in this tool as they clearly specify what the auditor is supposed to do, and they are again linked to each stage of the audit process. It provides the basis to synthesise key essence of the requirements from ISSAIs suggesting checklist to check the compliance to those requirements in an audit.

6.3.4 KEY ESSENCE OF THE REQUIREMENTS

The objective of the auditor under each ISSAI defines the requirements to be met in an audit of financial statements. The key essence of the requirements that addresses the objective of the auditor are included in the tool to guide the FA QA reviewer that those requirements were met in the audit. A number of requirements under each ISSAI are summarised and written as key essence of the requirements.

6.3.5 AUDIT METHODOLOGY

The auditing standards (ISSAIs) prescribe what needs to be done in an audit. The audit methodology on the other hand, guides the auditor how the audit can be conducted in accordance with the requirements of the standards. The audit methodologies suggested in the IDI's ISSAI Implementation handbooks are referred and included (the audit working papers).

6.3.6 COMPLIANCE CHECKLIST

The tool includes a suggested compliance checklist. Once the strategies, policies, procedures and audit methodology are developed and aligned with the requirements of ISSAIs, the SAI management/auditor is supposed to conduct the audits in accordance with the SAI strategy, policy guidance and audit methodology. This will guide the QA reviewer to review and verify that line managers and auditors have followed the ISSAI based audit methodology and the quality control process has been followed in an audit.

6.3.7 CONCLUSION

The tool provides the field for recording the conclusion of the QA review of an audit. The completion of the QA checklist provides the basis to record the conclusion of the QA review.

6.4. ABOUT THE COMPLIANCE AUDIT QUALITY ASSURANCE TOOL

The compliance audit quality assurance tool is explained below:

6.4.1 *AUDIT PROCESS*

The tool covers the audit process from planning to reporting including the requirements related to compliance audit discipline level. All ISSAI requirements are included in the tool.

6.4.2 *ISSAI REQUIREMENTS*

The tool includes requirement of ISSAI 4000 which are divided in six sections, and these are accordingly linked to each stage of the audit process. This ensures that all ISSAIs are included in the audit. Each requirement has three parts under it to help assessment:

- First part describes the related questions to ask to check the compliance with the requirements.
- Second part provides guidance on the requirement to assist the evaluator on the key concepts of the requirement.
- Third part gives the option to the evaluator to add a narrative description on the overall conclusion on the requirement against the audit and suggestions on how to improve the status.

6.4.3 *CONCLUSION*

At the end of each of the six sections, an option is provided to the evaluator to add a narrative on the overall status of the particular section, by combining the results of the status of all requirements of the section. Based on the section narrative, at the very end of the tool, an overall assessment on the evaluation can be made by the evaluator for the audit.

6.5. ABOUT THE PERFORMANCE AUDIT QUALITY ASSURANCE TOOL

The performance audit quality assurance tool is explained below:

6.5.1 *AUDIT PROCESS*

The tool covers the audit process from planning to follow-up, including the requirements related to performance audit discipline level. All requirements from ISSAI 3000 are included in the tool.

6.5.2 *ISSAI REQUIREMENTS*

The tool is divided in two sections. Part I contains the general requirements for performance audit under 5 sub-parts and part II has the requirements linked to performance audit process (planning, conducting, reporting and follow-up). In the tool, each requirement has three parts under it to help assessment:

- The status of compliance – This can be filled with four options: comply/ partially comply/ do not comply/ not applicable.

- Justification of assessment – Reasons and explanations for the given status.
- Areas of improvement – Suggestions on how to improve the situation when the status are ‘partially comply’ or ‘do not comply.’

6.5.3 CONCLUSION

At the end of each of each sub-part, an option is provided to the evaluator to add a narrative on the overall status of the particular section, by combining the results of the status of all requirements of the section. Based on the section narrative, at the very end of the tool, an overall assessment on the evaluation can be made by the evaluator for the audit.

6.6. HOW TO USE QUALITY ASSURANCE TOOLS

To achieve the desired results of using the QA tools, it is important that the QA reviewers use the tool in a correct manner. Step-by-step guidance for using the tool is provided within the respective tools of the three types of audit.

Chapter 7 - QUALITY ASSURANCE OF OUTSOURCED AUDITS

7.1. INTRODUCTION

In some SAIs, outsourcing¹² is considered to complement their capacity. Although the contracted firms may have their own QA systems, the final responsibility for the quality of the audit remains with the SAI. The SAI will still need to review the audit to ensure that the audits meet its quality standard.

The SAI may not have the capacity for pre-issuance reviews on audits that are contracted out. However, the audits must be considered for QARs by the SAI.

A major risk factor that should be considered in outsourcing audits is the independence of the audit firm. Possible conflicts of interest may arise if the firm also renders other services such as accounting, internal auditing, and consulting to the auditee. In tendering for audit services, the SAI should request audit firms in the invitation to tender to declare any interest in the entity to be audited. It is good practice to compile a list of audit firms that can conduct work on behalf of the SAI and document the capacity of the firms, including any services that the firms offer to auditees.

The SAI may nominate an internal audit co-ordinator with suitable skills and experience. Additional training on how to manage outsourced audits in terms of evaluation of work done, liaising, and overseeing the audit should be provided to the audit co-ordinator.

¹² The use of private sector accounting firms to carry out audits on behalf of the SAI.

The SAI should communicate in writing its requirements to the audit firm before the start of the assignment. All relevant documents relating to audit approach, guidelines, QA policy, and QC Manual should be made available to the firm. If the firm is not willing to accept the requirements, the SAI should consider awarding the contract to another firm.

It is also good practice to bring the contracted firms together from time to time to inform them on new developments in the SAI and address issues for improvements noted from previous work done. Organising orientation programmes, giving an overview of the SAI's vision, mission, core values, audit methodologies and techniques, policies, and procedures, should be facilitated through contractual agreements between the SAI and the audit firm. The contract should be carefully examined for legal implications to protect the interest of the SAI.

7.2. CHECKLIST FOR OUTSOURCED AUDITS

A checklist has been provided at Appendix 10 for measuring the quality of contracted out audits.

Chapter 8 - QUALITY ASSURANCE OF AUDITS IN AN IT ENVIRONMENT

8.1. QUALITY ASSURANCE OF AUDITS IN AN IT ENVIRONMENT

The rapid advances in IT have generated tremendous benefits to SAIs. One such benefit is the automation of auditing tools. Increasing numbers of SAIs in the PASAI region already have implemented, or will implement, audit automation software. The audit profession will continue to adapt and evolve in response to the needs for assurance of information security both in existing traditional information systems and in emerging internet-enabled services.

Technically, there is no difference between the review of paper-based working paper files and those in electronic format. However, there are a number of important factors that QA reviewers should consider when carrying out QARs of working papers in electronic format. The QA reviewers should be familiar with the specific electronic working paper system; otherwise, they should be trained before they start the review.

Very often there are no audit trails of the changes made to the electronic working papers if they have been overwritten. Therefore, it is important for the reviewer to review the controls in this regard. SAIs must recognise the need for increased assurances regarding critical data and information systems security in an IT dominated environment. The sufficiency of evidence in a regularity or performance audit now frequently requires consideration of IT controls over data reliability and integrity.

QA reviewers should ensure that there is proper version control over the electronic working paper files and that the latest copy has been submitted for review. The QAR team should not accept the electronic working paper files if no back-up is maintained.

Chapter 9 - PEER REVIEW

9.1. INTRODUCTION

A peer review is performed by an independent (normally external) to report on whether a SAI's quality control system is suitably designed and operating effectively and that they comply with applicable professional standards and national regulations and rules governing audit work¹³.

9.2. KEY OBJECTIVES OF A PEER REVIEW

The main objectives of a peer review are:

- to help a SAI to identify the areas and functions in which they need to enhance their capacities;
- to help a SAI make informed decisions about how to improve their own operation and mission performance and to align with or consider other international best practices;
- to provide SAIs with an independent opinion on the design and operation of the SAI's quality management framework; and
- to provide assurance as to the appropriateness of SAI practices, reports and staff compliance

The objectives sought by carrying out a peer review should be clearly documented and formally agreed in writing by the participating SAIs before the decision to embark on a peer review is taken.

9.3. SELECTION OF PARTNER SAIS

As a rule, a SAI wishing to have their organisational structure or procedures reviewed as part of a peer review can contact:

- (i) PASAI Secretariat; or
- (ii) A Professional Accounting Organisation of a country; or

¹³ GUID 1900 - Peer Review Guidelines. Also refer link <https://www.intosaicbc.org/wp-content/uploads/2021/01/GUID-1900-Peer-Review-Guidelines.pdf>

- (iii) A private accounting firm; or
- (iv) Another SAI.

The initial stage would be for the SAI to be reviewed to contact either of the above organisations to invite them to an informal meeting before a decision is made to accept the Peer Review to be carried out. The initial contact may be accompanied by basic information about the potentially reviewed SAI, such as legal bases, audit standards, etc.

Even before contacting the potential reviewing organisation for the first time, the potentially reviewed SAI should duly consider if the reviewing organisation is the adequate partner for the peer review proposed i.e. if there is reasonable assurance that the potentially reviewing organisation can actually accomplish the objectives set. For this reason, it may be useful to consider well in advance if the reviewing organisation:

- possesses sufficient quantitative and qualitative resources for conducting the peer review proposed;
- has the flexibility to understand and contribute to reviews of SAIs with a dissimilar organisational structure;
- has the flexibility to understand the legal, political, economic, budgetary and social environment of the reviewed SAI;
- is known for having relevant expertise and experience in the fields to be covered by the peer review; and
- has experience in the field of quality control reviews.

If there is more than one reviewing organisation, a team leader should be chosen. Usually, the reviewed SAI chooses the team leader, but it can also leave the decision to the team.

Having a broadly-based team undertake the review might be of particular benefit. In this way different experiences and perspectives can all be brought to bear in undertaking the review.

A sound and broad composition of the peer review team can lead to a diversity of views and perspectives and allow for relevant recommendations. Nevertheless, there is a risk that traditional models and theories do not consider customer needs and expectations. An innovative approach, however, might cause reservations by the reviewed SAI who may not accept it. Therefore, the peer review team should act with integrity and have a constructive approach aimed at considering customer needs and expectations and at identifying better solutions. Their conclusions should be supported by sufficient and accurate evidence.

9.4. PEER REVIEW AGREEMENT (MOU)

Once the reviewed and the reviewing SAIs have reached a basic agreement on conducting a peer review, the scope, objective, timing and criteria of the peer review proposed as well as the conditions to be met in order to help make the review a success can be incorporated into a written agreement, e.g. in the form of a Memorandum of Understanding (MoU). This exercise is meant to ensure mutual consent on the fundamental aspects of the review and to avoid any potential misunderstanding.

The SAIs involved should decide and agree on the matters to be covered in the MoU and this should be before initiating the project. When preparing the MoU, they should take care not to limit the review team's scope to conduct the work necessary to accomplish the objectives of the review. The MoU is usually signed by the Heads or authorised representatives of the reviewing and the reviewed SAIs. In preparing an MoU the peer review guide issued by INTOSAI should be taken into account¹⁴.

9.5. REQUIREMENTS FOR PEER REVIEW

For the peer to be eligible to review, the following requirements need to be met:

- each member of the review team should have good knowledge of auditing standards, the government environment relative to the work being reviewed, and the methods and techniques of performing a peer review;
- the review team should be independent of the audit organisation reviewed, its staff and the audits selected for peer review; and
- separate terms of reference need to be drawn up for each of the areas to be reviewed, and the scope of review should be clearly defined.

9.6. CONDUCTING PEER REVIEW

The peer review team will develop a plan and programme for conducting the work. The SAI will provide the review team with all necessary documentation, manuals, policy instructions, and guidelines. The peer review should be based on the SAI's audit documentation and interviews of the SAI's staff members. The peer reviewers will not interview staff of the organisations that the SAI audits, or have access to their records. In addition, they will not interview or survey readers of the SAI reports, including legislators.

¹⁴ GUID 1900 - Peer Review Guidelines. Also refer link <https://www.intosaicbc.org/wp-content/uploads/2021/01/GUID-1900-Peer-Review-Guidelines.pdf>

The peer review team will also rely on internal quality assurance review and internal audit reports to reduce the scope of its work. The peer review team will treat the inspection report and its findings as part of the evidence for reaching its opinion. The peer review team leader will provide a briefing for SAI top management before issuing the report. The briefing will allow for discussion and suggestions to improve the SAI's quality control system and procedures.

A peer review checklist developed by the INTOSAI Capacity Building Committee can be found at Appendix 11, but only parts 2 and 4 are relevant for Quality Assurance Reviews.

9.7. REPORTING THE RESULTS OF THE PEER REVIEW

The review team should communicate the results of the peer review in writing. The report should indicate the scope of the review, including limitations. It should express an opinion on the organisation's system of internal quality control. When there are expressions of opinion on inadequacies of internal control, the review team should report a detailed description of the findings, recommendations and suggestions to improve SAI's quality control system, either in the peer review report or in a separate letter of comment or management letter, to enable the reviewed organisation to take appropriate action. The peer review should identify areas for improvement in the quality of the audit, including planning, evidence gathering, documentation, and reporting, as well as overall performance of the SAI. The peer reviewers will issue their report to the SAI's top management. A senior management functionary of the SAI should be made the point of contact for the peer review, and the contact person will be responsible for disseminating the findings of the peer review within the SAI for appropriate action by the concerned groups and monitoring the progress of implementation of its recommendations.

A periodic report will be placed before the top management of the SAI to this effect.

Appendix 1 - Entity and SAI Competency Matrix for engagement acceptance and performance

(Please see section 3.1.3 of the Guidance)

Name of Entity to be audited	Mandated (Yes/No)	Nature/Type of Entity	Competencies				Gap if any
			Required		Existing		
			Qualification of staff	Experience	Qualification of staff	Experience	

1. **Conclusion:** The SAI has required competencies in terms of professional staff qualification and experience to conduct the audit of mandated entities. If the assessment shows significant gaps in the capacity then the SAI should consider the recruitment and selection process but also taking account of the available budget. Another consideration is to employ consultants or even considering outsourcing the audit. This ensures that the audit will be conducted meeting the standards and of required qualities.

OR

2. Based on the above mapping, certain gaps were observed in terms of required competencies for conducting the audit of number of mandated entities. These gaps will be addressed through various interventions in the short term to achieve the quality of audits.

Appendix 2 - Entities & SAI resource availability mapping

(Please see section 3.1.3 of the Guidance)

Number of entities mandated for audit	Number of auditors	Entities to auditors (Ratio)	Ideal Ratio (Entities to Auditors)	Annual budget allocated for the audit

Conclusion:

1. The SAI has an adequate staff and financial resources for the coverage of mandated audits annually.

OR

2. The SAI does not have adequate staff to carry out the mandate audits annually. At the same time, the SAI is constrained with limited budget cover the staff and other operation costs for conducting the audit on an annual basis.

Appendix 3 - Know Your Entity (KYE)

(Please see section 3.1.3 of the Guidance)

Client: _____

Period: _____

Prepared by:	Date:
Reviewed by:	Date:

KNOW YOUR ENTITY (KYE)

NB: The key issues noted from this document must be recorded in the relevant areas of the audit file and should feed through into the risk assessment, audit approach and fieldwork.

<p>Which members of the client staff and the audit team have been involved in the preplanning process and what are their roles?</p> <p><i>N.B. If the Regulation of Auditor's Checklist noted that there are members of Management with whom matters should be communicated in addition to Those Charged with Governance, there needs to be communication with both Those Charged with Governance, and Management ~ this may, however, be at the same time</i></p>	
<p>How was the communication undertaken and on what date?</p>	
<p>Scope of discussion (add additional points as appropriate) ~ note that all points should be discussed, and key issues highlighted:</p>	
<p>1. Developments in the business of the organisation during the period;</p>	
<p>2. Changes in key personnel, including management and Minister in charge;</p>	
<p>3. Changes or new accounting systems put in place (including internal controls);</p>	
<p>4. New or changes to accounting policies and estimation techniques, including accounting estimates (including those that arise as a result of the first application of a new or revised accounting standard);</p>	

5. New law or regulations applying to the organisation or changes in existing legislation;	
6. Any known instances of non-compliance with law and regulations during the accounting period by the client or service organisation;	
7. Potential areas of significant risk in the business (including whether the client has a risk assessment process, either formal or ad-hoc, and any adverse matters the risk assessment process has identified during the accounting period)	
8. All entities are susceptible to fraud. Document any concerns or knowledge of fraud at the client or service organisation and where these might occur within the business	
9. Communication (if any) to employees regarding views on business practices and ethical behaviour;	
10. Changes in the organisation's objectives;	
11. Changes in service organisations, or services provided by a service organisation;	
12. Media reports of investigations if any.	
13. Type of financial statements to be produced / filed;	
14. Following up how the client has actioned last period's management letter points (if not already done so);	
15. Include any additional matters necessary to discuss with the client: <ul style="list-style-type: none"> ➤ [Matter 1] ➤ [Matter 2] 	

Appendix 4 - Sample Quality Assurance Policy

(Please see section 4.4.2 of the Guidance)

Policy for Quality Assurance Review (QAR) for the SAI [Name of SAI] with effect from [Date]

1. Introduction

Considering the constant need to strengthen the quality of audits and the audit office's quality control practices, the head of SAI has decided to issue a QA policy to comply with the relevant and applicable quality control standards, thereby improving the quality of engagements performed by the SAI.

2. Purpose

To ensure that the QAR process is implemented in line with the SAI's strategic directives.

The different components of QA policy will be implemented using relevant standards and manuals issued by the SAI, in alignment with International Standards. This policy will deal with the formation, roles and responsibilities of the QA team, QA operation, nature, time, and extent of the QAR.

3. Structure and objectives of the QA function

The SAI will have a QA unit to manage the QA function¹⁵. This unit will be responsible for carrying out the QA function in the SAI and will report directly to the head of SAI to ensure its independence. When the QAR unit is formed, a Terms of Reference (TOR) should be prepared to clearly document its roles and responsibilities.

Other responsibilities of the Quality Assurance unit are to:

- prepare an annual QA Operational plan for the SAI level as well as for individual audit engagements, including follow-up;
- select appropriate audits for periodic QA reviews, using the criteria mentioned below;
- recommend the name of staff to the Auditor General to constitute the review teams. Every year, the Auditor General will constitute necessary numbers of review teams. The reviewer should not be the same person who is involved as audit team member (or team leader) on the same assignment (in a situation where there is no permanent team at the QA unit);
- supervise and monitor the review assignments;
- conduct training on QA to the selected personnel of the SAI and create an appropriate awareness;
- amend QA policy, whenever necessary, and communicate the same to the relevant audit division;
- liaise with the Research and Training Division.

¹⁵ Depending on the size of the SAI, it would be difficult to establish a separate QA unit. However, the SAI will have a QA function that can be performed, for example, by a committee.

4. Applicable Standards for QA

ISSAIs and the SAI's policy standards, operational guidelines and other specific guidelines will be applied to conduct the QAR of the SAI's activities.

5. Criteria for selecting audits for QARs

The audits for QAR will be selected considering the following criteria:

- the audit has been classified as high risk;
- parliamentary or media interest in auditees or audit;
- the auditees face problems that may lead to contentious and difficult circumstances and may benefit from pre-issuance review to reduce the Head of SAI's reputational risk;
- significant shortcomings were identified during the audit team's previous review;
- a new area of auditing;
- audit was conducted by private auditing firm in full or jointly with the SAI.

The sample of individual engagements selected for review must be representative of all audits conducted by the SAI.

6. Nature, frequency and scope of QA reviews

[To be defined by the SAI. It is recommended that all audits determined as high risk from the selection criteria will be subject to QA review].

7. Requirement to QA follow-up

Audit teams and departments reviewed should compile action plans on how they are going to correct the shortcomings. These action plans should indicate what, who, where, when and how these are going to be corrected. The action plans should be consulted with the QA unit and approved by head of the SAI or a staff member with the required delegation. The audit teams and the departments should report back on their progress with the implementation of the corrective actions.

The QA unit should perform tests to confirm the effectiveness of the corrective actions. The SAI should also use the results of the QA reviews to determine the training needs of its staff in general and compile training programme to address these issues.

8. Roles and responsibilities of staff in QA

The roles and responsibilities of staff should be included in the policy, such as the need for team leaders to carry out the first stage review and for director level or equivalent to carry out a second stage review prior to an audit opinion is issued. The first stage review is a detailed review of the audit working papers to ensure that the audit work is carried out in accordance with the relevant auditing standards and that the evidence examined supports the audit work. The second stage review is to ensure is normally a selective review of the key documents, namely the audit strategy, risk assessments and whether sufficient audit work was carried out to address the risk, the audit report and the draft audit opinion.

9. Reporting requirements (on the QA function and on reviews of audit engagements)

The primary objective of the review will be to formulate recommendations that address the cause of any shortcoming in quality to ensure that appropriate corrective actions are taken. The findings of the review should be formally communicated through a report in a prescribed format.

The following factors should be considered in concluding the review:

- at the end of the review, the reviewers should prepare an overall summary report;
- the reviewer's report on individual engagements should be discussed with the manager responsible for the reviewed unit and Head of SAI prior to finalisation;
- upon completion of the review, every team should submit a report to the QA unit;
- summarised results and the follow-up recommendations for improvement should be prepared and presented to the Head of SAI.

The report should contain:

- details of timing of the review and the names of review team members;
- a description of the scope of the review (general approach, extent of coverage of the general quality control aspects and the description of individual audit engagement).

The reviewer should highlight other pertinent issues that may be of interest to all other Audit Divisions.

Approved By Date

Appendix 5 - Quality Assurance Review Models and Approaches adopted by some SAIs

(Please see section 4.4.5 of the Guidance)

SAI Fiji:

Quality Assurance Team is established under the Executive Support Team. It reports directly to the Auditor-General. The Quality Assurance provides assurance reports to Auditor-General whether quality requirements performed by Audit Groups has been fulfilled in the audit process. The Quality Assurance Team has a Manager Quality Assurance and Customer Advisory Services, a Senior Quality Assurance Officer, and an Executive Support Officer with appropriate skills, competencies and experience.

SAI Jamaica:

A single office with a mandate to conduct financial audits of all government ministries, departments and agencies, including public bodies and local authorities. In 2015, the SAI created a QA unit. Prior to setting up the function, the SAI's audit practice was reviewed by an external party. The results from the assessment were used as justification in obtaining approval to establish the QA unit. The QA unit currently has a Senior Director and a Director with the appropriate skills, competencies and experience necessary.

AFROSAI-E:

The QA review function of SAIs within the AFROSAI-E is conducted by a team of trained auditors.

SAI Philippines:

A collegiate model, with offices in several locations, created a Quality Assurance Office in 2013 to carry out its QA function.

SAI Portugal:

A jurisdictional model, with two regional offices. The quality of each report is reviewed by a collegiate, including, besides responsible for the engagement, judges that did not participate in the engagement. Also, the Public Prosecutor has a say on those reports evidencing financial liabilities.

Appendix 6 - Declaration to comply with principles of QAR

(Please see section 4.5 of the Guidance)

Name of Audit Engagement:

As a QA reviewer, I will demonstrate the following principles always.

No.	Principles
P01	Maintain professionalism by remaining up to date with the knowledge on International Standards of Supreme Audit Institutions (ISSAIs) and relevant laws, rules and regulations.
P02	Demonstrate ethical conduct through the demonstration of integrity, confidentiality, professional behaviour and free from bias and conflict of interest.
P03	Present fairly through the obligation to report truthfully and accurately.
P04	Exercise due professional care through the application of diligence and fair judgement in conducting the QA review.
P05	Maintain an objective state of mind and ensure the findings and conclusions are based only on the evidence.

Signature
(Name of QA Reviewer)
Team Leader/Member

Dated:

Appendix 7 - Sample questionnaire for QAR at institutional level

(Please see section 5.1.3 of the Guidance)

QUALITY ASSURANCE QUESTIONNAIRE

INSTITUTIONAL LEVEL

SECTION/UNIT/GROUP

MANAGER/DIRECTOR

DATE OF REVIEW

FINDINGS DISCUSSED ON

MANAGER

DATE

REVIEWER

DATE

SAIs are required to establish systems of quality control designed to provide reasonable assurance¹⁶ that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.

¹⁶ ISQC1 and ISSAI 140

No.	Requirement	Commentary	Ref
1.1	Leadership responsibilities for quality control		
1.1.1	<p>What are the policies and procedures to promote an internal culture based on the recognition that quality is essential in performing engagements, and who has ultimate responsibility for the system of quality control?</p> <p><i>An SAI should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all of its work. Such policies and procedures should be set by the Head of the SAI, who retains overall responsibility for the system of quality control.</i></p> <p>[ISQC1 para 18 and element 1 ISSAI 140]</p>		
1.1.2	<p>How do the policies and procedures recognise the overriding requirement to achieve quality?</p> <p><i>This could cover, for example:</i></p> <ul style="list-style-type: none"> • <i>performance evaluation, compensation, promotion and other incentive schemes to demonstrate the overriding commitment to quality;</i> • <i>assigning management responsibilities so that commercial considerations do not override the quality of work performed; and</i> • <i>providing sufficient resources for the development, documentation and support of quality control policies and procedures.</i> <p>[ISQC1 para A5 and element 1 ISSAI 140]</p>		
1.1.3	<p>How does the SAI ensure that the person(s) assigned operational responsibility for the quality control system have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility?</p> <p>[ISQC1 para 19 and element 1 - ISSAI 140]</p>		
1.2	Communication of quality control policies		
1.2.1	<p>How are the quality control policies and procedures communicated to the audit staff and to any party contracted to carry out work for the SAI?</p> <p>[ISQC1 para 17 and element 1 - ISSAI 140]</p>		
1.2.2	<p>Do such communications:</p> <ul style="list-style-type: none"> • describe the quality control policies and procedures and the objectives they are designed to achieve; and • stress that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures? <p>[ISQC1 para A2]</p>		

1.3	Relevant Ethical Requirements		
1.3.1	<p>What are the policies and procedures to provide reasonable assurance that the SAI and its personnel comply with relevant ethical requirements?</p> <p><i>An SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements.</i></p> <p>[ISQC1 para 20 and element 2 - ISSAI 140]</p>		
1.3.2	<p>How do the policies and procedures reinforce the fundamental principles?</p> <p><i>For example:</i></p> <p><i>the leadership of the SAI;</i></p> <p><i>education and training;</i></p> <p><i>monitoring; and</i></p> <p><i>processes for dealing with non-compliance.</i></p> <p>[ISQC1 para A9 and element 2 - ISSAI 140]</p>		
1.3.3	<p>What are the policies and procedures for dealing with and recording incidents which have, or may have, serious consequences for the integrity of the SAI's audit and assurance activities?</p> <p>[ISQC1 2016 para 20D-1 and element 2 - ISSAI 140]</p>		
1.3.4	<p>What are the policies and procedures to provide reasonable assurance that the SAI, its personnel and, where applicable, others subject to independence requirements, maintain independence?</p> <p><i>Such policies and procedures should enable the:</i></p> <ul style="list-style-type: none"> • <i>communication of independence requirements to personnel; and</i> • <i>identification and evaluation of circumstances and relationships that create threats to independence, and taking appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.</i> <p>[ISQC1 para 21 and element 2 - ISSAI 140]</p>		
1.3.5	<p>What are the policies and procedures to prevent, identify, eliminate or manage and disclose any threats to the SAI's independence required by the ISSAI 130 Ethical Standards?</p> <p>[ISQC1 2016 21D-1 and element 2 - ISSAI 140]</p>		
1.3.7	<p>What are the policies and procedures to require:</p>		

	<ul style="list-style-type: none"> • engagement leads to provide the SAI with relevant information about client engagements, including the scope of services, to enable the SAI to evaluate the overall impact, if any, on independence requirements; • personnel to promptly notify the SAI of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and • the accumulation and communication of relevant information to appropriate personnel so that: <ul style="list-style-type: none"> (i) the SAI and its personnel can readily determine whether they satisfy independence requirements; (ii) the SAI can maintain and update its records relating to independence; and (iii) the SAI can take appropriate action regarding identified threats to independence? <p>[ISQC1 para 22 and element 2 - ISSAI 140]</p>		
1.3.8	<p>What are the policies and procedures to provide reasonable assurance that you are notified of breaches of independence requirements (if so, to whom), and to enable appropriate action to be taken to resolve such situations?</p> <p><i>This should include requirements for:</i></p> <ul style="list-style-type: none"> • <i>all who are subject to independence requirements to promptly notify the SAI of independence breaches of which they become aware; and</i> • <i>the SAI to promptly communicate identified breaches of these policies and procedures to:</i> <ul style="list-style-type: none"> <i>(i) the engagement lead who, with the SAI, needs to address the breach; and</i> <i>(ii) other relevant personnel in the SAI and those subject to the independence requirements who need to take appropriate action; and</i> <i>(iii) prompt communication to the SAI, if necessary, by the engagement lead and the other relevant individuals of the actions taken to resolve the matter, so that the SAI can determine whether it should take further action.</i> <p>[ISQC1 para 23 and element 2 - ISSAI 140]</p>		
1.3.9	<p>At least annually, do you obtain written confirmation of compliance with the policies and procedures on independence from all personnel?</p> <p>[ISQC1 para 24 and element 2 - ISSAI 140]</p>		
1.3.10	<p>Are the same confirmation obtained for sub-contracted or agency or temporary staff, or new starts before they undertake any audit work?</p>		

1.3.11	<p>How does the SAI ensure that it satisfies the terms of the appointment regarding the rotation of senior personnel (e.g. engagement lead, engagement QC reviewer and senior manager?)</p> <p>[ISQC1 para 25]</p>		
1.4	Acceptance and continuance of client relationships		
1.4.1	<p>What are the policies and procedures for the acceptance and continuance of client relationships and specific engagements, to provide reasonable assurance that the SAI will only undertake or continue relationships and engagements where it:</p> <ul style="list-style-type: none"> • is competent to perform the engagement and has the capabilities, time and resources to do so; • can comply with ethical requirements; and • has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity? <p><i>An SAI should establish policies and procedures designed to provide the SAI with reasonable assurance that it will only carry out audits and other work where the SAI: a) is competent to perform the work and has the capabilities, including time and resources, to do so; b) can comply with relevant ethical requirements; and c) has considered the integrity of the organisation being audited and has considered how to treat the risk to quality that arises.</i></p> <p>[ISQC1 paras 26 and 27 and element 3 - ISSAI 140]</p>		
1.4.2	<p>What are the policies and procedures to ensure and document that before accepting an engagement whether:</p> <ul style="list-style-type: none"> • the SAI complies with relevant independence and objectivity requirements of the ISSAI 130 Ethical Standard; • there are any threats to the SAI's independence, and the safeguards applied to mitigate those threats; and • the SAI has the competent personnel, time and resources needed in order to carry out an audit in the appropriate manner. <p>[ISQC1 para 27D-1 & 57D-2 and element 3 - ISSAI 140]</p>		
1.4.3	<p>Where information obtained would have caused the SAI to decline an engagement if that information had been available earlier, do the policies and procedures on the continuance of the engagement and the client relationship include consideration of:</p> <ul style="list-style-type: none"> • the professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the SAI to 		

	<p>report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and</p> <ul style="list-style-type: none"> the possibility of withdrawing from the engagement or from both the engagement and the client relationship? <p>[ISQC1 para 28 and element 3 - ISSAI 140]</p>		
1.4.4	<p>What are the policies and procedures to provide the sub-contractor with access to all relevant information concerning the entity, including information concerning the most recent audit?</p> <p>[ISQC1 para 28D-1 and element 3 - ISSAI 140]</p>		
1.5	Human resources		
1.5.1	<p>What are the policies and procedures to provide reasonable assurance that the SAI has sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the SAI or engagement leads to issue reports that are appropriate in the circumstances?</p> <p><i>“The SAI shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to: a) perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and b) enable the SAI to issue reports that are appropriate in the circumstances”.</i></p> <p>[ISQC1 paras 29 and A24 and element 4 - ISSAI 140]</p>		
1.5.2	<p>What are the policies and procedures to:</p> <ul style="list-style-type: none"> ensure that the SAI’s personnel and any other individuals whose services are placed at the SAI’s disposal or under the SAI’s control, and who are directly involved in audit activities, have appropriate knowledge and experience for the duties assigned; and provide sufficient performance incentives to secure audit quality, including provision that the amount of revenue that the SAI derives from providing non-audit services to the audited entity shall not form part of the performance evaluation and remuneration of any person involved in, or able to influence the carrying out of, the audit? <p>[ISQC1 para 29D-1 and element 4 - ISSAI 140]</p>		
1.5.3	<p>What are the policies and procedures to ensure that outsourcing of important audit functions is not undertaken in such a way as to impair the quality of the SAI’s internal quality control and the ability of the competent authority to supervise the SAI’s compliance with professional standards and applicable legal and regulatory requirements?</p>		

	[ISQC1 para 29D-2 and element 4 - ISSAI 140]		
1.5.4	<p>What are the policies and procedures to ensure that staff engaged in audit work are, and remain, technically up to date with general and SAI and requirements, and sector-specific and other specialist requirements?</p> <p><i>For example: Code of Audit Practice; international standards on auditing; technical updates, performance audit methodologies etc.</i></p> <p>[element 4 - ISSAI 140]</p>		
1.5.5	<p>What are the policies and procedures to assign responsibility for each engagement to an engagement lead? How do the policies and procedures ensure that:</p> <ul style="list-style-type: none"> • the identity and role of the engagement lead are communicated to key members of the audited body’s management and those charged with governance; • the engagement lead has the appropriate competence, capabilities and authority to perform the role; and • the responsibilities of the engagement lead are clearly defined and communicated to that person? <p>[ISQC1 para 30 and element 4 - ISSAI 140]</p>		
1.5.6	<p>How do you monitor the workload and availability of engagement leads so as to enable these individuals to have sufficient time to adequately discharge their responsibilities?</p> <p>[ISQC1 para A30 and element 4 - ISSAI 140]</p>		
1.5.7	<p>What are the policies and procedures to ensure the assignment of appropriate staff with the necessary competence and capabilities to:</p> <ul style="list-style-type: none"> • perform engagements in accordance with professional, regulatory and legal requirements, and • enable the SAI or engagement leads to issue reports that are appropriate in the circumstances? <p>[ISQC1 para 31 and element 4 - ISSAI 140]</p>		
1.5.8	<p>What are the policies and procedures to ensure they have sufficient resources and with personnel that have the necessary competence and capabilities to carry out the SAI’s duties appropriately?</p> <p>[ISQC1 para 31D-1]</p>		
1.5.9	<p>How does the SAI manage periods of peak workload? For example, are temporary staff employed, or staff transferred from other (non-public sector) parts of the SAI who may have less audit or public sector experience than other staff?</p>		

1.5.10	For the current audit year what proportion of the public sector audit work does the SAI expect to be undertaken by such staff?		
1.5.11	Are there any aspects of the staffing profile that SAI has reservations about now or may give you cause for concern in the future?		
1.6	Engagement performance		
1.6.1	<p>What are the policies and procedures to provide reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the SAI or the engagement lead issue reports that are appropriate in the circumstances?</p> <p><i>This should include:</i></p> <ul style="list-style-type: none"> • <i>Matters relevant to promoting consistency in the quality of engagement performance;</i> • <i>supervision responsibilities; and</i> • <i>review responsibilities, in particular that the work of less experienced staff is reviewed by more experienced staff.</i> <p><i>This may be achieved through the provision of manuals, electronic tools, standardised documentation and other guidance material which address the following:</i></p> <ul style="list-style-type: none"> • <i>how engagement teams are briefed to obtain an understanding of the objectives of their work;</i> • <i>engagement supervision and reviewing the work performed, including the significant judgements made and the form of report being issued; and</i> • <i>appropriate documentation of the work being performed and the timing and extent of review.</i> <p>[ISQC1 paras 32 and A32 and element 5 - ISSAI 140]</p>		
1.6.2	<p>What are the policies and procedures to:</p> <ul style="list-style-type: none"> • establish an internal quality control system to ensure the quality of the audit which covers at least the policies and procedures required by paragraph 32D-1(c); • ensure that responsibility for the internal quality control system lies with a person who is eligible for appointment as a statutory auditor; • establish appropriate policies and procedures for carrying out audits, coaching, supervising and reviewing the activities of the SAI's personnel and organizing the structure of the audit file; and • use appropriate systems, resources and procedures to ensure continuity and regularity in the carrying out of the SAI's audit activities? <p>[ISQC1 para 32D-1 and element 5 - ISSAI 140]</p>		

1.6.3	<p>What are the policies and procedures to provide reasonable assurance that:</p> <ul style="list-style-type: none"> • appropriate consultation takes place on difficult or contentious matters; • sufficient resources are available to enable appropriate consultation to take place; • the nature and scope of such consultations are documented; and • conclusions resulting from consultations are documented and implemented? <p>[ISQC1 para 34 and element 5 - ISSAI 140]</p>		
1.7	Engagement quality control reviews		
1.7.1	<p>What are the policies and procedures to determine the criteria against which audits are evaluated to determine whether an engagement quality control review should be performed to ensure that an engagement quality control review is performed on such audits?</p> <p>[ISQC1 para 35 (b) & (c) and element 5 - ISSAI 140]</p>		
1.7.2	<p>What are the policies and procedures setting out the nature, timing and extent of an engagement quality control review?</p> <p><i>Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review.</i></p> <p><i>The Engagement Quality Control Review includes:</i></p> <p><i>(i) discussion of significant matters with the engagement partner;</i></p> <p><i>(ii) review of the financial statements or other subject matter information and the proposed report;</i></p> <p><i>(iii) review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and</i></p> <p><i>(iv) evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.</i></p> <p><i>the engagement quality control reviewer:</i></p> <p><i>(i) consider the SAI's compliance with the FRC's Ethical Standard in relation to the engagement;</i></p> <p><i>(ii) forms an independent opinion as to the appropriateness and adequacy of the safeguards applied; and</i></p> <p><i>(iii) considers the adequacy of the documentation of the engagement partner's consideration of the objectivity and independence of the SAI and its personnel.</i></p> <p>[ISQ1 para 36, 37 & 37-1 and element 5 - ISSAI 140]</p>		

1.7.3	<p>What are the policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:</p> <ul style="list-style-type: none"> • the technical qualifications required to perform the role, including the necessary experience and authority; and • the degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer’s objectivity; • and to maintain the objectivity of the engagement quality control reviewer? <p>[ISQC1 para 39 & 40 and element 5 - ISSAI 140]</p>		
1.7.4	<p>What are the policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer?</p> <p><i>Such policies and procedures require that conclusions reached should be documented and implemented; and</i></p> <p><i>the report should not be issued until the matter is resolved?</i></p> <p>[ISQC1 paras 43 & 44 and element 5 - ISSAI 140]</p>		
1.9	Documentation		
1.9.1	<p>What are the policies and procedures on appropriate documentation to provide evidence of the operation of each element of the system of quality control?</p> <p>[ISQC1 para 57 and element 5 - ISSAI 140]</p>		
1.9.2	<p>What are the policies and procedures:</p> <ul style="list-style-type: none"> • to maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation; and • for the retention of engagement documentation for a period sufficient to meet the needs of the SAI or as required by law or regulation and that is in any case not less than six years from the date of the auditor’s report? <p>[ISQC1 paras 46, 47, 58 & 58R-1 and element 5 - ISSAI 140]</p>		
1.10	Development of quality control systems		
	<p>Are there any aspects of the systems of quality control, described above, which the SAI plans to develop, improve or otherwise change in the coming year?</p>		

	If so, please summarise what changes are planned and the reasons for doing so. If necessary, add additional lines to the table if outlining a number of developments.		
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2.1	Monitoring the Quality Control Policies and Procedures		
2.1.1	Who has been assigned ultimate responsibility for policies and procedures on quality monitoring, and how are they supported in implementing this role by others?		
2.1.2	How does the SAI ensure that the person(s) assigned operational responsibility for quality monitoring have sufficient and appropriate experience and authority, to assume that responsibility? [ISQC1 para 48b]		
2.1.3	<p>What are the SAI's policies and procedures to:</p> <ul style="list-style-type: none"> • monitor and evaluate the adequacy and effectiveness of the SAI's systems, internal quality control mechanisms and arrangements established in accordance with the ISQC and taking appropriate measures to address any deficiencies; • carry out an annual evaluation of the internal quality control system, referred to in paragraph 32D-1(a); and • keep records of the findings of the evaluation required by paragraph 48D-1(b) and any proposed measure to modify the internal quality control system. <p>[ISQC1 48D-1]</p>		
2.2	Quality monitoring reviews		
2.2.1	<p>What are the SAI's policies and procedures to review completed public sector audit engagements in the SAI, for example:</p> <ul style="list-style-type: none"> • coverage of all engagement leads over a specified period; • the criteria for selecting individuals and specific engagements for review; and • the timing of reviews, including any that are unannounced? [ISQC1 paras A66-A67] 		
2.2.2	<p>How does the SAI select individuals to lead or participate in quality monitoring reviews?</p> <p><i>Please cover issues such as:</i></p> <ul style="list-style-type: none"> • <i>the technical qualifications, experience and seniority required of such individuals;</i> • <i>the use of specialist reviewers;</i> 		

	<ul style="list-style-type: none"> ensuring the independence of review teams from the engagement lead and team under review. 		
2.2.3	<p>How does the SAI ensure that reviewers understand the objectives of, and approach to, quality monitoring reviews?</p> <p><i>For example: experience, training, guidance material etc.</i></p>		
2.2.4	<p>How are the SAI's quality monitoring reviews performed and documented?</p> <p><i>Please cover issues such as:</i></p> <ul style="list-style-type: none"> <i>the use of checklists;</i> <i>documentation requirements;</i> <i>the extent of coverage of individual reviews (e.g. if these are scoped on a risk basis is there reasonable coverage of all Code of Audit Practice areas over the annual quality monitoring programme - and is grant claim work covered?); and</i> <i>follow up of issues identified in previous quality monitoring programmes and any action plans.</i> 		
2.2.5	<p>Does the SAI's approach involve evaluating the effect of deficiencies noted as a result of the monitoring process and determining whether they are either:</p> <ul style="list-style-type: none"> instances that do not necessarily indicate that the SAI's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and regulatory and legal requirements, and that the reports issued by the SAI is appropriate in the circumstances; or systemic, repetitive or other significant deficiencies that require prompt corrective action? <p>[ISQC1 para 49]</p>		
2.2.6	<p>How does the SAI ensure the consistency of quality monitoring review judgements and assessments?</p>		
2.3	Reporting the results of quality monitoring reviews		
2.3.1	<p>What reporting criteria the SAI use to assess the overall quality of the engagements that are reviewed?</p>		
2.3.2	<p>How does the SAI communicate the results of quality monitoring reviews to relevant engagement leads and other appropriate personnel, along with any deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action?</p> <p><i>The evaluation of each type of deficiency should result in recommendations for one or more of the following:</i></p>		

	<ul style="list-style-type: none"> • <i>taking appropriate remedial action in relation to an individual engagement or member of personnel;</i> • <i>the communication of the findings to those responsible for training and professional development;</i> • <i>changes to the quality control policies and procedures; and</i> • <i>disciplinary action against those who fail to comply with the policies and procedures of the SAI, especially those who do so repeatedly.</i> <p>[ISQC1 para 50 & 51]</p>		
2.3.3	How does the SAI determine, where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement, what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements? [ISQC1 para 52]		
2.3.4	<p>How does the SAI communicate the results of the quality monitoring programme to engagement leads and other appropriate individuals within the SAI, including the SAI's chief executive officer or, if appropriate, its managing board of partners?</p> <p><i>Such communications should enable the SAI and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated should include:</i></p> <ul style="list-style-type: none"> • <i>a description of the monitoring procedures performed;</i> • <i>the conclusions drawn from the monitoring procedures; and</i> • <i>where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.</i> <p>[ISQC1 para 53]</p>		
2.4	Quality monitoring of reporting deadlines		
2.4.1	<p>How does the SAI ensure compliance with, and monitor the SAI's performance against, key reporting deadlines or your own target submission dates?</p> <p><i>For example: annual audit plans; reports to management; certification deadlines; and annual audit reports to audited bodies or audit progress reports; information returns; current issues returns; and minimum datasets to the SAI.</i></p>		
2.4.2	What procedures are in place to ensure that any issues identified by the SAI relating to the submission and completion of such returns are rectified on future submissions?		

2.5	Satisfaction surveying		
2.5.1	<p>What are the SAI's arrangements for assessing the satisfaction of audited bodies with the firm's audit work?</p> <p><i>Please describe the approach taken, frequency, coverage and how the results of your satisfaction surveys are used and reported.</i></p> <p><i>Do you consider any such work by The SAI to avoid any perception of duplication?</i></p>		
2.6	Assessing the impact of auditors' work		
2.6.1	<p>How does the SAI assess the impact of the SAI's audit work?</p> <p><i>This could consider:</i></p> <ul style="list-style-type: none"> • <i>the work of auditors at individual audited bodies;</i> • <i>impact of the audit regime on wider numbers of audited bodies; and</i> • <i>work in a single year or over a longer period.</i> 		
2.7	Other quality monitoring procedures		
2.7.1	<p>Please provide a summary describing any other quality monitoring procedures applied to the SAI work.</p> <p><i>This could include:</i></p> <ul style="list-style-type: none"> • <i>'office' reviews (i.e. monitoring of compliance with general quality control procedures that are not specific to individual audit engagements, e.g. independence/attendance at training etc);</i> • <i>'hot' reviews of work prior to reporting or completion;</i> • <i>independent review of outputs; and</i> • <i>any other quality monitoring procedures you consider relevant to the quality appraisal process.</i> 		
2.8	Development of quality monitoring systems		
2.8.1	<p>Are there any aspects of your systems of quality monitoring, described above, which you plan to develop, improve or otherwise change in the coming year?</p> <p><i>If so, please summarise what changes are planned and the reasons for doing so. If necessary, add additional lines to the table if outlining a number of developments.</i></p>		

Appendix 8 - General QA Review Procedures

(Please see section 5.3.1 of the Guidance)

Documenting General Procedures performed for QA review (to be documented at the completion of the QA review)

Name of Audit Engagement:

Name of the QA reviewer:

No.	General Procedures	Conclusion
GP 01	Obtain the audit file from the audit engagement team and see that the working paper documents are documented in an appropriate manner (as agreed) so that it is easy and convenient to follow while conducting the QA (<i>the audit file constitutes both hard and soft copies</i>). The audit file in soft copy should be stored in a secure drive and should not be disclosed and transferred to third parties. There should be proper handing and taking over of audit files (use audit file requisition template).	
GP 02	Obtain a written confirmation from the audit engagement team that the audit files submitted to the QA reviewers are complete in all material respect.	
GP 03	Verify from the audit files (both hard and soft copies) that the audit working paper folders are organised and arranged in a manner that is easy to follow and is supported by proper indexing clearly distinguishing documentation done at different stages of the audit.	
GP 04	Walk through all the working papers and see that they are referenced, and the references are easy to track and follow. For the audit works that are interrelated, confirm that those are cross referenced to each other.	
GP 05	Check that the audit working papers were prepared and maintained consistently throughout the audit process, and any inconsistencies were addressed appropriately by the engagement team.	
GP 06	Verify from the working papers at every stage of the audit process that the audit works performed by the audit team are duly reviewed and verified by the supervisors. The work done by either the engagement team leader or member(s) should be reviewed and signed off by the audit supervisor.	
GP 07	On the audit working papers maintained at different stages of the audit process, verify and ascertain that they are linked to each other in planning and performing the audit. For instance, the audit procedures performed at the execution stage agree with the procedures designed at the planning stage of the audit.	
GP 08	On the audit procedures designed and performed by the engagement team, verify that those procedures address the risk identified and assessed, and address audit assertions.	
GP 09	Verify from the audit plan and audit procedures performed by the engagement team that the assertions being tested were relevant to areas identified.	
GP 10	From the audit procedures performed by the engagement team at the execution phase of audit, ascertain that the parameters being tested for number of samples relate to audit procedures designed and audit assertions identified at the planning phase of audit (Financial Audit). (<i>Modify this procedure for compliance and performance audit where sample selection may not be relevant</i>)	

Appendix 9 - Content of a QA report

(Please see section 5.3.4 of the Guidance)

Date – The report has to be dated.

Address – This is usually the physical address of QAR team at the time of writing the report.

Addressee – The report is addressed to the division/unit of the audit manager.

Heading – An appropriate heading is given, for example:

REPORT ON QUALITY ASSURANCE ON “CENTRAL ELECTRICITY BOARD” FOR THE YEAR ENDING 30 JUNE xxx

Introduction – In the introductory paragraph, the team has to state:

- the purpose of the QAR programme; and
- how the assurance review was initiated.

Expected outputs – The expected outputs would normally include feedback to the SAI management. The feedback will not be on one file but will include findings from a number of files. The output would include:

- collated findings;
- trends and possible recommendations; and
- assessment of the SAI’s QA system.

Work done and methodology – This would include the actual work done and the procedures followed by the QAR team. This would cover items such as:

- entrance conference conducted to reference to SAI the mandate and to provide a briefing on how the process has evolved;
- main focus of the review;
- number of files reviewed and procedures followed;
- the criteria applied on choice of files to be reviewed;
- discussions with the team members; and
- the SAI’s QA model and auditing standards on issues such as review and documentation to be used.

Determining the current status – In this paragraph, the review team will make a list of good practices. Although this has not been the trend, we propose that issues relating to the good practices noted on the audit assignment be incorporated. Good practices to be considered would range from planning to reporting. They should illustrate the strengths/strong points of the SAI being reviewed. Issues to be raised here may include the following:

- audit risk assessment;
- use of experts;
- report; and
- design.

Areas for improvement – Examples of areas at individual audit level are highlighted below.

At this level, areas for improvement may cover:

- *Planning:* Some of the items that normally require improvement in planning are:
 - existence of engagement letters;
 - existence of permanent files;
 - competence of staff;
 - existence of audit plan;
 - directives issued by the Head of SAI and Audit Manager not implemented;
 - whether risk assessment is performed;
 - evidence of internal audit assessment;
 - whether files indicate scheduling of staff, time, budget, and evidence of supervision/direction;
 - insufficient information on the knowledge of the auditee; and
 - documentation.
- *Fieldwork issues:* Some of the issues that may be included for improvement in fieldwork are:
 - existence of lead schedules in the files;
 - WPs show the audited period/financial year for regularity audits;
 - the scope of the audit was indicated;
 - the information system was assessed;
 - the index related to the WPs;
 - irrelevant materials were filed;
 - WPs were signed by the reviewers;
 - tick marks or work performed were explained;
 - the reviewer checklist was on file;
 - core issues are considered in the recommendations; and
 - the Head of SAI has ownership of the audit files for work done by auditee SAIs.
- *Reporting:* Issues raised in reporting may include the following:
 - existence of the final management letter; and
 - whether matters for the attention of the reviewer were summarised. Suggestions for the Head of SAI/audit manager on the individual audit: The review team should make suggestions to the Head of SAI/audit manager being reviewed for consideration to improve its operations.
- Suggestions to be considered for improvement may include the following:
 - strengthening reporting;
 - streamlining the documentation requirements;
 - reviewing the QA system;
 - making field inspections more efficient;
 - presentation on the importance of documentation; and
 - familiarity with the QA questionnaire.

Conclusion and signature – The conclusion is based on all findings from the review performed on the individual audit level (files). The review team may give its general

perception on the whole exercise and what effect the review has on the files being examined.

The head of the QAR team signs the report before sending it to the head of the unit that was reviewed.

If shortcomings were identified during the review, these must be corrected before the review leader can sign off the review. If there are unresolved differences between the review team and the audit team, this must be resolved before the report is signed. In such instances, the prescribed process in the SAI's QA policy should be followed to resolve the differences.

The following process can be followed to resolve the findings:

- The findings should be discussed with the audit team. For every finding, the team should indicate whether there is agreement/disagreement on the finding.
- Where agreement was reached on a high-risk matter:
 - the audit team should ensure that the matters are addressed in a timely manner; and
 - the review team should perform additional review work to confirm that the matter has been addressed and should indicate whether the matter has been resolved to their satisfaction and the date on which the reviewer confirmed that it was resolved.
- Where there was disagreement on a high-risk matter, or other important matter, the audit team should clearly state the reason for the disagreement and ensure that the SAI's process for differences of opinion is followed to resolve the matter before the audit report is issued. Detail on such a process should be included in the working paper.

Where a difference of opinion between the review team and the audit team exists, the following procedures for dealing with differences of opinion can be followed by the SAI:

- Where the reviewer makes recommendations on high-risk findings from the review that the audit team does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by senior management.
- Even when policies and procedures are put in place to resolve differences of opinion, a resolution may not be reached where matters are contentious and strong opinions are held. In that case, clear designation of who will take the line responsibility for making the final decision may be necessary. The person who signs the audit report will be the most appropriate person. If a member of the audit team or a person involved in resolving the difference of opinion continues to disagree with the resolution, they may disassociate themselves from the resolution of the matter and should be offered the opportunity to document that a disagreement continues to exist.
- The steps in the process to be followed by the audit team to resolve differences of opinion include:
 - *Consider the reasons for the difference of opinion:* Consider whether or not the difference of opinion arises from a different interpretation of

facts, or from a more technical or personal interpretation of “grey areas”, often where there are no standards to give a precise interpretation or application of principles.

- *Research*: The matter is thoroughly researched by the Research and Development function of the SAI and credible information is obtained that supports the difference of opinion expressed.
- *Consider past experience*: Consideration of similar circumstances or experience among senior staff in the SAI or the region may provide guidance for consensus in the resolution of the difference of opinion.
- *Mediation*: Other individuals with current, specialist professional expertise identified within the SAI may be brought in to mediate the difference of opinion.

Appendix 10 - Quality Assurance Checklist for Outsourced Financial Audits

(Please see section 7.2 of the Guidance)

SECTION/UNIT/GROUP

MANAGER/DIRECTOR

DATE OF REVIEW

FINDINGS DISCUSSED ON

MANAGER

DATE

REVIEWER

DATE

	Planning Stage	Yes	No	N/A	Link to Working Paper ref	Comment
1	Has the auditor assessed whether the preconditions for an audit of financial statements have been met? <i>(I.e. an acceptable financial reporting framework and management acknowledges its responsibilities)</i>					
2	Has the Auditor carried out a risk assessment of the Financial Statements?					
3	Has the Auditor planned for materiality?					
4	Has the Auditor prepared documentation that will allow another auditor (with no previous experience of the audit) to understand the audit file. The auditor should be able to understand the nature, timing and extent of the audit procedures performed including the results and the audit evidence obtained					
5	Has the auditor agreed the terms of the audit engagement with management or those charged with governance of the public body.					
6	Has the auditor developed an overall audit strategy that includes the scope, timing and direction of the audit, and an audit plan which directs the audit.					
7	Has an audit plan been produced?					
8	Has the appointed auditor an understanding of the audited entity and its environment?					
9	Has the Auditor assessed the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions,					

	Planning Stage	Yes	No	N/A	Link to Working Paper ref	Comment
	account balances, and disclosures to provide a basis for performing further audit procedures.					
10	Has the auditor responded appropriately to address the assessed risks of material misstatement in the financial statements? E.g. designed audit tests such as tests of control and substantive procedures.					
11	Has the Auditor designed and performed substantive procedures for each material class of transactions, account balances and disclosure, regardless of the assessed risk of material misstatement?					
12	Has the Auditor identified and assessed the risks due to fraud and obtained sufficient appropriate audit evidence regarding the assessed risks due to fraud, and responded appropriately to fraud or suspected fraud identified during the audit?					
14	Has the auditor identified audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw conclusions on which to base the auditor's opinion?					
	Audit Team Management and Skills					
15	Has the appointed Auditor ensured that the "engagement team collectively have the appropriate competence and capabilities? Does this agree with the original contract/appointment letter conditions?					
16	Has the appointed Auditor demonstrated an understanding of professional standards and the applicable legal and regulatory requirements?					
17	Has the appointed Auditor demonstrated the required technical expertise, including expertise with relevant information technology and specialised areas of accounting or auditing?					
18	Has the appointed Auditor demonstrated knowledge of relevant sectors in which the audited organisation operates?					
19	Has the appointed Auditor undertaken the quality control policies and procedures as specified with the contract/letter appointment?					
20	Has the appointed Auditor demonstrated an understanding of the applicable reporting arrangements?					
21	Has the appointed Auditor demonstrated the knowledge, skills and expertise required for					

	Planning Stage	Yes	No	N/A	Link to Working Paper ref	Comment
	conducting the contracted financial audit?					
22	Has the appointed Auditor demonstrated clear reporting lines and allocation of responsibilities within the team?					
	Quality Control in Financial Audit					
23	Have SAI staff been identified to review the appointed Auditors: audit plan reviewed, working papers the work of the Auditor to monitor the progress of the audit					
	Financial Audit Process					
24	For environments that do not have authorised or recognised standard setting organisations or financial reporting frameworks prescribed by law or regulation, has the auditor determined whether the financial reporting framework is acceptable.					
25	Is there evidence that the appointed auditor determined materiality for the financial statements as a whole, the materiality level or levels to be applied to particular classes of transactions, account balances or disclosures and should also have determined performance materiality <i>(including assessment of materiality by value, nature and context)</i>					
26	Is there evidence that the appointed auditor identified the appropriate contact person(s) within the audited entity's governance structure and communicated with them regarding the planned scope and timing of the audit and agreed the terms of the audit engagement with management or those charged with governance.					
27	Is there evidence that the appointed auditor developed an overall audit strategy that includes the scope, timing and direction of the audit, the nature, timing and extent of resources necessary to carry out the engagement, and plan the audit properly to ensure that it is conducted in an effective and efficient manner including the nature, timing and extent of planned risk assessment procedures and the nature, timing and extent of planned further audit procedures at the assertion level.					

	Planning Stage	Yes	No	N/A	Link to Working Paper ref	Comment
28	Is there evidence that the appointed auditor understands the audited entity and its environment.					
29	Is there evidence that the appointed auditor evaluated the overall internal control environment.					
30	Is there evidence that the appointed auditor has an understanding of internal control relevant to financial reporting.					
31	Is there evidence that the appointed auditor assessed the risks of material misstatement at the financial statement level.					
32	Is there evidence that the appointed auditor identified and assessed the risks of material misstatement of the financial statements due to fraud.					
33	Is there evidence that the appointed auditor identified the risks of material misstatement of the financial statements due to material non-compliance with laws and regulations.					
34	Has the appointed Auditor confirmed that he/she has complied with the SAI's ethical requirements: integrity, independence and objectivity, competence, professional behaviour, confidentiality and transparency. (E.g. by avoiding long-term engagements with the same audited entity, and requiring appropriate declarations from staff in relation to ethics and independence)					
	Implementing Financial Audits					
35	Has the appointed Auditor responded to assessed risks by designing audit procedures such as substantive procedures and tests of controls? The nature, timing and extent of audit procedures are based on and are responsive to the assessed risks including the inherent risk and the control risk.					
36	Has the appointed Auditor obtained sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud and when relevant responded appropriately to fraud or suspected fraud identified during the audit?					
37	Has the appointed Auditor obtained sufficient appropriate audit evidence regarding compliance with the laws and regulations that are generally recognised to have a direct and material effect on the determination of material amounts and disclosures in financial statements?					

	Planning Stage	Yes	No	N/A	Link to Working Paper ref	Comment
38	<p><i>Where relevant:</i> During the audit has the appointed Auditor obtained sufficient appropriate audit evidence in relation to:</p> <ul style="list-style-type: none"> • The use of external confirmations as audit evidence; • Audit evidence from analytical procedures and different audit sampling techniques; • Audit evidence from using the work of internal audit functions; • Audit evidence from external experts. 					
39	Confirm that the appointed Auditors audit procedures [were performed] in such a way as to obtain sufficient appropriate audit evidence and thus draw conclusions on which to base the auditor's opinion.					
40	Confirm that the appointed Auditors planned audit procedures were performed, or where planned audit procedures were not performed, an explanation as to why not is retained on the audit file and this has been approved by those responsible for the audit.					
	Evaluating Audit Evidence, Concluding and Reporting in Financial Audits					
41	Confirm that the appointed Auditors have prepared audit documentation that is sufficient to enable an experienced auditor, with no prior knowledge of the audit, to understand the nature, timing and extent of the audit procedures performed the results and the audit evidence obtained.					
42	Confirm that the appointed Auditors documentation procedures have been followed regarding: the timely preparation of audit documentation; the form, content and extent of documentation; the assembly of the final audit file.					
43	Confirm that the auditor identified the appropriate contact person(s) within the audited entity's governance structure and communicated with them regarding any significant findings, all misstatements recorded during the course of the audit.					
44	Confirm that the Auditors audit findings are subject to procedures of comment and the recommendations [or observations] to discussions and responses from the audited entity.					

	Planning Stage	Yes	No	N/A	Link to Working Paper ref	Comment
45	Has the auditor accumulated misstatements identified during the audit, and communicated with management and those charged with governance as appropriate on a timely basis all misstatements accumulated during the course of the audit?					
46	Confirm that uncorrected misstatements have been evaluated by the Auditor for materiality, individually or in aggregate.					
47	<p>Has the appointed Auditor formed an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, as to whether the financial statements as a whole are prepared in accordance with the applicable financial reporting framework. Confirm that the form of audit opinion provided is appropriate considering guidance in ISSAI 200, as follows:</p> <ul style="list-style-type: none"> • An unmodified opinion if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework. (Including the use of Emphasis of Matter Paragraphs) • Otherwise a modified opinion which can be in three forms: <ul style="list-style-type: none"> <i>i.</i> A qualified opinion if: (1) the auditor concludes that misstatements [are] material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but the possible effects could be material but not pervasive. <i>ii.</i> An adverse opinion if the auditor concludes that misstatements are both material and pervasive. <i>iii.</i> Disclaim an opinion if, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects could be both material and pervasive. 					
48	<p>Confirm that the appointed Auditor's report is in a written form and contain the following elements:</p> <ul style="list-style-type: none"> (i) A title; (ii) An addressee as required by the 					

	Planning Stage	Yes	No	N/A	Link to Working Paper ref	Comment
	<p>circumstances of the engagement;</p> <p>(iii) An introductory paragraph that identifies whose financial statements have been audited;</p> <p>(iv) A section with the heading 'Management's responsibility for the financial statements';</p> <p>(v) A section with the heading 'Auditor's Responsibility', stating that the responsibility of the auditor is to express an opinion based on the audit of the financial statements;</p> <p>(vi) A section with the heading 'Opinion';</p> <p>(vii) The auditor's signature;</p> <p>(viii) The date on which the auditor obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements;</p> <p>(ix) The location in the jurisdiction where the auditor practices.</p>					
49	<p>Is the Report easy to understand, free from vagueness and ambiguity and complete? It should be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context.</p>					
50	<p>Confirm that any audit observations and recommendations are written clearly and concisely, and are directed to those responsible for ensuring they are implemented.</p>					
51	<p><i>Confirm Where relevant:</i> "If the conditions [for the acceptance of the financial reporting framework] are not met, has the Auditor evaluated the effect of the misleading nature of the financial statements on the Auditor's report and the opinion, and consider the need to inform the AG/legislature about the matter.</p>					
52	<p><i>Confirm Where relevant:</i> The Auditor's report on special-purpose financial statements [i.e. budget execution reports], the report should: describe the purpose for which the financial statements are prepared and the Auditor should include an Emphasis of Matter paragraph alerting users to the fact that the financial statements have been prepared in accordance with a special-purpose framework.</p>					

Appendix 11 - Peer Review Checklist

(Please see section 9.6 of the Guidance)

SECTION/UNIT/GROUP

MANAGER/DIRECTOR

DATE OF REVIEW

FINDINGS DISCUSSED ON

MANAGER

DATE

REVIEWER

DATE

1 Introduction

The following pages are designed to serve as a framework regarding issues that might be addressed in the course of a peer review. They include a checklist of questions. This checklist furnishes a catalogue of issues that may be covered in a peer review. It is neither a prescriptive list of issues that should or must be included nor is the checklist exhaustive. A peer review might certainly also cover other topics which are not mentioned in the checklist.

Against the background of the manifold differences in SAIs' audit mandates and tasks, not all of these questions will be applicable to all SAIs and the reviewed SAI might wish the peer review to be limited to or focus on selected specific items. An excellent tool / basis to decide on what an SAI wants the peer review to be limited to or focus on is a self-assessment, in order to identify areas for improvement. The self-assessment may also be based on this checklist. The peer review can then take place once the measures taken upon the results of this self-assessment are implemented in order to assess them.

The main function of the checklist is to ensure that the framework of the SAI's audit function can be reviewed comprehensively and to draw the reviewers' attention to issues which merit particular regard. It is also intended as a tool by which to compare the practical audit work with generally accepted standards. Therefore, the checklist is based on internationally accepted standards and compiles information for example from the "Manual on Audit Quality" as well as from the International Standards of Supreme Audit Institutions (ISSAI), especially the Lima Declaration (INTOSAI-P 1), the Mexico Declaration on SAI Independence (INTOSAI-P 10), the ISSAI 120 and 121 on Transparency and Accountability and the INTOSAI-P 40 on Quality Control for SAIs. There is also a strong international consensus on three fundamental elements of the legal base that are critical to the quality of an SAI's work:

- assured independence of the SAI, preferably by appropriate provisions in the country's constitution;
- a clear audit mandate, specified in legislation and coupled with the legal powers needed

- to implement that mandate; and
- assurance that the SAI will perform the audits that are expected of it in accordance with
- internationally accepted standards or other professional standards with which the SAI
- must comply.

2. Understanding the general framework

Accountability for the use of public funds is a cornerstone of good public financial management. SAIs are the national bodies responsible for scrutinising public revenue and expenditure and providing an independent opinion on how the executive branch has used public funds. These fundamental objectives guide the work of all SAIs, though their individual structure and management vary to a large extent. These depend on the constitution, tradition, history and a number of other reasons. The main types generally identified are:

- the auditor general model,
- the board system and
- the court model.

Whereas the legal provisions governing the work of SAIs worldwide vary to a great degree, there is also strong international consensus that the principles laid down in the Declarations of Lima and Mexico should be adhered to if SAIs wish to perform their tasks efficiently and effectively. In comparing the institutional framework with the postulates expressed in these declarations, reviewers should bear in mind that their task is not to attempt to implement a model (their model), but rather to examine if the provisions provide for an adequate fulfilment of an SAI's tasks.

The following paragraphs deal with questions that may be asked by reviewers when they gather background information; from the reviewed SAIs' perspective, they may also hint at what to expect. The checklist may also serve as a yardstick for self-assessment practices.

1 Understanding the General Framework	
1.1 Legal independence	Comments
<p>The peers may gain an understanding as to how the Declaration of Lima's postulates regarding independence are met. Experience has shown that the legal provisions on independence are the key element of the general framework and understanding them is a key element of a successful peer review. Thus, they might wish to see how the establishment of the SAI and the necessary degree of their independence is laid down in the Constitution and/or applicable legislation; how the independence of its members and officials is guaranteed and what provisions are in place with a view to financial independence and relevant INTOSAI guidelines.</p> <p>Special consideration should be given to freedom of outside influence on the audit opinions.</p> <p>Independence should not only be guaranteed in the constitution and legislation, but also be guaranteed in the auditors' daily work.</p> <ul style="list-style-type: none"> • Does the SAI provide parliament with independent, objective and reliable information on Government performance? • How is the head of SAI appointed? 	

<ul style="list-style-type: none"> • How long is his/her term of office? 	
1.2 Financial independence	
<ul style="list-style-type: none"> • Is the SAI's financial independence guaranteed legally and evidenced in practice? • Does the SAI receive sufficient funds to achieve its mandate, including accessing funds to buy in external advice and support if needed? • Does the SAI present its budget to the parliament directly or indirectly – after discussion with the Treasurer? • Is the SAI authorised to use the funds allotted to it under a separate budget heading as it sees fit or is the budget subject to any interference by the executive power or parliament? 	
1.3 Organisational independence	
<ul style="list-style-type: none"> • Is the SAI's organisational structure (court system, auditor general or board system, etc.) set forth in legal provisions or in some other way formally approved? • Is the organisation structure suitable to fulfil the SAI's mandate? 	
1.4 Audit mandate	
<ul style="list-style-type: none"> • Are the powers of action open to the SAI laid down in the constitution and/or applicable legislation and do these specify its missions, powers and responsibilities? This chiefly concerns its right to freely to decide upon the selection, implementation, reporting and follow up on audits. • Does the SAI's mandate describe the procedures for reporting audit findings and audited entity's obligation to fully cooperate with its auditors by giving them free access to all the information or documents they seek? 	
1.5 Audit functions and approach	
<ul style="list-style-type: none"> • What precisely are the audit functions of the SAI? • May the SAI exercise its audit functions at its own discretion or are there also mandatory audits to perform? • Do they cover the central government level or do they also extend to regional and local government as well as to state owned enterprises or other entities? • Do they encompass private entities as well, for example if they receive public funds? • Does the SAI's audit cover all government operations and transactions that have a financial impact? • Are the SAI's basic audit powers, duties and reporting responsibilities embodied in the Constitution or other legislation? • Are rules in place that defines the relationship with internal auditors and with other government entities and with private audit firms that carry out external audits in the public sector? 	
1.6 Strategy	
<ul style="list-style-type: none"> • Has the SAI imposed upon itself a performance standard that it strives to achieve? • Are those standards adhered to by its staff and do key stakeholders perceive the SAI to be working to sound professional standards? 	

<ul style="list-style-type: none"> • Has the SAI developed strategic goals based upon this self-imposed standard, which govern the achievement of its aims, (for example its advisory functions, real-time audit etc.), its focus on audit standards (financial and performance audit etc.) and the proper and effective use of public funds as well as the development of sound financial management? • May employees participate in the definition of the SAI's strategic goals? • Does the SAI have, and implement, an audit strategy and performance indicators that constitute guidance allowing it to address its tasks and evaluate the impact for the audited bodies as well as for public finances? 	
<p>1.7 Internal governance</p>	
<ul style="list-style-type: none"> • Does audit legislation authorise the SAI to issue rules and regulations for the internal governance of the organisation, including such matters as selection, training, functions and promotion of staff? • Has the SAI developed an ethics code describing what is expected of staff and formalising processes to avoid conflicts of interest and other improper actions? • Does the SAI effectively formalise and implement the values of ethics and integrity based on the principles generally accepted by the INTOSAI community? • Does the SAI encourage the development of an auditor's behaviour that is consistent with these values? • Does a policy exist to monitor compliance to ethics and independence requirements? • Does the SAI regularly review its working methods, manuals and practices to improve its effectiveness? 	
<p>1.8 Accountability</p>	
<ul style="list-style-type: none"> • To whom does the SAI report on its activities and performance? • Is this done by means of periodic public reporting? • Is the SAI subjected to periodic external scrutiny and/or audit? Is it ensured that the scope of this audit does not interfere with the SAI's independence? • Are the processes for selecting the external auditors transparent? • Are the results of the external scrutiny process made publicly available and are agreed recommendations acted on by the SAI? • Does the SAI report regularly on how its resources have been used and what results have been achieved? 	
<p>1.9 Legal / administrative recommendations</p>	
<ul style="list-style-type: none"> • Is the SAI authorised to propose recommendations for amendments to draft laws and administrative procedures when it notes room for improvement? • Is the SAI authorised to draw attention to audit findings that have a bearing on the rationale for policy decisions or on the impact of such decisions? • Is the SAI authorised to recommend legislative amendments, if it has found evidence that applicable legal provisions have or may have effects not desired by the Legislature or if the SAI finds that the Legislature's objectives can be achieved more efficiently? • Does the SAI make use of these authorisations? 	
<p>2 Internal standards and regulations/quality control procedure</p>	

2.1 Audit types	
<ul style="list-style-type: none"> • What types of audit does the SAI perform? • How does the SAI balance the different types of audit, i.e. regularity/compliance, financial and performance audit, and combinations thereof? 	
2.1.1 Financial and regularity/compliance audit	
<ul style="list-style-type: none"> • Does the SAI have a mandate for auditing the adherence to regulations providing the basis for disbursements, collection of revenues and commitment of funds? • Does the mandate cover the accuracy with which revenues and expenditures are calculated, supported by vouchers and stated in the accounts as well as compliance with applicable financial management, provisions and principles? • Does the SAI have jurisdictional functions? What are the procedures and sanctions applied? 	
2.1.2 Performance audit	
<ul style="list-style-type: none"> • Does the SAI carry out various methods of performance audits such as: process-based studies, organisational studies, impact and outcome studies, cost benefit analysis, specific service and quality management studies, environmental and IT audits? • Are provisions in place with regard to looking into whether the optimum ratio between the objectives pursued and the resources utilised has been sought and obtained? • Does the SAI examine the economy, efficiency and effectiveness of measures? • Does the audit cover the effectiveness of government operations and transactions including the extent to which agreed targets have been achieved (effectiveness)? • Does the audit cover the examination of the extent to which the input of resources was kept to the minimum necessary to achieve the pre-set objectives (efficiency)? • Does the audit also imply a need for evaluating programme results? As a matter of principle, such an evaluation should address the following aspects: <ul style="list-style-type: none"> - target achievement; - outcomes; - performance (efficiency of implementation and efficiency of the programme itself?); and <ul style="list-style-type: none"> - the impact on the general public 	
2.1.3 Exceptions and materiality of findings	
<ul style="list-style-type: none"> • Is it laid down that the SAI should avoid audit gaps whenever possible, i.e. is it ensured that the widest possible overview over public financial management is achieved? • Especially, is the avoidance of audit gaps that impose a material risk laid down? 	
2.1.4 Real-time audit	
<ul style="list-style-type: none"> • Are there any rules authorising the SAI to perform audit work at an early stage of a project or programme, e.g. once a decision has been taken but expenditure has not yet been incurred and any potential damage might still be avoided? 	

2.2 Audit standards	
<ul style="list-style-type: none"> • Does the SAI use audit standards which clearly set out how audit work has to be performed? • Do these standards align with the audit tasks, INTOSAI standards (ISSAIs) as well as other guidelines and professional standards? • If yes, how does the SAI make sure that these standards are implemented? • If the auditors follow international / external standards – do they need to give a reason when they decide not to adhere to them in an individual case? • Does the SAI conduct audit missions in accordance with its own standards? • Does the SAI see to it that its standards are regularly updated? • Are the standards easily available for all auditors (e.g. in libraries, in the form of electronic records or via the Internet)? • Is there a procedure in place to verify that all auditors know the standards? • Are the audit standards disseminated? • Are the standards clearly authorised and are SAI staff obliged to adhere to them when carrying out their audit work? • How are auditors encouraged to master and widely use the standards? • Has the SAI, as a first step, defined and decided upon the appropriate standards and level of quality for its outputs and then established comprehensive procedures designed to ensure that this level of quality is attained? • Does the SAI have a role in (national) standard setting for government accounting and auditing standards? • If not, is the relationship between the SAI and the entity responsible for developing government accounting standards defined? • Is the SAI involved in legislation concerning audit procedures? 	
2.3 Quality control	
<ul style="list-style-type: none"> • Do the audit standards provide for reviews of quality control? • Are there systems and procedures in place to: <ul style="list-style-type: none"> - confirm that integral quality assurance processes have operated satisfactorily; - ensure the quality of the audit report; - ensure improvements and avoid repetition of weaknesses; - make sure that there is a good communication flow; - make sure that there is a feedback process; - implement the principles of ISSAI 40. • Has the SAI also established its own quality control arrangements regarding audit planning, conducting and reporting? • May audits be reviewed in depth by suitably qualified SAI staff not involved in those audits and is this actually done? • Is there a guarantee that audit work is performed by one official and authorised by another? • Are there processes in place to identify generic lessons from these quality reviews and to disseminate these within the SAI? • Does the SAI have a quality assurance manual in compliance with international standards? • Does the manual set up the goals and demand of audit quality? • Does the manual describe responsibilities, processes, methodologies as well as the means to measure the quality of SAI audits? 	

<ul style="list-style-type: none"> • Does the SAI have a detailed plan of each audit it plans to deliver that sets clearly as to how the audit will be conducted? • Does the team of each audit report regularly about the development of audit work and compliance with the planning as well as with the quality assurance manual? 	
2.4 Internal / external review	
<ul style="list-style-type: none"> • Has the SAI instituted its own internal audit function with a wide charter to assist it to achieve effective management of its own operations and sustain the quality of its performance? • Does this internal audit function report directly to the head of the SAI? • Is there a formal process for ensuring that the recommendations of the internal audit function are acted on, once the SAI has accepted them? • Does the SAI set an internal review to prevent risks and provide a reasonable assurance to fulfil in good conditions the missions it is assigned according to its objectives, strategy and performance criteria (see also point 3.2.3 Economy, efficiency and effectiveness)? • Does the SAI seek the views of audited entities regarding the quality of its audit reports? • Has a team of quality assurance auditors been formed to carry out these tasks? • Does the SAI periodically evaluate its work methods by self-assessments in order to implement a process of continuous improvement? • Does the SAI undergo periodic external evaluation, e.g. peer reviews, of its work as part of a commitment to a continuous improvement process? 	
2.5 Relations to other public entities	
<ul style="list-style-type: none"> • Is the relationship between the SAI and Legislature and also Government clearly defined by law according to the conditions and requirements of the national situation, with SAI independence as the guiding principle? 	
2.6 Security of information	
<ul style="list-style-type: none"> • Does the SAI have clear standards in place to assure that information is treated with due confidentiality? • Does the SAI ensure that privileged information acquired is made available only to the addressee and not to third parties? • Does the SAI ensure the communication of these standards among the auditors as well as their application? 	
3 Structural aspects	
3.1 Formal rules	
3.1.1 Structure and responsibilities	
<ul style="list-style-type: none"> • Does the SAI possess an organisational structure that enables it to fulfil its tasks in good conditions of effectiveness, economy and efficiency? • Are functions and responsibilities defined clearly and transparently for all staff and are overlaps avoided? 	

<ul style="list-style-type: none"> • On the other hand, is the full coverage of all SAI tasks ensured? • Does the SAI have an efficient system of internal reporting and communication? • Does the SAI have a mechanism in place to ensure quality control and quality assurance within the overall structure? • Is there a commitment on the part of the SAI's top executive to promote and ensure that quality control is practised? 	
3.1.2 Alterations in the audit tasks	
<ul style="list-style-type: none"> • Is the SAI able and flexible enough to respond to changes in its audit tasks in a timely manner, provided the law permits? 	
3.2 Functional areas	
3.2.1 The audit process – structure and documentation	
<ul style="list-style-type: none"> • Is the entire audit process clearly structured and are the roles of all those involved defined clearly and transparently? • Is there a clear procedure for resolving differences of opinion? • Is the audit process adequately and continuously documented? • Does the SAI have a wide field of attributions to evaluate and decide on all aspects that are essential for the accomplishment of its missions? 	
3.2.2 Technical and administrative requirements	
<ul style="list-style-type: none"> • Does the SAI possess the technical and communicational means needed to fulfil its tasks? • Is the IT equipment adequate? • Does the SAI foster the use and the development of information technologies, including the use of computer-based auditing methods? • Have training events on computer-assisted auditing been held? • Does an audit manual on IT assisted audit exist? • Does this include an (electronic) archiving function and the internet/intranet? • Are there administrative units within the SAI which support the work of audit teams by carrying out clerical, IT and publishing tasks? 	
3.2.3 Economy, efficiency and effectiveness	
<ul style="list-style-type: none"> • Are there provisions (e.g. financial and human resources, logistical and transport provisions) to ensure that the SAI performs its tasks in an economic, efficient and effective way? • Does the SAI have benchmarks to monitor its performance and does it address weaknesses? • Is information about weaknesses in the SAI's performance reported to senior management and consistently acted upon? 	
3.2.4 Human resources	
3.2.4.1 General strategy	

<ul style="list-style-type: none"> • Has the SAI established a clear strategy providing adequate assurance it has the necessary staff, both in numbers and skills, to address its tasks (workforce plan)? • Are there clear policies in place covering such human resource issues as staff entitlements to training and development, staff appraisals, pay and remuneration, dealing with conflicts of interest, and staff rotation? • Does the SAI have a policy in place to identify the staff having the skills currently needed by the SAI? • Does the SAI provide for maintaining know-how of staff leaving the organisation? • Does the SAI lay stress on personal/social skills as well as technical skills? 	
<p>3.2.4.2 Recruitment strategy</p>	
<ul style="list-style-type: none"> • Has the SAI established a clear strategy for recruiting and selecting new staff members? • Does the SAI seek excellence and anticipate its future needs according to the type of work the SAI expects to perform in the future? • Is the recruitment strategy separated from the general strategy? • Does it provide for education objectives and programmes, or are these drawn up in a separate document? • Can the SAI access persons with specialised knowledge such as engineers, architects or IT specialists? • Does the SAI use adequate ways of recruiting (e.g. assessment centres etc.) and is it independent in selecting new staff? • Does the SAI ensure that its staffing needs are publicly known so as to make the hiring process transparent and generally open to applicants, thus providing for equal opportunities? • Does the SAI place adequate emphasis on professional education and experience when recruiting staff? 	
<p>3.2.4.3 Initial and induction training</p>	
<ul style="list-style-type: none"> • Does the SAI provide initial training and induction training designed to help new arrivals? This concerns (among other things) such matters as organisational structure, internal and external working relationships, ethical standards, performance standards, etc • Does induction training include a trial period and a period of practical field work? • Does the SAI prefer recruiting skilled/experienced staff or does it want to train the newcomers itself? 	
<p>3.2.4.4 Technical and skills training</p>	
<ul style="list-style-type: none"> • Does the SAI provide for technical and skills training intended to equip auditors with the methodological knowledge and skills needed to plan, conduct and report on whatever type of audit (compliance, regularity, financial or performance) the individual auditor is expected to perform, and to do so efficiently and at a high level of quality? • Does the SAI have a dedicated technical support unit that updates technical documents and provides support? • Does the SAI use staff as facilitators who have considerable expertise/experience in the knowledge and skill areas which shall be trained? • Are staff training needs evaluated? • Are auditors given the chance to point out training opportunities at home or abroad? 	

3.2.4.5 Managerial training	
<ul style="list-style-type: none"> • Is there managerial training for those supervising an audit team? • Does this ensure that managers have the skills required as they progress within the organisation, for example operational and strategic planning, budgeting for time and money, analysing of results, communication, presentation and social skills? • Is there a strategy in place to identify and train future managers? 	
3.2.4.6 Continued training	
<ul style="list-style-type: none"> • Is there a policy in place to ensure that auditors routinely undergo training to continuously maintain and enhance their professional capabilities? • Does the SAI have a commitment to life-long learning? • Is there a training programme detailed by weeks and months, and are education objectives determined for a year or a longer period? • Is there a mechanism in place to ensure that all auditors take part in training? • In order to improve the knowledge and know-how of staff, and help them deal with the increasing diversity of the tasks they have to undertake, do they have the opportunity to benefit from external training courses, internships, or secondments-including the opportunity to participate in joint audit missions with other SAIs? • Are employees adequately motivated to develop their professional skills? 	
3.2.4.7 Evaluation	
<ul style="list-style-type: none"> • Is staff performance evaluated on a regular basis? • Are the evaluation criteria generally known? • Is the evaluation performed objectively? • Are the objectives and the proposed use of evaluation results been defined? 	
3.2.4.8 Employee feedback	
<ul style="list-style-type: none"> • Does the SAI ensure that staff are treated fairly and equally? Does the SAI obtain feedback on these issues? • Is a mechanism in place allowing staff to express their opinions confidentially and permitting that the suggestions made are considered? 	
4 Audit approach	
Audit approaches vary according to the mandates of SAIs. The following subparagraph therefore deals first with questions that apply to all forms and mandates, while the second subparagraph lists questions that will only be asked if the SAI's audit mandate provides for the specific type of audit.	
4.1 Audit selection	
4.1.1 General strategy	

<p>The general strategy may differ in respect to mandatory financial audits – with the legal obligation to cover all entities – and performance audits that are fully under discretion of the individual SAI.</p>	
<ul style="list-style-type: none"> • Does the SAI consider the following when it decides what areas to audit and when to perform those audits: <ul style="list-style-type: none"> - the assessment of risks and the significance, sensitivity and materiality and added value of the audit topics; - the financial and human resources required for the performance of particular audits, including consideration of the availability of audit staff with the required skills, also considering the size and complexity of the audited entity; - the time at which the results of particular audits are likely to prove most useful, including consideration of timing requirements imposed by law; - the potential need to revise audit priorities in response to changing circumstances; and - the selection and timing of audits may also be influenced by the work of internal auditors or other auditors performing audits on the same bodies. 	
<p>4.1.2 Priority of audit tasks</p>	
<ul style="list-style-type: none"> • When selecting audit tasks to be included in audit planning, does the SAI take due care to avoid audit gaps? • Does the SAI use relevant criteria to prioritise audit topics? • How does the SAI handle relative priority among potential audit subjects, considering audits required by law, where applicable, and the limits of the mandate? • Do indicators exist for quickly and reliably measuring the financial weight, materiality and risk of the audit? • Is the SAI free to use a sampling technique? • Is the SAI free to leave specific accounts unaudited? 	
<p>4.1.3 Selection of bodies to be audited</p>	
<ul style="list-style-type: none"> • Does the SAI select audit subjects with a view to generating audit findings that provide an overview of the government operations that come under its audit authority? • Does the SAI collect information about the audited subjects and use this to identify areas which merit inspection? 	
<p>4.1.4 Cost efficiency</p>	
<ul style="list-style-type: none"> • Cost-consciousness may require that preference be given to audits which, based on previous knowledge, are likely to generate significant findings. • Are new audit areas also adequately considered? • Are there rules to this effect? 	
<p>4.2 Audit planning</p>	
<p>4.2.1 Resources</p>	
<ul style="list-style-type: none"> • Does the reviewed SAI have an effective process in place by which it decides on how to use its discretionary resources to best effect? 	

<ul style="list-style-type: none"> • Are resources used in audit(..) missions allocated appropriately? • Are audits delivered within the deadlines? • Does the SAI use any information collected during previous audit(..) work or benchmarking exercises to help it estimate adequately resources and timeframe of the audits? • Are contingency plans in place to reduce the delays caused by the assignment of staff to other tasks, leave of absence or sick leave? • Does the SAI have a policy of considering the need for financial and human resources required for the performance of particular audits, in particular: <ul style="list-style-type: none"> - the number and skills of the staff available for the audit; - the resources such as time, funding and others including external expertise, when relevant, necessary for conducting audit work; and - the risks that may be encountered in the audit? 	
4.2.2 Adequacy	
<ul style="list-style-type: none"> • Does the SAI develop an understanding of the environment, accountability and key management systems of the audited body prior to the actual audit? • Are there procedures in place to ensure the quality of the audit questions and methods, which are supposed to be used in the audit? • Does the SAI provide for a follow-up review to determine whether appropriate action has been taken on audit findings and recommendation previously reported? • Does the SAI ensure that the audits delivered by the SAI are in accordance with its applicable standards? • Does the SAI identify the key elements of the internal control system? 	
4.3 Audit implementation	
4.3.1 Staff	
<p>Does the SAI have a policy to ensure that:</p> <ul style="list-style-type: none"> • all those involved in the audit understand the plan as a whole and the tasks assigned to that person; • each official involved in the audit has the skills needed to carry out the assigned tasks; and • there are no conflicts of interest or other factors that might impede any official involved in the audit from carrying out the assigned tasks in a competent and objective manner? • Is the non-existence of conflicts of interest recorded? • prior to the approval of the plan, those involved have been given the opportunity to express an opinion on the tasks assigned to them and to participate in the development of the plan. 	
4.3.2 Documentation and procedures	
<ul style="list-style-type: none"> • Is the audit process documented adequately and transparently? Is the same true for internal decision-making? • Are the audit records duly registered to facilitate finding them? 	

<ul style="list-style-type: none"> • Are the physical and environmental conditions appropriate to ensure the adequate preservation of the records irrespective of whether they are on paper or in electronic form? • Are appropriate steps taken in the following areas: <ul style="list-style-type: none"> - audit documentation is properly kept, adequately describes audit tests and findings, is referenced and is easily traced to the relevant elements of the task plan and detailed audit programmes; - the audit plan provides the links under which the working papers can be found; - treatment of printed evidence in a computer-assisted audit; - audit evidence is sufficient and appropriate; - audit evidence procedures are properly followed; - security levels are in place to limit the access to documents which form part of the audit evidence; - the planned audit approach remains appropriate in the light of information gathered in the audit or appropriate changes are made; - internal control systems of the audited body are properly documented, evaluated and tested; - controls of an IT nature are adequately considered; - proper sampling, analytical procedures, data gathering and information analysis techniques are used, where appropriate; - working papers include relevant, reliable and sufficient evidence supporting all findings, opinions, conclusions and recommendations; - auditors have documented the work performed in such a manner that an independent person should be able to re-perform the work and be able to understand the nature, timing and extent of the work that was done; and - a checklist is drafted to ensure that the work done is properly documented. 	
<p>4.3.3 Review before field work</p>	
<ul style="list-style-type: none"> • Before starting actual field work, is the plan reviewed to assure that it can be properly implemented? • Are all members of the audit team involved in this review to ensure that everyone understands the plan as a whole as well as their roles in the audit, and to give them an opportunity to raise any concerns that they may have? • Are auditors encouraged to point out possible shortcomings in the audit task plan and in the quality control system? • Is the audit scope and/or task plan adjusted if significant unanticipated problems arise? • Are these modifications submitted to the manager in charge for approval? • Does the SAI adopt and implement professional standards; strengthen methods and techniques for preventing and detecting fraud and corruption; enhance communication and reporting, and foster the publication and use of Manual and procedure manuals? 	
<p>4.3.4 Continuous documentation</p>	
<ul style="list-style-type: none"> • Is the completion of individual tasks in the audit plan documented and reviewed, evidenced and approved by the immediate supervisor of the auditor responsible? • Are audit working papers systematically collected, reviewed and maintained? 	

<ul style="list-style-type: none"> • Are changes in the approved audit plan documented, along with the reasons for them, especially if they significantly alter the audit methodology or the timetable or other resources required to carry it out? • Are those changes reviewed and approved by the official, if any, who approved the original plan? 	
4.3.5 Supervision during audit	
<ul style="list-style-type: none"> • Does the organisational structure include a supervision department or is the supervisor part of the audit team? • Or who else is in charge of supervision? • Does the audit team leader adequately supervise those involved in the audit to ensure that the audit tasks are carried out properly? 	
4.3.6 Review upon audit completion	
<ul style="list-style-type: none"> • With a view to identify changes and improvements necessary for future audits: Does the audit team leader, and his/her supervisors, if any, review all aspects of the audit tasks performed during the audit, including tests carried out, findings and working papers and document such reviews? • Does the relevant auditor/audit team examine the causes and consequences of the shortcomings found during the audit process? 	
4.3.7 External expertise	
<ul style="list-style-type: none"> • Does the SAI seek assistance from external experts if unexpected problems or technical issues are encountered during the audit work requiring skills beyond those represented in the team? • Does the SAI ensure that the work performed by the expert is properly documented and evaluated? • Is a glossary drawn up of the technical terms used by the external experts in order to ensure understandability? 	
4.4 Audit reporting	
4.4.1 Methodology	
<ul style="list-style-type: none"> • Are reported audit issues properly analysed and concluded? • Have all audit findings been evaluated as to their materiality, legality and factual evidence and all relevant material findings included? • Are all the facts fairly presented? • Are sources of facts, figures and quotations mentioned? • Are relevant and material events subsequent to the audit considered, to the extent that the auditor is aware of and documents them? • Is there documentary evidence in support of all conclusions and opinions? • Is there a clear audit trail for audit steps, findings, conclusions and recommendations prepared by the auditor and his assistants? • Are the working papers fully cross-referenced? • Are reports concise, clear, timely, precise, simple, objective, balanced and constructive? 	

<ul style="list-style-type: none"> • Are they clearly perceived and well understood by the audited entity and the various stakeholders? • Are all findings and conclusions supported by adequate and reliable audit evidence in the audit working papers? • Are the recommendations developed by the SAI in accordance with standards of good professional practice? • Do reports, where applicable, expressly present positive conclusions or state relevant measures and sanctions to be taken by the SAI? • If so, does the auditor ensure there is sufficient evidence to support such positive conclusions? • Are time limits adhered to? • Are applicable procedures followed with regard to serious irregularities and fraud discovered in the audit? • Is the full methodology of the audit performed well described in the reports providing therefore more transparency and credibility to the findings? 	
<p>4.4.2 Internal procedure</p>	
<ul style="list-style-type: none"> • Who is involved in drafting the report? • Is it ensured that the report is in line with the audit findings? • Are the reports reviewed for adequacy, conclusiveness, properness, readability etc. by an experienced auditor, audit panels and/or a prosecutor general office which are independent of the audit team? • If applicable, is this review coupled with or followed by further reviews of the draft report at higher levels or other parts of the organisation, especially if the subject of the report is sensitive or the material is unusually complex or technical? Such review by a transversal department is recommended to avoid, especially on legal issues, successive inconsistent opinions stemming from different units, issued by the SAI. • Is there any clear statutory provision and internal guidance as to who has the authority to approve and issue the audit report (audit manager, audit panel, other)? 	
<p>4.4.3 Different viewpoints conflicting evidence</p>	
<ul style="list-style-type: none"> • Is the draft audit report, after internal review, provided to the audited body for review and comment within a specified time frame? • To what extent are comments received from an audited body considered by the SAI? • Are these comments published in the report? • How are factual disagreements resolved? • Is all material conflicting evidence acknowledged in the report, together with an explanation of why it has been rejected or is not reflected in the report conclusions? 	
<p>4.4.4 Reporting on misdemeanour</p>	
<ul style="list-style-type: none"> • Does reporting take place in accordance with the SAI's mandate and relevant legislation? • Does the audit process foresee and the SAI ensure that cases of misdemeanour, such as fraudulent behaviour, violation of contracts or other criminal offences are reported to the prosecuting authorities without delay? 	
<p>4.5 Follow-up and further treatment of the SAI's findings</p>	

4.5.1 Follow-up	
<ul style="list-style-type: none"> • Are follow-up audits conducted? • Is there adequate and sufficient monitoring that the audit recommendations are followed in due course? • Is the time period between completion of the audit and the follow-up on the implementation of the recommendations specified? • Are there methods governing the implementation of follow-ups, as well as definite criteria specifying when a follow-up is to be made? • Does the SAI comply with it? • In case the recommendations are not implemented or not implemented in due course – does the SAI ensure this is documented and justified by the audited entity? 	
4.5.2 Impact of performance audits performed by the SAI	
<ul style="list-style-type: none"> • Does the SAI assess the impact of its audits on the performance of the audited entity? • Does the evaluation consider the views of the various stakeholders? • Are there quantifiable indicators for measuring the impact of the audit? • Did implemented recommendations achieve improvements in performance? 	
4.5.3 Perception of the SAI	
<ul style="list-style-type: none"> • Are there indicators of the way the SAI, its tasks, mission performance, and professional competence is perceived? • Is the SAI a body held in high esteem for the work it performs? • Is the SAI regarded as an independent and professional organisation and respected by the public in general and the various stakeholders in particular as having positive influence on the improvement of state activities? • Is the perception of the SAI evaluated? • In what way are the results obtained from the evaluation to be used? • What types of mechanisms have been considered to improve the perception of the SAI from its stakeholders' perspective? 	
4.4.4 Publication	
<ul style="list-style-type: none"> • If audit legislation empowers the SAI to publish the results of its work: are those publications elaborated with a view to being understandable to report users and to the general public? • In what form are the reports distributed? • Does the SAI publish on the internet as well? • What type of relationship does the SAI have with the media? 	
4.5.5 Managing institutional risk	
<ul style="list-style-type: none"> • How does the SAI handle potential cases of audit failure, i.e. when complex audits, possibly also involving matters which are highly visible and/or politically sensitive, might undermine its credibility? • Has it established a clear procedure for assessing these institutional risks and for adapting to them, considering such matters as complexity of the audit, audit costs, 	

controversy associated with the matters being audited and likely cooperation or resistance by the audited body?	
4.5.6 Managing external relations	
<p>Does the SAI devote management time and attention to strengthening relations with:</p> <ul style="list-style-type: none"> • parliament and its committees; • the government to achieve improvements in government accounting and internal controls; • line ministries and state agencies, to enable auditors to do their work efficiently, without interference and impediments; • the media, to assure that the public is aware of key SAI products and of the actions taken (or not taken) in response; • private sector auditors and relevant professional associations, as to sharing experiences that can strengthen quality in both sectors; • the academic community to facilitate drawing on that source of specialised expertise, when needed, and in recruiting high quality graduates; and • the audit community, including co-operation at the bilateral and multilateral level, to facilitate benchmarking, sharing of knowledge, experiences, techniques and information on good practices? 	

Appendix 12 – Review Sheet

REVIEW SHEET		
<p><u>Name of Client:</u> _____</p> <p><u>Auditor:</u> _____</p> <p><u>Reviewed by:</u> _____ <u>Date:</u> _____</p>		
<p><u>REVIEWERS COMMENT</u></p> <p><i>Phase place conclusions on working paper 1.0.1.1.</i></p> <p><i>There is a mathematical error on page 1.0.1.2.</i></p> <p><i>Please add cross references to the fixed assets section...</i></p>	<p><u>AUDITORS CLEARANCE OF POINT</u></p> <p><i>Conclusion now added...</i></p> <p><i>Error now corrected...</i></p> <p><i>All cross references now completed...</i></p>	<p><u>REVIEWERS COMMENT</u></p> <p><i>Ok, thank you</i></p> <p><i>Noted, thank you.</i></p> <p><i>Noted, thank you</i></p>



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