Version 29 October 2004

Guidelines on Audit Quality

Revised version for the consideration of

Contact Committee of the Heads of the SAIs of the European Union

Luxembourg, 6 – 7 December 2004

Preface

In December 2002, the Presidents of the Supreme Audit Institutions (SAIs) of the Central and Eastern European countries, Cyprus, Malta, Turkey and the European Court of Auditors, at their meeting in Bucharest, adopted a resolution that included the following statement:

"*In view of the importance of the theme and increased awareness by an SAI on quality control and post-audit review, it is advisable to explore the feasibility of preparing a comprehensive and detailed Guideline based on the European Implementing Guidelines for the INTOSAI Auditing Standards (in particular on Guideline No. 51 "Quality Assurance") for discussion among interested parties, including the Contact Committee of the SAIs of EU Member States. The Presidents ask the present rapporteurs (Liaison Officers of SAI's of Hungary, Malta and Poland), and other interested parties to consider preparing such a guideline with the assistance from all interested SAIs and from SIGMA.*"

The Expert Group comprised:

- the Liaison Officers of the SAI's of **Hungary** (Janos Revesz), **Malta** (Brian Vella) and **Poland** (Jacek Mazur), with additional and special assistance from the Cour des comptes of **France** (Anne-Marie Boutin and Christophe Perron); and
- **SIGMA** (Nick Treen and Harry Havens), and with appreciated contributions from other SIGMA staff and experts (Bo Sandberg, Joop Vrolijk and Jens Piontek).

The Guidelines have been prepared in response to the above resolution.

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The Presidents of the Supreme Audit Institutions of the Central and Eastern European Countries, Cyprus, Malta, Turkey and the European Court of Auditors, meeting in Riga (Latvia) on 31 March and 1 April, 2004, have taken note and discussed the Guidelines. They recommended that Supreme Audit Institutions should consider, in the light of their own national circumstances, the "Guidelines on Audit Quality" as useful source material when it comes to update their own guidelines on audit quality.

In view of the general applicability, the Presidents also recommended that the Guidelines be transmitted to:

- The Contact Committee of Heads of EU SAIs for its information and other use it may deem appropriate; and
- The EUROSAI and INTOSAI General Secretariats for their information and consideration.

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This version includes some minor revisions made by the Expert Group in June 2004, based on comments received following the Riga Meeting, and revisions to the annexes describing the relevant IFAC Auditing Standards, based on the finalisation of these Standards. The amended version was sent to EU SAIs and discussed at the Liaison Officers Meeting on 4-5 October.

In conclusion, the Contact Committee of Heads of the Supreme Audit Institutions of the Member States of the European Union and the European Court of Auditors, during the Meeting on 6-7 December 2004 in Luxembourg, took note of and discussed the "Guidelines on Audit Quality". The Contact Committee recommended that the Guidelines be widely distributed, and that individual EU SAIs can take the Guidelines into consideration when they come to revise their own Audit Manuals and Guidelines on audit quality.

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1 Introduction

Summary

1.1 The purpose of these **Guidelines on Audit Quality** is to assist Supreme Audit Institutions assure the high quality of their work and the resulting products. **This Section** describes the background of the document, provides key definitions applicable to these guidelines, discusses the types of SAIs and audits to which the guidelines apply, lays out the form in which the guidelines are presented and identifies some other sources of useful guidance for assuring quality. **Section 2** then deals with quality control as the "hot review" of the audit process. Subsections 2.1 – 2.6 set forth some basic premises for establishing effective quality controls, discuss the nature of the controls required to assure quality in the areas of selection and timing of audits, planning specific audits, executing audits, reporting the results of audits, and following up on audits, respectively. **Section 3** describes the procedures necessary to assure that needed quality controls are in place and operating effectively, that is it presents the characteristics of post-audit quality assurance. Finally, **Section 4** focuses on institutional measures to enhance quality, especially management of human resources (recruitment, training, staff development and ethical standards), institutional risks and external relations. The **Annexes** provide other information that was considered potentially useful, including reference material, checklists and excerpts regarding quality controls from other guidance documents. The list of reference documents is contained in **Annex A.**

1.2 Audit quality is obtained by a process of identifying and administering the activities needed to achieve the quality objectives of an SAI. All types of SAI need to understand the benefits that can be realised once audit quality is made a priority. Improving audit quality requires a systematic SAI-wide approach. Piecemeal efforts by individuals and individual audit teams are not enough and will not work. There are no quick fixes to be obtained where audit quality is concerned. SAIs need to proceed methodically in an organised way to fix each quality issue and problem in turn. As new problems will always emerge, this should be a continuous process for the SAI. It is also evident that most audit quality related problems are mainly the result of poor management of the audit process or the SAI itself.

Background

1.3 These guidelines were developed in response to a direction from the Presidents of the SAIs of the Central and Eastern European Countries, Cyprus, Malta, Turkey and the European Court of Auditors. That directive resulted from a **Report on "Quality in the Audit Process"** that was prepared by the Expert Group on Audit Quality and SIGMA and delivered to the Presidents at their meeting in Bucharest in December 2002. A summary of that report appears in **Annex B** of this document. The Guidelines in this document were developed by the same Expert Group and SIGMA, with the additional valuable assistance of officials from the *Cour des comptes* of France.

1.4 The intended immediate audience for these guidelines are the SAIs of the EU Acceding and Candidate countries, who may find them helpful in meeting their responsibilities. However, it is hoped that they would then prove useful to others as well.

Definitions

1.5 "Quality" is the degree to which a set of inherent characteristics of an audit fulfils requirements. In discussing the work of an SAI, these characteristics include:

- **Significance** – How important is the matter that was examined in the audit? This, in turn, can be assessed in several dimensions, such as the financial size of the auditee and the effects of the performance of the auditee have on the public at large or on major national policy issues;
- **Reliability** – Are the audit findings and conclusions an accurate reflection of actual conditions with respect to the matter being examined? Are all assertions in the audit report or other product fully supported by the data gathered in the audit?
- **Objectivity** – Was the audit carried out in an impartial and fair manner without favour or prejudice? The auditor should base his assessment and opinion purely on fact and on sound analysis;
- **Scope** – Did the audit task plan properly address all elements needed for a successful audit? Did execution of the audit satisfactorily complete all the needed elements of the task plan?
- **Timeliness** – Were the audit results delivered at an appropriate time? This may involve meeting a statutory deadline or delivering audit results when they are needed for a policy decision or when they will be most useful in correcting management weaknesses;
- **Clarity** – Was the audit report clear and concise in presenting the results of the audit? This typically involves being sure that the scope, findings and any recommendations can be readily understood by busy executives and parliamentarians who may not be experts in the matters that are addressed but may need to act in response to the report;
- **Efficiency** – Were the resources assigned to the audit reasonable in the light of the significance and complexity of the audit?
- **Effectiveness** – Did the findings, conclusions and recommendations get an appropriate response from the auditee, the government and/or parliament?

1.6 "Quality Controls" is a term that encompasses the policies and procedures that are put in place in an SAI to assure that its audit work is of a consistently high quality.

1.7 "Quality Assurance" is the process established by an SAI to ensure that:

- Needed controls are in place;
- Controls are being properly implemented; and
- Potential ways of strengthening or otherwise improving controls are identified.

1.8 "Principal Auditor" is a term used in this document to identify the person who is responsible and accountable for the performance of an audit. Depending on the circumstances, this may be an individual who is performing the audit alone, or the leader of one or more teams acting in concert to conduct the audit.

1.9 "Audit programme", as used in this document, describes the series of audits that are anticipated to be performed over some specified period of time.

1.10 "Audit task plan", as used in this document, describes the activities to be carried out in connection with a particular audit.

Types of SAIs

1.11 SAIs differ widely in structure and mode of operations. The two broad types are generally described as "courts of audit" and "audit offices". Within these categories, however, there is wide variation.

1.12 SAIs of the "courts of audit" type have, as one of the results of their audit mission, juridical functions, primarily with respect to financial irregularities, as well as the audit responsibilities found in other SAIs. These are collegiate bodies, typically incorporating judges and at times following court procedures. They are headed by a "President" or "First president" and may have an independent Prosecutor General who can participate to the quality control process. Central direction and management of the court is focused on consensus on important issues like strategy, programme planning and publications, as well as on overall organisation matters (budget, staff, training, etc.). At the same time virtually all decisions related to audit execution are vested in separate components ("chambers"), which operate largely independent of each other. Within the separate chambers, there are few layers of supervision over the auditors or audit teams.

1.13 SAIs organised as "audit offices" usually are single-member organs, at times with collegial aspects. Such SAIs typically have a single head of the organisation, typically with the title "President" or "Auditor General". The authority actually exercised by this official, however, can vary widely. In some, virtually all important decisions (typically including final approval of an audit report, for example) are made by, or referred to and approved by, the President (Auditor General). In others, substantial authority may be delegated to subordinate officials within a strategic and corporate planning framework for the whole office. These subordinates may have then sufficient independent authority to initiate audits and approve issue of some types of resulting report.

1.14 Certain "collegiate" structures are organised as courts but have no judicial function. They employ a high level of collegial approach to deciding important issues. However, there is considerable central direction and management of the institution. In these SAIs, the "President" (or "Chair") may have significant influence on the decisions made in this collegial process. Between the members of the court and the individual auditors, there may be several levels of hierarchy or supervision, which are similar in some ways to those of an "audit office".

Types of Audits

1.15 It is common to refer to the International Organisation of Supreme Audit Institutions' (INTOSAI) Auditing Standards[1] that define two main types of audits, regularity audits and performance audits. In fact, however – just as there is wide variation in the organisational structure of SAIs – there is a wide range of types of audits those SAIs may perform, for instance:

- Attestation/Financial Statement Audit: Do the audited financial statements or reports accurately portray the financial condition and/or activities of the audited entity?
- Compliance Audit: Are regulations complied with?
- Economy Audit: Do the means chosen represent the most economical use of public funds for the given performance?
- Efficiency Audit: Are the results obtained commensurate with the resources employed?
- Effectiveness Audit: Have objectives of policy been achieved?

[1] Paragraph 1.0.38. of the INTOSAI Auditing Standards.

- Evaluation of the consistency of the policy: Are the means employed by the policy consistent with the set objectives?
- Evaluation of the impact of the policy: What is the economic and social impact of a particular policy?
- Evaluation of the effectiveness of the policy and a cause effect analysis: Are the observed results due to the policy, or are there other causes?

Each of these different types of audit involves differing methodologies and, as a consequence, different sorts of quality controls and management requirements.

Types of Results

1.16 Results of SAIs' work may be issued in various ways. SAIs of the "audit office" type usually issue findings, conclusions, and non-binding recommendations, expressed in published or non-published reports of different kinds. These reports depend on the types of audits, legal arrangements and recipients (auditees, Parliament, government, jurisdictions, general public, etc.). In addition to the latter, SAIs of the "court of audit" type may also issue, in connection with regularity audits, binding judicial decisions (judgements) against accountants and/or public officials liable before the court, thereby ordering repayments or fines.

Form of Presentation of the Guidelines

1.17 These guidelines are intended to be applicable to all SAIs and to all audits. This has required a particular approach to their presentation. The guidelines below, presented in **bold** type, are stated as basic principles. It is considered that each SAI is best equipped to decide how best to implement each guideline in the context of its own structure and of the types of audits that it performs. For example, in an SAI with a highly decentralised management structure (such as some "courts of audit") responsibility for implementing the guidelines may largely rest with the organisational components ("chambers") of the SAI. The **Annexes at C and D** give more detailed information on quality controls for the audits of financial statements recently issued by the International Federation of Accountants (IFAC); and **at Annex E** those for performance audit recently issued by INTOSAI (see also paragraphs 1.19 and 1.20 below).

1.18 Each guideline is accompanied by an explanatory text, in normal type, which is intended to help the reader understand why that guideline is needed and what it seeks to accomplish. Where it was deemed helpful, this material includes (or refers to) examples of ways in which the guideline can be implemented. Where appropriate, references are also included to other documents or publications that an SAI may find helpful in implementing the guideline.

Other Guidance

1.19 In addition to the guidelines set forth in this document, SAIs should also refer to other valuable guidance, including the Code of Ethics and Auditing Standards and the Implementation Guidelines for Performance Auditing of INTOSAI; the European Implementing Guidelines for the INTOSAI Auditing Standards (especially current Guideline 51, "Quality Assurance"); and, especially for SAIs who perform financial statement (attestation) audits, the Standards promulgated by IFAC.

1.20 SAIs should take note of several recent IFAC Standards, which significantly revised previous standards or created new standards. While these will be specifically applicable to financial

statement (attestation) audits, they provide guidance that may also be helpful in other audit situations. They include:

- IFAC ISA 220, "Quality Control for Audits of Historical Financial Information" (see excerpts in **Annex C**, in which terminology has been adjusted to fit the SAI environment);
- IFAC ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" (see excerpts in **Annex D**, in which terminology has also been adjusted to fit the SAI environment);
- IFAC ISA 300 (Revised), "Planning the Audit".

1.21 SAIs should also take into account developments by INTOSAI, namely the guidance notes that will be issued by the INTOSAI Auditing Standards Committee based on the IFAC Auditing Standards. The "Guidelines on Audit Quality" are meant to be in conformity with quality standards and guidelines issued by the respective Committees of IFAC and INTOSAI. However, should any inconsistency arise, the INTOSAI Auditing Standards and guidance notes should evidently prevail.

2 Quality Control

2.1 General

2.1.1 A Supreme Audit Institution (SAI) should seek to carry out its audit work at a consistently high level of quality in the following dimensions:

- **Significance and value of matters addressed in its audits;**
- **Objectiveness and fairness in the basis of assessments made and opinions given;**
- **Scope and completeness in the planning and performance of audits carried out;**
- **Reliability and validity of the opinions, or findings and conclusions, appropriateness of the recommendations and relevance of other matters presented in its audit reports and other products;**
- **Timeliness of the issue of audit reports and other products in relation to statutory deadlines and the needs of anticipated users;**
- **Clarity in the presentation of audit reports and other products;**
- **Efficiency in the performance of audits and audit-related work; and**
- **Effectiveness in terms of results and impacts achieved.**

2.1.2 In pursuit of this goal, an SAI should establish policies, systems and procedures that will encourage actions leading to high quality and discourage or prevent actions that might impair quality. These quality controls should be developed and implemented with respect to all phases of the audit process, including:

- **Selecting matters for audit;**
- **Deciding the timing of the audit;**
- **Planning the audit;**
- **Executing the audit;**
- **Reporting the audit results; and**
- **Follow-up and evaluation of audit findings, conclusions and recommendations.**

2.1.3 SAIs with a strong reputation for the consistently high quality of their work exhibit certain characteristics in common, regardless of their organisational structure. Among these, there is the commitment to quality throughout the organisation, coupled with a clear understanding,

based on education, training and experience, of what is required to achieve that goal. Developing this institutional environment of quality is a long-term process that is addressed in a later subsection of these guidelines.

2.1.4 This subsection of the guidelines, together with the forthcoming subsections, are addressed to the more immediate need to establish procedures to control the quality of individual audits undertaken by an SAI. However, because of the diversity in form and structure of SAIs as well as the different types of audits they perform, there is no single set of detailed procedures that will accomplish the goal of quality in all circumstances. For example, audit procedures that are appropriate for attesting the reliability of a set of financial statements are unlikely to be entirely appropriate for a performance audit. Review procedures that work well in some "audit offices" simply do not fit the structure of some "courts of audit". Nevertheless, there are attributes that are applicable to all SAIs and to all audits. Among these are the characteristics of quality and the phases of the audit process. Decisions and actions taken by the SAI or its components and by the audit staff during each of the phases of the audit largely determine the ultimate quality of the audit.

2.1.5 Ensuing subsections of these guidelines set out the basic principles that should guide decisions and actions in each phase of the audit process. It is up to each SAI to determine how best to implement these principles in the context of its own organisation structure and the particular types of audits that it performs.

2.1.6 In SAIs with a highly decentralized organisation, while setting up the guidelines is a central management responsibility, implementing these guidelines rests almost entirely on the component units or chambers.

2.1.7 Special attention is needed to the problems and potential advantages of computerisation. Auditing requires special skills when the auditee operates in a computerised environment. The auditors in these circumstances must have not only a basic understanding of computers, but must have or quickly acquire knowledge of the systems used by the auditee.

2.1.8 At the same time, computerised audit tools and programmes – when properly employed – can greatly increase the efficiency of the audit process. SAIs may need to introduce appropriate training to develop these skills.

2.1.9 Modern audit systems that make extensive use of computers to render audits largely paperless, including the related working papers and documentation, should contain in-built controls and safeguards. In such systems all or most stages of the audit could be processed and stored in electronic format. An automated quality control system should incorporate a strictly defined set of authorisation and approved criteria, as well as features that ensure that standard documents and checklists (which may be electronically readily available to all team members) are used and compiled in all cases. With such systems some parts of the work of supervisors and reviewers are electronically supported on a real time basis. The principles of quality control remain intrinsically the same as those in a non-automated audit process.

2.1.10 Although an audit requires different layers of quality control measures and criteria, the auditors carrying out the audit fieldwork should be left with a degree of professional judgement. This depends upon the audit task in hand, problems encountered that need to be addressed immediately, as well as, most importantly, to the degree of direction, supervision and/or review, that is required on the auditors. The degree of professional judgement also depends upon the auditor's competence, expertise, professional qualifications, aptitude and level in the hierarchy.

2.1.11 The SAI's general quality control policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies are understood and implemented. Quality control requires a clear understanding of where responsibility lies for particular decisions. It should be the responsibility of everyone involved in the audit to fully identify and understand his or her responsibility.

2.1.12 Quality control processes should be carried out in a prescribed way and be documented. These processes may be supported by questionnaires and checklists in prescribed forms.

2.2 Selection and Timing of Audits

2.2.1 An SAI should ensure that decisions regarding what areas to audit and when to perform those audits give proper consideration to the following:

- **The relative priority among potential audit subjects, including consideration of audits required by law, where applicable and the limits of SAIs' mandate;**
- **The financial and human resources required for the performance of particular audits, including consideration of the availability of audit staff with the required skills;**
- **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;**
- **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;**
- **The assessment of risks and the significance, sensitivity and materiality of the audit topics**

2.2.2 All SAIs face a situation in which the potential audits they might perform far exceed the audit resources that are available, in terms of the number and mix of skills of the audit staff. These constraints limit both the number and the type of audits that an SAI can undertake. For example, audit staff that are skilled in performing certain kinds of regularity audits may not have the skills needed to carry out certain types of performance audits and vice versa. Thus, in seeking high levels of quality, the first task of an SAI (or of the component units of a more decentralised SAI) is to use the available resources to produce audits of the highest priority possible, with results scheduled to be delivered when they are expected to prove most useful.

2.2.3 SAIs also face widely varying situations regarding the extent of the discretion that they have in the use of available audit resources. Some have almost total discretion in selecting which audits to perform and when to perform them. Others are constrained by requirements in law to perform certain audits, such as an annual audit of the execution of the state budget. Results may need to be delivered by a specified date that may consume a substantial portion of the available audit resources, at least during certain periods of the year. Nevertheless, all SAIs need to have an effective process by which they decide how to use their discretionary resources to best effect.

2.2.4 SAIs should take into account the work already performed or planned to be performed, by internal audit units or other auditors who would be carrying out some type of audit in the same bodies examined by the SAI. It should also be ensured that audit work carried out by other auditors is not unnecessarily duplicated.

2.2.5 Most SAIs have adopted a planning approach that operates at several levels. The structure of such a planning process is described in **Annex F**. One common approach to this task is the development of an annual audit programme. This typically entails consideration of a wide range of possible audits (sometimes including potential audits suggested by the audit staff).

Various attributes of the possible audits are then examined, until decisions are reached as to those having the highest probable priority, based on materiality and risk assessment, given the constraints faced by the SAI.

2.2.6 In developing an annual audit programme, it is often helpful to do so in the context of a longer-term perspective. For example, an SAI might develop a tentative list of the audits it believes should be performed over the next five years, or other period. That tentative list would then be re-examined, revised and extended at regular intervals, perhaps annually. This allows the SAI to select audits for one year with awareness of what audit work is anticipated in subsequent periods.

2.2.7 The procedures for deciding the annual audit programme, or other ways of deciding the scope and timing of specific audits, will differ from one SAI to another, for instance:

- In SAIs with a centralised management structure, decisions in this regard typically involve the President (Auditor General), often in consultation with other top managers after considering suggestions and other advice from subordinate officials;
- In SAIs that employ non-hierarchical and collegial decision processes, a comparable approach may be used, with final decisions being made by the collegium;
- In SAIs with a more decentralised approach to management, authority for these decisions is shared with component parts of the SAI. In this case, the separate proposals made by each component may be discussed and, if so, amended by a central collegium. Final decisions may then be consolidated into a single programme.

2.2.8 Regardless of the process used to reach these decisions in a particular SAI, the considerations that should underlie them remain the same. Thus, whether a process is centralised or decentralised a similar approach is necessary, with a similar consideration of all the relevant factors throughout the SAI. These should be fully recorded and documented, particularly the necessary discussions and decisions on audit risk, materiality and sensitivity, whatever management process is consistently applied.

2.2.9 SAIs should also recognise that the audit programme for the year (or other programming period) cannot be static. Circumstances change and priorities among potential audit subjects change with them. New problems and new issues arise, sometimes of an urgent nature. The SAI must be prepared to adjust its work programme to meet those needs. Thus, from time to time, some programmed audits may need to be replaced by others in response to these changing circumstances.

2.3 Audit Planning

2.3.1 In each audit, the first step should be the development of a fully documented audit task plan. The plan should be prepared by the principal auditor, or by another sufficiently expert and qualified auditor, preferably in consultation with other members of the team, if any, or the collegiate structure. The plan should be developed with careful regard to, among other things, the following:

- **The number and skills of the staff available for the audit;**
- **The time and financial and other resources, including, when relevant, external expertise, necessary for the performance of the audit; and**
- **The risks that may be encountered in the audit and the audit tests that will specifically address those risks.**

2.3.2 The audit task plan should describe in sufficient detail:

- **The purpose and objectives of the audit;**
- **Selection and calculation process for materiality;**
- **The methodology to be employed;**
- **The audit tasks to be performed;**
- **The time and other resources allocated to each of those tasks, along with the identity of the person(s) assigned to the task and their responsibilities;**
- **The scheduled completion date for each task, for each separate phase of the audit, and for the audit as a whole.**

2.3.3 The audit task plan should be reviewed, modified if necessary, and approved by an official who has supervisory authority over the audit team, if the SAI structure has such a supervisory layer. Otherwise, the plan should be reviewed by another auditor of adequate seniority and authority within the SAI who has successfully performed audits of similar type and complexity, and who is independent of the audit team. All such reviews, and any approvals, should be documented.

2.3.4 The preparation of an audit task plan is a vital phase in the audit process. Auditing involves the collection and analysis of facts and data sufficient to reach reliable and valid conclusions about the subject of the audit. The resources available for that process are nearly always limited. Development of the plan is the vehicle for reconciling the work to be done with the resources available for accomplishing it, including, when relevant, external expertise.

2.3.5 The following table shows elements that may be included in an audit task plan:

Typical Contents of an Audit Task Plan[2]

1. Legal Framework for the audit;
2. Brief description of the activity, programme or body to be audited (including a summary of the results of previous audits and their impacts);
3. Reasons for the audit;
4. Factors affecting the audit, including those determining the materiality of matters to be considered;
5. Risk Assessment;
6. Audit Objectives;
7. Audit Scope and Approach: what evidence is to be obtained to meet the audit objectives; when; how?
   - Materiality thresholds;
   - Systems to be evaluated and tested;
   - Methodologies to be employed;
   - Sampling strategies;
   - Anticipated sample sizes;
   - Reliance on other auditors/experts; and
   - Any special problems foreseen.
8. Resources required, and when:
   - Audit staff (in detail), responsibilities;
   - Specialist staff (who and when);
   - External experts;
   - Travel requirements;
   - Time and cost budgets.
9. If appropriate, an estimate of the fee to be charged for the audit;
10. Details of those within the audited entity responsible for the liaison;
11. Timetable for the audit, and the date that draft report will be available for internal consideration;
12. Management arrangements for the audit; and
13. Form, content and users of the final output.

[2] Based on "European Implementing Guidelines for the INTOSAI Auditing Standards" – No. 11 Audit Planning, Annex 1, Appendix 2.

2.3.6 While the basic elements of audit task plans are likely to be similar, the actual contents will differ widely depending on the type of audit (regularity or performance), the audit objective(s) and the auditee. Substantial differences will be found even with similar types of audit. For example, in an audit to give an opinion on the financial statements of an entity that is believed to have reasonably good accounting systems, the methodology is likely to emphasise testing the systems and examining the adequacy of the management controls. If the accounting systems are computerised, the plan should recognize the need for the team to include staff with the needed IT skills and computer resources. On the other hand, if the auditor has reason to doubt the soundness of the systems and/or the adequacy of the controls, the plan should recognize the need for the more labour-intensive task of sampling and testing a substantially larger number of individual transactions.

2.3.7 Among performance audits, the number and complexity of the planning issues can be even greater. The methodology for assessing the operating efficiency of an entity will be quite different from that for attempting to measure the effectiveness of a programme in achieving its stated objectives. These two kinds of audits involve collecting and analysing different kinds of data from different sources. Because of the potential difficulty of collecting the data needed for valid conclusions in some kinds of performance audits, the plan may need to provide a pre-test of the methodology to determine its feasibility.

2.3.8 A different sort of issue can arise in a performance audit if the methodology relies on the use of data from administrative records, as many do. In that situation, the plan should include provisions for assessing the validity of that data. This may involve audit steps (testing systems and controls) that are similar in some respects to those used in a financial statement (attestation) audit.

2.3.9 It has often proven valuable to have the proposed audit task plan reviewed by an experienced auditor who is outside the audit team. Such reviews may raise issues that were not considered by the originator of the plan and that suggest the need to modify the plan in material ways. In an "audit office" with a hierarchical structure, such a review is typically required by office policy and is usually carried out in two stages by supervisory levels above that of audit team leader. In a more decentralised SAI, such as some "courts of audit", the review may be performed on a cooperative basis by a peer of the team leader (like a *contre-rapporteur* in some "courts of audit").

2.3.10 Those planning financial statement (attestation) audits are advised to consider the standards of IFAC. Of particular relevance is the International Standard on Auditing 300, "Planning the Audit".

2.3.11 For those responsible for reviewing an audit task plan, the checklist at **Annex G** may be helpful.

2.4 Audit Execution

2.4.1 Before starting the audit, the principal auditor should ensure that:

- **All those involved in the audit understand the plan as a whole and the tasks assigned to that person;**
- **Each person 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 would impede any person involved in the audit from carrying out the assigned tasks in a competent and objective manner.**

2.4.2 The audit should be performed in accordance with the approved plan. However, the planning process does not end with the start of the execution phase. Rather, as implementation of the audit proceeds, unanticipated circumstances will often require that the plan be modified. Such changes should be documented, along with the reasons for them. If any changes alter significantly the methodology of the audit or the time or other resources required to carry it out, those changes should be reviewed and approved by the official, if any, who approved the original plan. Such approvals should be documented.

2.4.3 The principal auditor should maintain adequate supervision of those involved in the audit to assure that the audit tasks are carried out properly. If anyone finds it difficult to carry out an assigned task, this should be reported promptly to that person's supervisor, who may need to provide further assistance. If significant unanticipated problems are encountered, or if audit results are obtained on material issues that are markedly at variance from those that were anticipated, these should be reported to the principal auditor, who may need to adjust the audit scope and/or audit task plan.

2.4.4 As each task in the audit task plan is completed, that fact and a detailed record of the results should be documented promptly by the individual(s) who performed that task. That documentation should be reviewed, evidenced and approved by the immediate supervisor of the responsible auditor, as well as by at least one other supervisor at a stage later on in the audit. Reviews need to be clearly evidenced and dated.

2.4.5 Audit working papers are an essential part of the audit process. They should be systematically collected, reviewed and maintained. The working papers should be organised in a way that facilitates subsequent preparation and review of the audit report.

2.4.6 Before starting the actual fieldwork of the audit, the principal auditor should carefully review the plan to assure that it can be properly implemented. If the principal auditor is functioning as the leader of an audit team, this review should be performed in conjunction with the members of the team, 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. Issues that are raised and resolved at this stage can help avoid problems and delays later in the audit.

2.4.7 During the course of an audit the principal auditor should supervise the work of the team members, if any, to ensure that work is being carried out appropriately, in accordance with the plan. The extent and nature of the supervision will depend upon such factors as the number of persons in the audit assignment, their experience, expertise, qualifications and aptitude.

2.4.8 The principal auditor should ensure that:

- The audit progresses in accordance with the plan;
- Changes in methodologies or other elements of the plan are approved by the principal auditor and, if appropriate, by other officials of the SAI; and
- He/she and the members of the audit team, if any, properly document in the audit working papers the results of all audit testing and findings. The findings should be described objectively, truthfully, precisely, completely and comprehensively, with emphasis on materiality and conciseness. Problems should, if necessary, be reported to and resolved with the assistance of more senior auditors. Both problems and their resolution should be documented in manual or electronic format and, if necessary, sorted out with the more senior auditors.

2.4.9 The principal auditor should ensure that appropriate measures are taken in the following areas:

- Audit documentation is being 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;
- Audit evidence is sufficient and appropriate;
- Audit evidence procedures are properly followed;
- The planned audit approach remains appropriate in the light of information gathered in the audit or that appropriate changes are made;
- Internal control systems of the auditee are properly documented, evaluated and tested;
- Controls of an IT nature are adequately taken into account;
- Proper sampling, analytical procedures, data gathering techniques and techniques for information analysis are used, where appropriate; and
- Working papers include relevant, reliable and sufficient evidence supporting all findings, opinions, conclusions and recommendations.

2.4.10 It is not uncommon, during the course of an audit, for the principal auditor or one or more members of an audit team to encounter unanticipated difficulties, the resolution of which is beyond their capabilities. Team members should be encouraged, in these situations, to seek assistance from the team leader. The team leader may likewise seek assistance from his/her superiors.

2.4.11 If unexpected problems or technical issues are encountered during the audit that requires skills beyond those represented on the team, the principal auditor should seek assistance from needed experts. For example, if legal issues arise, it may be appropriate for the principal auditor to seek advice from legal experts within the SAI or from external sources.

2.4.12 Supervisory duties can become especially challenging in an audit involving multiple groups of auditors in several locations. In this situation, there may actually be several audit teams at work simultaneously, each being led by a team leader. In these circumstances, the leading auditor amongst these team leaders is likely not to be supervising the individual auditors but, rather, is responsible for coordinating the work of the various teams, to assure consistent results, and supervising the work of the leaders of the individual teams.

2.4.13 In implementing the audit task plan, it is helpful for all team members to prepare daily or periodic sufficiently detailed job/time reports. This can help ensure that work is carried out within the schedule and staff days allocated for the audit.

2.4.14 In hierarchical "audit offices" and some "collegiate" structures, it is common to have several layers of supervision above the principal auditor. In these organisations, at least one of these supervisory levels is typically expected to stay in touch with the principal auditor and to review, periodically, the progress of the audit and any problems that have been encountered. This supervisor is normally responsible for approving any substantial changes in the audit task plan and for obtaining any specialised assistance that the principal auditor may require to complete the audit. In some "courts of audit", such supervision is performed by a peer (like a *contre-rapporteur*). The nature of such direction, supervision and review is described in **Annex H** for "audit offices", and **Annex I** for "courts of audit".

2.4.15 Auditors should be encouraged to point out possible shortcomings in the audit task plan and in the quality control system. Feedback between fieldwork auditors and others in the organisation helps communications and relations among staff of the SAI, and improve the understanding of audit tasks and related problems by all concerned, apart from improving the quality control system itself.

2.4.16 Upon completion of the audit testing, the principal auditor, and his/her supervisors, if any, should review all aspects of the audit tasks performed during the audit, including tests carried out, findings and working papers and should document such reviews. It is potentially helpful, in this review process, to identify changes and improvements necessary for future audits.

2.4.17 Those reviewing the execution of an audit may wish to consider the checklist at **Annex J**.

2.5 Audit Reporting

2.5.1 Audit reports should be clear, timely, concise and objective. They should provide a fair summary of all the relevant facts. All findings and conclusions must be supported by adequate, reliable and fair audit evidence in the audit working papers. Reported audit issues need to be properly analysed and concluded. Viewpoints on significant issues of auditees expressed in the course of the audit on matters raised by auditors should be mentioned and discussed in the report. Any material conflicting evidence should be acknowledged in the report, together with an explanation of why it was rejected or otherwise not reflected in the report conclusions. The standards of materiality and significance will depend on the nature of the audit and the type of report or other output.

2.5.2 The draft of the audit report should be prepared by the principal auditor, normally in consultation with other members of the team, if any.

2.5.3 The draft of the audit report should be carefully reviewed for adequacy by an experienced auditor and/or audit collegium who is independent of the audit team. The principal auditor should respond appropriately to any comments by this reviewer. This review, any comments by the reviewer, and actions taken in response should be documented and retained in the audit working papers.

2.5.4 After the draft report is reviewed internally, including, if appropriate, collegial review, it should be provided to the auditee(s), for review and comment within a specified timeframe. Comments received from an auditee should be carefully considered by the principal auditor, who should report the comments to the reviewer and, if applicable, to the audit collegium. Factual disagreements should be resolved, possibly necessitating additional audit work. The audit report should be adjusted, if appropriate, in response to factual, soundly based auditee comments.

2.5.5 There should be clear statutory provision and internal guidance as to who has the authority to approve and issue the audit report.

2.5.6 The principal auditor typically has the primary responsibility for drafting the audit report. If the principal auditor is leading an audit team, this is normally accomplished with assistance from the other members of the audit team. In some SAIs, the drafting process is supervised by an official who is superior in the hierarchy to the principal auditor.

2.5.7 In drafting the report, the principal auditor and the supervisor or other reviewer should have particular regard for ensuring the following:

- All audit findings have been evaluated as to their materiality, legality and factual evidence and all relevant material findings are included;
- There is documentary evidence in support of all conclusions and opinions, and there is a clear audit trail for audit steps, findings, conclusions and recommendations prepared by the principal auditor and his assistants and fully cross-referenced to the working papers;
- All the relevant facts are fairly presented in neutral terms;
- Sources of facts, figures and quotations should always be mentioned;

- The report is concise, clear, timely, precise, simple, objective, balanced and constructive. Positive conclusions may also be presented. Relevant measures and, if applicable, sanctions to be taken by the SAI should be clearly stated;
- Views of the auditee are mentioned (if appropriate) and questions of fact are to be resolved with the auditee. Any divergence of opinion should have been discussed and resolved, if possible, during an exit conference or during a contradictory procedure with the auditee;
- Structure of the report is in line with applicable policies and standards;
- Relevant and material events subsequent to the audit are taken into account, to the extent that the principal auditor is aware of and documents them;
- Written representations are made by management of the auditee, particularly in instances where certain audit findings cannot otherwise be confirmed;
- Applicable procedures are followed with regard to serious irregularities and fraud discovered in the audit; and
- Time limits are adhered to.

2.5.8 The following table provides further guidance to the contents of an audit report:

Typical Contents of an Audit Report

Reports, both for Financial and Performance Audits, should be in standard format. In terms of the European Implementing Guidelines for INTOSAI Standards (Annex 1 of Guideline No. 31), the auditor must have specific regard to the following aspects of the report:

- Title
- Signature and Date
- Objectives and Scope
- Completeness (areas not covered by audit should be specified)
- Addressee
- Identification of subject matters
- Legal basis
- Compliance with standards
- Timeliness

An audit opinion is normally in standard format, relating to the financial statements as a whole. The nature of words of the audit opinion will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified.

In terms of Section 4.0.10 of the INTOSAI Code of Ethics and Auditing Standards (Standards), an *Unqualified Opinion* is given when the auditor is satisfied in all material respects that:

(a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;

(b) the statements comply with statutory requirements and relevant regulations;

(c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and

(d) there is adequate disclosure of all material matters relevant to the financial statements.

If an unusual or important matter ("*Emphasis of Matter*") needs to be included in the Audit Report to enable the reader to correctly understand the Financial Statements, this should be contained in a separate paragraph from the audit opinion in order not to give the impression that the Audit Report is being qualified (Section 4.0.11 of the Standards).

If the auditor is unable to provide an unqualified opinion, the auditor usually provides one of the following audit opinions (Sections 4.0.13 – 4.0.15 of the Standards):

Qualified Opinion (if there is limitation on the scope of the auditors' examination or if the auditor disagrees with the treatment or disclosure of one or more items in the Financial Statements which are material but not fundamental in understanding the Financial Statements);

Adverse Opinion (if the auditor is unable to form an unqualified opinion on the Financial Statements as a whole due to disagreement that is material and fundamental, rendering the Financial Statements seriously misleading);

Disclaimer of Opinion (if the auditor has not been able to obtain sufficient evidence to support and express an opinion on the Financial Statements as a whole due to uncertainty or scope restriction that is material and fundamental).

It is customary for a SAI to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion (Section 4.0.16 of the Standards).

Performance Audit Reports normally include the following elements (7.2 of Guideline No. 41 of the European Implementing Guidelines):

- Summary of the environment within which the activity subject to audit takes place;
- Objectives of the audit;
- Summary of audit methodologies used for collecting and analysing data and indication of sources of data;
- Explanation of criteria, such as benchmarks, used to interpret findings;
- Findings that are considered material to the intended users of the report;
- Conclusions relating to audit objectives; and
- Recommendations.

Management of the audited body should also be given the opportunity to comment on the draft report and have its comments included, where deemed appropriate.

The Audit Opinion (Findings, Conclusions and Recommendations in Performance Audit Reports) presents either a favourable opinion or highlights all significant instances of non-compliance and criticisms that are pertinent to the objectives of the audit. It also provides independent information on whether economy, efficiency and effectiveness have been achieved or how they can be improved upon.

2.5.9 After the principal auditor has completed a draft of the audit report, it is very useful to have the draft report reviewed by another experienced auditor, who may note gaps or other shortcomings in the report that will need to be corrected. In an "audit office", this first reviewer is typically the official who is immediately superior in the hierarchy to the principal auditor. In a "court of audit", this first reviewer is traditionally a peer of the principal auditor, such as a *contre-rapporteur*, and the draft report is reviewed by a college of peers before being sent to the auditee.

2.5.10 It is advisable that this review be 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 also recommended to avoid, especially on legal issues, successive inconsistent opinions, stemming from different units, issued by the SAI. For example, if the audit raises significant legal issues, the report might be referred to the SAI's legal department, or to the prosecutor's office in some "courts of audit", or outside legal advisers. In a performance audit involving complex methodologies, internal or external experts may be needed to assure that the data and analysis support the conclusions. As far as legal actions or, if applicable, sanctions are considered in case of any type of legal infringements, legal advice should be

requested before a decision is made prior to passing on the case to the appropriate prosecuting authorities either inside or outside the SAI. The results of all reviews should be documented and retained in the audit working papers. A possible checklist of matters to be considered in such a review process is presented in **Annex K**.

2.5.11 Whatever the actual procedure and methodology of the review process, it should nevertheless cover the same issues and be performed to the same standard with the actions and results fully and satisfactorily documented.

2.5.12 After completing the drafting and internal review processes, it is highly desirable to submit the draft report to the auditee(s) for review, contradiction and comment. This should be made by written representations and/or hearings at which the auditee(s) is given an opportunity to fully present his/her views. This gives the auditee an opportunity to challenge assertions of fact with which he/she disagrees, or to offer alternative, more favourable interpretations of data.

2.5.13 To avoid unnecessary delay in the issue of the final report, it is common practice to allow a specific period of time for the auditee(s) to submit any comments. The allowed time for comment varies from one SAI to another, but it is not uncommon to restrict the comment period to 30 or 45 days, with exceptions being allowed when deemed justifiable.

2.5.14 The principal auditor and the audit team, if any, should give fair consideration to issues raised by the auditee in the contradictory procedure. Every effort should be made to resolve disagreements and to adjust the report in response to valid points made by the auditee(s). In some SAIs, auditee comments in the contradictory procedure are required to be referred to higher levels in the hierarchy for resolution.

2.5.15 It is common practice in many SAIs to publish the comments received in the exit conference and/or contradictory procedure (at least those that could not be resolved) in the final audit report and, where necessary, the SAI's analysis on those comments.

2.5.16 When the contradictory procedure has been completed, the next step is to publish the final report. The process for making this decision differs among SAIs. In a hierarchical "audit office", it is common practice for this decision to be made by the President (Auditor General) or another senior official. In a "court of audit", authority for the final decision may rest with the chamber that performed the audit, or it may be referred to a collegium of the court, depending on the structure of the court.

2.6 Audit Follow-up

2.6.1 At some time after an audit report is issued, an SAI should take appropriate steps to determine what action, if any, an auditee has taken to correct problems disclosed in the audit report and what effect such action(s) may have had.

2.6.2 Audit follow-up has two purposes. One is to encourage an appropriate response to audit findings on the part of the auditee or other responsible entities. If an auditee has acted to overcome problems found during an audit, it is appropriate for the SAI to recognize that fact. If, on the other hand, the auditee has not acted in response to the audit, it is also appropriate for the SAI to disclose that the problem(s) persist.

2.6.3 The other purpose of audit follow-up is to lay the foundation for future audit work. If previously disclosed problems are believed to have been resolved, subsequent audit work in that area may require only minimal testing to confirm that the problem no longer persists. If the problem has not been overcome, further audit work may be warranted to confirm the nature and significance of the problem, with the purpose of evoking a more appropriate response from the auditee.

2.6.4 Actions required for serious and effective follow-up will vary widely from one situation to another. In some circumstances, a simple inquiry directed to the managers of the auditee may be sufficient. In other cases, more substantive examination and testing will be required. The choice depends in part on the nature of the issue, but also on relations between the SAI and the auditee. If those relations are of mutual respect, the auditee may be more willing to address the shortcomings identified by the SAI.

2.6.5 SAIs pursue their audit follow-up responsibilities in various ways. In some situations, follow-up may be a separate phase of the audit process. This would be appropriate if the auditee is unlikely to be subject to further audits in the near future. In other cases, follow-up on the results of previous audits may be incorporated into the plan for a subsequent audit. This would be appropriate if the entity is subject to recurring audits on a relatively frequent basis.

3 Quality Assurance – Assessing Quality Controls

3.1 An SAI should establish procedures for assessing its system of quality controls to:

- **Determine if needed controls are in place;**
- **Determine if existing controls are being properly implemented;**
- **Confirm the quality of the audit practices and reports; and**
- **Identify potential ways of strengthening or otherwise improving the controls.**

3.2 The quality control assessment procedures should include post-audit reviews of a selected sample of completed audits and the associated working papers, performed by individuals and/or groups who are independent of the audits under review.

3.3 Paragraph 2.1.25 of the INTOSAI Auditing Standards states that:

> "The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures."

This Standard is further amplified by paragraph 2.1.27, which specifies that:

> *"They should establish systems and procedures to:*
> *(a) confirm that integral quality assurance processes have operated satisfactorily;*
> *(b) ensure the quality of the audit report; and*
> *(c) secure improvements and avoid repetition of weaknesses."*

And paragraph 2.1.28, according to which:

> "*... it is desirable for SAIs to establish their own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified SAI personnel not involved in those audits, with consultation with the relevant audit line management regarding the outcome of the internal quality assurance arrangements and periodic reporting to the SAI's top management*."

And paragraph 2.1.29, which states that:

> *"It is appropriate for SAIs to institute their own internal audit function with a wide charter to assist the SAI to achieve effective management of its own operations and sustain the quality of its performance."*

3.4 These standards are further elaborated in European Implementing Guideline No. 51, which states that quality assurance is a two-stage process and goes on to say:

> "At the first level the SAI must, as a matter of policy, define and decide upon the appropriate standards and level of quality for its outputs and then establish comprehensive procedures designed to ensure that this level of quality is attained. These policies and procedures should be established by reference to the global objectives of the SAI, which will normally reflect the legal requirements and socio-political expectations that the SAI faces."

3.5 EU Implementing Guideline No. 51 goes on to specify that:

> "Whilst the policies and procedures outlined above provide the basis for achieving the desired level of quality, and thus adherence with the INTOSAI Auditing Standards, it is not usually sufficient just to put these policies and procedures in place. It is usually also necessary to obtain assurance that they are being adhered to and that they are achieving their objective."

3.6 Effective quality control assessment procedures necessarily involve the examination of specific audits. Reviews should be conducted in a constructive manner. Reports should be balanced, taking into account the difficulties and constraints faced by the unit carrying out the audit; they should deal only with significant matters and include recommendations for improvement, not simply shortcomings of performance. It is also recommended that the review team also records instances of good practice identified during the review. This would help identify innovative ideas and good practices, which could have broader application across the SAI.

However, the purpose of the review is not to critique those specific audits. Rather, it is to determine what controls were intended to apply to those audits, how those controls were implemented, gaps in the controls that may need to be filled and other ways of improving the efficiency and/or effectiveness of the control system.

3.7 The appropriate ways of assessing quality controls using resources internal to the SAI will depend significantly on the structure of the SAI. One common approach is the establishment of a separate office, independent of the audit units and reporting directly, either to the President (Auditor General) in an "audit office", or to the relevant collegium in a "court of audit". This office may select a sample of audits that is representative of SAI's work, examine it in detail, and report the results, along with recommendations for improvement, to the top management or to the audit collegium. Another possible approach is conducting reviews by experienced staff members from different structural units, independent from audit being reviewed.

3.8 Internal assessment procedures can be usefully increased by assessments performed by external experts who are independent of the SAI. One approach is to invite experts from the private sector or the academic community to review relevant parts of the SAI's work. For example, a respected private audit firm might be asked to review a sample of the SAI's financial statement (attestation) audits. In similar fashion, a management consulting firm or respected academics could be asked to review selected performance audits.

3.9 Another approach to external assessment is asking another SAI to perform an assessment of the SAI's audit work and quality controls ("Peer Review"). When this approach is used, it is important that the reviewing SAI be experienced in the type of work performed by the requesting SAI. It is also helpful if the two SAIs have similar structures. It could be difficult, for example, for a centrally managed "audit office" to suggest control procedures, based on its own practices and experience, that could be readily adopted by a decentralised "court of audit".

3.10 A variation of the SAI-to-SAI assessment approach is the review process performed by a team of experienced auditors from various SAIs, organised by SIGMA[3]. In principle, such a review could focus on the quality of an SAI's work and its quality controls. In practice, however, these reviews have had a broader scope, encompassing, for example, the legal foundation and independence of the SAI, and on its overall management and organisation. SIGMA will then also support the SAI in developing strategic plans and actions to undertake development activities designed to make the SAI operate better.

[3] SIGMA is a joint initiative of the EU and the OECD

3.11 Some SAIs have found it useful to seek the views of auditees regarding the quality of the SAI's audit reports. This method can provide helpful insights but is most likely to be useful where the SAI and the auditee have established a relationship of mutual respect. Some areas that might be the subject of such assessment and then discussion with an auditee are set out in **Annex L**.

3.12 Assessments could be based on detailed questionnaires (checklists). This assists the review team in ensuring that the audit considered all key areas, to help them obtain an independent view as to whether sufficient and appropriate audit evidence was obtained and sound judgements were made. It also assures the comparability of assessments. For those performing internal or external reviews of audits and related reports to assess the adequacy of an SAI's quality controls, the checklists appearing at **Annexes G, J and K** may be helpful.

3.13 At the conclusion of the review, the review team should discuss its provisional findings with the reviewee, who is then also given the opportunity to provide a written response to the reviewer's conclusions. The reviewer should aim to obtain the agreement of the reviewee to any findings. In case this is not possible, any disagreements and extenuating factors that the assignment personnel wish to be noted should be recorded.

Procedures should be established by the SAI to resolve disagreements that may arise between the review team and audit staff.

3.14 Post-Audit Quality Assurance Reviews ascertain whether a SAI´s Quality Control system really operates effectively and efficiently. In this respect, the preparation of an annual internal report on those reviews would be useful for objectively identifying shortcomings and improvements required and stimulating suitable corrective measures.

On the basis of all reviews and additional information, a methodology unit (or a similar unit) could develop a general report on the quality of the audit work summing up general findings and recommendations. The report may entail the analysis of the SAI work in the previous year, including information on audit work, information on training activity; a summary of issues arising from quality control systems; summaries of external reports evaluating the SAI activity and recommendations on how to improve the institution's work.

The SAI top management or the audit collegium should actively consider the report. This report may also be distributed to all SAI staff as feedback and possible training material.

4 Institutional Management

4.1 To create an environment conducive to consistent high quality and continuous improvement in its effectiveness, an SAI should give high priority to:

- **Managing human resources, with emphasis on:**
  - **Recruitment;**
  - **Training;**
  - **Staff development;**
  - **Ethical standards;**
- **Managing institutional risks; and**
- **Building effective external relations.**

Managing Human Resources

4.2 Achieving a consistent standard of excellence in an SAI's audit work requires effective quality controls at all stages of the audit process. It is desirable, however, for SAIs to go beyond the needs of assuring quality in specific audits. They should seek to build an overall institutional environment that is conducive to consistently high quality and to continuous improvement in the effectiveness of the organisation. Doing so, however, is a long-term process with a number of vital elements. Among other things, it requires measures to assure excellence and dedication in the people carrying out the work. Achieving needed changes in state entities through the auditing process requires effective relations with those who have the capacity to make needed changes or the influence to cause them to come about.

4.3 SAIs should establish a clear strategy for recruiting and selecting new members of the staff. One element of this strategy is to seek excellence in the people they hire. One technique that is often used is open competition for vacant positions, at both the entry level and at more senior levels of the organisation.

4.4 The second element of the strategy is to anticipate the SAI's future needs and recruit staff to fill those needs. For example, the conduct of attestation audits – in which the primary focus is on examining the auditee's accounting systems and internal controls – requires different skills from those involved in compliance audits. Similarly, performance audits require a different, and broader, array of skills than regularity audits. Furthermore, auditing in a computerised environment requires other specialised skills. The type of work the SAI expects to perform in the future should be a key feature of the recruitment policy.

4.5 SAIs should invest considerable time and money in providing effective training for the staff. Typically, this has four components:

- *Introductory training* is designed to help new arrivals (at whatever level in the organisation) adapt to the unique culture and working methods of the SAI. It would address (among other things) such matters as organisational structure, internal and external working relationships, ethical standards, performance standards, etc. Even an auditor with long working experience will find that work related to the public sector involves new and different challenges compared with working in the private sector or in academic institutions.

- *Technical and skills training* is intended to equip the auditor with the methodological knowledge and skills needed to plan, execute and report whatever type of audit (regularity or performance) the individual auditor is expected to perform, and to do so efficiently and at a high level of quality. For SAIs that operate in a computerised environment (their own or an auditee's), specialised IT training may be an important component.

- *Managerial training* recognises that demonstrated skill at auditing does not necessarily equip one to manage an SAI or supervise an audit team. The required new skills, such as operational and strategic planning, budgeting for time and money, etc. grow more extensive as one moves to increasingly senior positions within the organisation.

- *Continuing education* ensures that auditors routinely undergo training to continuously maintain and enhance their professional capabilities. A commitment to life-long learning should be encouraged.

4.6 Introductory training is typically provided within the organisation. Technical and managerial training, as well as continuing education, may be provided in-house or may be delivered through arrangements with professional organisations or academic institutions. The choice should depend on which is most cost effective, considering the size of the SAI and the amount and nature of the required training.

4.7 SAIs should give attention to the career development of the staff. This element of institutional management focuses on two objectives. One is to help each auditor become as proficient as possible in carrying out the assigned responsibilities. The other is to help selected individuals prepare for more responsible positions and then to select the most highly qualified to fill those positions. Training is a vital part of the SAI's strategy in this area, but other elements are also needed. One is a *Performance Appraisal System*, through which all staff members (at all levels of the organisation) are assessed by their superiors against a well-understood set of performance standards for the position they currently occupy. Performance appraisals may be conducted annually to identify both strengths and weaknesses of the individual. SAIs may then use this information in constructing an *Individual Development Plan*, in which each person's needs for training and work experience is set forth. This, in turn determines the allocation of available training opportunities and the assignment of individuals to positions and tasks that will broaden or deepen that person's experience, as appropriate.

4.8 As vacancies occur in more senior positions in an SAI, it is important that they be filled by the people who are best qualified to perform the future duties of that position. It is equally important that the process by which this is accomplished be:

- Transparent, so that everyone can understand the basis for the selection; and

- Fair, so that the selection process is seen as being objective and there is no appearance of favouritism.

4.9 Many SAIs go to considerable lengths to accomplish this. Many use a process of open competition, in which the vacancy is widely publicised, along with the qualifications sought on the part of the eventual occupant of the position. Any person is free to apply for any vacant position. Each candidate is then interviewed by a number of persons who assess the candidate's background, experience and qualifications in accordance with the established requirements of the position. These assessments are then delivered to a selecting official who makes the final decision.

4.10 In addition to assuring that the audit staff is well trained and professionally and technically competent, it is vital to assure that they will perform their duties honestly, and that the audits they perform are free from any conflicts of interest or other impediments to the fair and objective appraisal of the subject of the audit. In some SAIs of the "court of audit" type, independence and even-handed behaviour of staff is strengthened through magistrate statute

(including taking oath). In some SAIs, a code of ethics is imposed by law, perhaps one that is applicable to the entire civil service of the state. In others, the SAI has promulgated a code of ethics, and associated procedures for assuring conformity to it. In this connection, SAIs should consider the INTOSAI Code of Ethics.

4.11 Other factors in developing human resources involve:

- Development of leadership and management skills and proficiencies;
- The development of an overall workforce plan;
- Policies relating to 'handing over' of tasks;
- Creation of inventory of staff knowledge and skills;
- Equal treatment and fair opportunity to all staff; and
- Employee Feedback Surveys.

Managing Institutional Risk

4.12 Not all audits are equally difficult and risky. Some are relatively simple and straightforward, with relatively low probability of encountering unexpected problems. Others are much more complex, with considerable uncertainty. The latter cases present a much greater risk of "audit failure", especially if the audit involves matters which are highly visible and/or politically sensitive. Unless the risk is appropriately managed, the result of the audit could undermine the SAI's credibility.

4.13 Many auditors respond instinctively to these differences, adjusting their plans and management attention to the relative risks of the audits in which they are involved. A better and more reliable approach, however, is for the SAI to establish a clear procedure for assessing these institutional risks and for adapting to them.

4.14 An appropriate risk management procedure would start with a documented assessment of the risks associated with each audit, considering such matters as

- Complexity of the audit;
- Audit Costs;
- Controversy associated with the matters being audited; and
- Likely co-operation or resistance by the auditee.

4.15 Based on this assessment, management can make explicit decisions to allocate scarce resources, such as technical expertise and management attention (intensity of direction, supervision and review) where they will best serve to minimise the institutional risks.

Managing External Relations

4.16 Effective management of its human resources and of the institutional risks, together with effective quality control systems, can assure that the SAI is capable of producing high quality. But the overall effectiveness of the SAI in achieving greater accountability, economy, efficiency and effectiveness in government entities depends critically on the relationships it establishes and maintains with others. SAIs should devote management time and attention to strengthening these relations:

- Establishing, within their separate and mutually independent mandates, good business relations with the Parliament and its committees (see Report on "Relations between Supreme Audit Institutions and Parliamentary Committees", which identifies good practices in this area[4]);
- Mutually supportive relations with the Ministry responsible for finance are vital to achieve improvements in government accounting and internal controls;
- Mutually respectful relations with line ministries and state agencies are necessary to allow auditors to do their work efficiently, without interference and impediments;
- Good relations with the media are necessary to assure that the public is aware of the important SAI products and of the actions taken (or not taken) in response;
- Good relations with private sector auditors and relevant professional associations can lead to sharing experiences that can strengthen quality in both sectors;
- Good relations with the academic community can facilitate drawing on that source of specialised expertise, when needed, and in recruiting high quality graduates; and
- Good relations with the SAIs community, including co-operation at the bilateral and multilateral level, can facilitate benchmarking, exchange of knowledge, experiences, techniques and good practices information.

[4] The Report was adopted by the Presidents of the SAIs of CEEC, Cyprus, Malta and the ECA at their Meeting in Limassol in November 2001. The Report was also published as SIGMA Paper No. 33.

Annex A – Reference Documents

- INTOSAI Code of Ethics and Auditing Standards (2001)
  http://www.intosai.org/Level3/Guidelines/3_CodEth_AudStand2001_E.pdf
- Exposure Draft on the Implementing Guidelines for Performance Auditing Standards – Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and practical experience
- 2004 IFAC Handbook of International Auditing, Assurance and Ethics Pronouncements (February 2004)
  http://www.ifac.org/Store/Details.tmpl?SID=95705605132866
- ISA 200 – Objective and General Principles Governing an Audit of Financial Statements (October 2003)
- ISA 220 – Quality Control for Audits of Historical Financial Information (February 2004)
  http://www.ifac.org/Store/Details.tmpl?SID=10779266883791114&Cart=10951541361441865
- ISA 300 (Revised) – Planning an Audit of Financial Statements (June 2004)
  http://www.ifac.org/Store/Details.tmpl?SID=1089655565432679&Cart=10951542831442008
- ISA 315 – Understanding of the Entity and Its Environment and Assessing the Risks of Material Misstatement (October 2003)
- ISA 330 – The Auditor's Procedures in Response to Assessed Risks (October 2003)
- ISA 500 – Audit Evidence (October 2003)
- IFAC ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
  http://www.ifac.org/Store/Details.tmpl?SID=10779265383791012&Cart=10951580141475366
- European Commission Recommendation 2001/256/EC of 15 November 2000 – 'Quality Assurance for the Statutory Audit in the EU: minimum requirements' (OJ. No L091, 31/03/2001, p. 91-97)
  http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l_091/l_09120010331en00910097.pdf
- ECA Audit Policies and Standards (2nd edition, May 2000)
  http://www.eca.eu.int/audit_approach/policies/docs/caps_en.pdf
- ECA Audit Manual
- European Implementing Guidelines for the INTOSAI Auditing Standards (1998)
  http://www.eca.eu.int/audit_approach/guidelines/docs/intosai_en.pdf
- Recommendations concerning the Functioning of Supreme Audit Institutions in the context of European Integration (1999, Prague)
  http://www.sigmaweb.org/PDF/EA_FC/Recommendations_SAIsfunctioning.pdf
- GAO Government Auditing Standards (GAO-03-673G, June 2003)
  http://www.gao.gov/govaud/ybk01.htm
- GAO document on 'An Audit Quality Control System: Essential Elements' (August 1993)
  http://www.gao.gov/special.pubs/p0416.pdf
- OAG (Canada) Annual Audit Manual (January 2003)
  http://www.oag-bvg.gc.ca/domino/other.nsf/html/99cam_e.html/$file/11758_e_internet.pdf
- OAG (Canada) Value-for-Money Audit Manual (December 2003)
  http://www.oag-bvg.gc.ca/domino/other.nsf/html/99cam_e.html/$file/vfm-net.pdf
- UK NAO Financial Audit Manual (September 1995)
- UK NAO Approach to Financial Audit Review (Audit Circular-Financial AC 01/02)

- UK NAO Review of Financial Audit Work (Audit Circular-Financial AC 01/02)
- UK NAO Quality Assurance Cold Reviews
- UK NAO: Obtaining Feedback from Financial Audit Clients (Audit Circular-Financial AC 11/02)
- UK NAO Standards Assurance Review Procedures (Audit Circular-Financial AC 12/02)
- UK NAO Value for Money Handbook. A Guide for Building Quality into VFM Examinations (2003)
- Quality Assurance of UK NAO Value for Money Studies
- UK NAO Quality Review Criteria
- UK NAO Project Team Questionnaire
- Building in Quality (Quality Review of UK NAO VFM reports 1999-2000)
- Cour des comptes (France) document on 'Quality in the Audit Process'
- The Netherlands Court of Audit: Self-evaluation Manual (April 1999)
  http://www.rekenkamer.nl/9282000/d/manual_selfevalution.pdf
- The Netherlands Court of Audit: Manual on Quality Requirements and Instruments (April 1996)
  http://www.rekenkamer.nl/9282000/d/manual_on_quality_requirements.pdf
- The NIK (Poland): Auditing Standards, Chapter 16 Care for Audit Quality (June 2003)
  http://www.nik.gov.pl/english/documents/audit_stand.pdf
- Hong Kong Institute of Certified Public Accountants Members' Handbook – Statement of Auditing Standards 240 Quality Control for Audit Work (issued January 1997, revised September 2004)
  http://www.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumeIII/sas240.pdf
- Office of the Inspector General (USA): Audit Quality Control Policies and Procedures, Appendix A (February 2002 Revision)
  http://www.ignet.gov/pande/audit/appa02.pdf
- 5th ASOSAI Research Project – Performance Auditing Guidelines – Chapter 8 Audit Management – Some Important Issues (October 2000)
  http://www.asosai.org/researchprojects/index.htm
- The Institute of Chartered Accountants in England and Wales – Audit Quality (November 2002)
  http://www.icaew.co.uk/library/index.cfm?AUB=TB2I_50761,MNXI_50761

Annex B – Summary of the Report "Quality in the Audit Process"

This report, focusing on the issue of how to achieve high quality in the audit process, was prepared at the request of the Presidents of the Supreme Audit Institutions (SAIs) of the Central and Eastern European Countries, Cyprus, Malta and the European Court of Auditors, as agreed at their meeting in Limassol in November of 2001.

Chapter 1 provides background information and describes the process and methodologies by which the report was developed.

Chapter 2 then sets out the basic concepts, principles and requisites that must underlie an effective approach to assuring the high quality of the work and reports of an SAI. This includes such matters as:

- A Code of Professional Ethics;
- Adoption and Adherence to International Auditing Standards;
- Appropriate Resources and Organisation Structure;
- Manuals and Guidance;
- Capable Staff;
- Quality Management Policies and Guidance; and
- Continuous Learning and Improvement.

Chapter 3 describes the situation with regard to quality control in the 16 participant SAIs based on each SAI's response to the questionnaire. It appears that all of the participant SAIs have adopted at least some of the needed elements of quality control, but the nature and extent of those control measures varies widely from one SAI to another. Some have relatively sophisticated control systems while, in others, the quality control procedures are at a much more rudimentary stage of development. Most, if not all, of the participant SAIs need to give greater emphasis to strengthening their quality control systems, and some a great deal more than others. The chapter reviews the types of quality controls needed in each phase of the audit process – planning, executing the audit, and developing and issuing the audit report – and cites a number of useful examples drawn from the questionnaire responses.

Chapter 4 draws on international experience to set out a number of "good practices" that might usefully be adopted by any SAI that has not already incorporated them. Specific suggestions include giving appropriate attention to the following major components of quality management:

Building quality into the audit process:

- Ensure effective direction, supervision and review during all three phases of the audit process: planning, execution and reporting.
- Specify clearly the roles and responsibilities of each of the participants in each phase.
- Identify and document the quality control criteria applicable to each phase and the sources from which those criteria were drawn.
- Clearly establish the quality control procedures to be followed during each phase and document both the implementation of those procedures and the results.

Obtaining Post-Audit Quality Assurance Reviews:

- The purpose of such reviews is not to criticise the particular audit being examined, but rather to ascertain whether or not the quality control procedures established by an SAI are consistently, effectively and properly used, and to identify ways in which the controls can be improved.
- One form of such a review is carried out internally by experienced auditors within the SAI who are independent of the audit under review. These reviews should be performed on a selected sample of audits annually.
- The second form is an external review performed by experts from professional organisations or from SAIs in other countries.

Focusing on elements of institutional management that will contribute to the high quality and overall effectiveness of the SAI:

- Seek excellence in the recruitment process, while also recruiting to meet the anticipated future needs of the SAI, rather than just replicating the skills of the existing staff.
- Deliver effective training of three types:
  - Introductory training, to help new personnel adapt to the organisation,
  - Technical training, to increase the skills of staff members, and
  - Managerial training, to prepare staff for greater responsibilities.
- Encourage staff development through:
  - Formal performance appraisal systems to identify strengths and weaknesses, and
  - Individual development plans to build on strengths and overcome weaknesses.
- Focus attention on managing external relations that are vital to the overall effectiveness of the SAI in improving accountability, economy, efficiency and effectiveness in government entities. Of special importance, in addition to working with parliament, which was discussed in a prior report, are:
  - Ministry of Finance,
  - Line ministries and state agencies,
  - The media,
  - Private sector auditors and professional organisations, and
  - The academic community.

The overall message of this report is that while all the participant SAIs have undoubtedly made conscientious efforts to assure high quality in their audit work, considerably more attention is needed to this issue. The report suggests some ways to go about that task.

The Report (Volume I) is supplemented by Volume II "Questionnaire Replies and Country Papers" and Volume III "Reference Documents".

The full report can be downloaded in electronic format from the following websites:

- www.sigmaweb.org
- www.asz.hu
- www.nao.gov.mt
- www.nik.gov.pl/english/slr_sai.html

Annex C – IFAC ISA 220 (Revised), "Quality Control for Audits of Historical Financial Information"

The material in this Annex is excerpted from the International Federation of Accountants (IFAC) ISA 220 (Revised), "Quality Control for Audits of Historical Financial Information". It includes the basic principles and essential procedures set forth in ISA 220, without the detailed explanatory material presented in that document. It has been further adapted to the environment of an SAI by substituting public sector terminology in lieu of private sector equivalents where it was believed that this would facilitate understanding.

SAIs conducting financial statement (attestation) audits should recognise that they should conform to ISA 220 (and most other IFAC Standards). The extent of the applicability of IFAC Standards to SAIs is typically set forth in a "Public Sector Perspective" that is a part of most IFAC Standards. In addition, however, all SAIs should recognise that many of these Standards, including ISA 220, provide guidance that can be helpful in the performance of other types of audits.

Public Sector Perspective

1. *Some of the terms used in this ISA such as "engagement partner" and "firm" should be read as referring to their public sector equivalents, i.e. audit team leader or audit director and SAI (Supreme Audit Institution). However, with limited exceptions, there is no public sector equivalent to "listed entities".*

2. *This ISQC states that the firm (SAI)'s policies and procedures are designed to maintain the objectivity of the audit quality control reviewer. The audit quality control reviewer may not be selected by the audit team leader or audit director. In many jurisdictions, there is a single statutorily appointed auditor-general (in audit office SAI models) who has overall responsibility for public sector audits. In other jurisdictions, such as Courts of Audit, overall responsibility may rest on a collegiate basis. In both circumstances, the audit reviewer should be selected having regard to the need for independence and objectivity.*

3. *In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the considerations regarding the acceptance and continuance of client relationships and specific engagements, as set out in this ISA, may not be relevant.*

4. *Similarly, the independence of public sector auditors may be protected by statutory measures. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to ensure compliance with the spirit of this ISA. This may include, where the public sector auditor's mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.*

5. *The capabilities and competence expected of the engagement team are set out in this ISA. Additional capabilities may be required in public sector audits, dependent upon the terms of the mandate in a particular jurisdiction. Such additional competencies may include an understanding of the applicable reporting arrangements, including reporting to a representative body, for example, the, House of Representatives, Legislature or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of the arrangements for ensuring legality and preventing and detecting fraud and corruption.*

Introduction

- The audit team should implement quality control procedures that are applicable to the individual audit.

Leadership and Responsibilities for Quality on Audits

- The audit team leader or audit director should be responsible on behalf of the SAI for the overall quality on each audit to which he/she is assigned.

Ethical Requirements

- The audit team leader or audit director should consider whether members of the team have complied with ethical requirements.

- Such an understanding should be documented. Where unresolved issues are identified, these should be communicated to relevant SAI personnel and resolved as appropriate.

Independence

- The audit team leader or audit director should form a conclusion on compliance with independence requirements applicable to the audit. In doing so, he/she should:
  (a) Obtain relevant information regarding the audit, including the scope of the audit or other activity to evaluate whether there are potential threats to independence;
  (b) Evaluate information regarding identified breaches, if any, of the SAI's independence policies and procedures that represent a threat to independence for the SAI and the audit and that needs to be addressed;
  (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by the application of safeguards, or if not possible, to withdraw from the audit or other activity;
  (d) Document conclusions on independence and any relevant discussions with the SAI leadership that support these conclusions.

Acceptance and Continuance of Audit and other Relationships and Specific Audits

- The audit team leader or audit director should be satisfied that appropriate procedures regarding the acceptance and continuance of relationships with auditees and specific audits have been followed, and that conclusions reached in this regard have been documented.

- Where the audit team leader or audit director obtains information that would have caused the SAI to decline the audit if that information had been available earlier, the audit team leader or audit director should communicate promptly to the SAI so that necessary appropriate action may be taken.

Assignment of Audit Teams

- The audit team leader or audit director should be satisfied that audit team collectively has the appropriate capabilities, competence and time to perform the audit in accordance with professional standards and applicable regulatory and legal requirements, and to enable the issuance of an auditor's report that is appropriate in the circumstances.

Audit Performance

- The audit team leader or audit director should take responsibility for the direction, supervision and performance of the audit in compliance with professional standards and regulatory and legal requirements, and for the auditor's report that is issued to be appropriate in the circumstances.

- Before an SAI issues an audit report, the audit team leader or audit director should review the working papers in order to be satisfied that they demonstrate that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.

Consultation

- The audit team leader or audit director should:
  a) Be responsible for the audit undertaking appropriate consultation on difficult or contentious matters;
  b) Be satisfied that members of the audit team have undertaken appropriate consultation during the course of the audit, both within the audit team and between the audit team and others at the appropriate level within or outside the SAI;
  c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are documented and agreed with the party consulted; and
  d) Determine that conclusions resulting from consultations have been implemented.

Differences of Opinion

- Where differences of opinion arise within the audit team, with those consulted and, where applicable, between the audit team leader or audit director and the audit quality control reviewer, the audit team should follow the SAI's policies and procedures for dealing with and resolving differences of opinion

Audit Quality Control Review

- For audits where the SAI requires that an audit quality control review be performed for an audit, the responsible SAI official should:
  (a) Determine that an audit quality control reviewer has been appointed;
  (b) Discuss significant matters arising during the audit, including those identified during the audit quality control review, with the audit quality control reviewer; and
  (c) Not issue the auditor's report until the completion of the audit quality control review.

- An audit quality control review should include an objective evaluation of:
  (a) The significant judgments made by the audit team; and
  (b) The conclusions reached in formulating the auditor's opinion and report.

Monitoring

- The SAI should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. The audit team leader or audit director considers the results of the monitoring process as evidenced in the latest information circulated by the SAI's leadership.

Annex D – ISQC 1, "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements"

The material in this Annex is excerpted from the International Federation of Accountants (IFAC) ISQC1, "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements". It includes the basic principles and essential procedures set forth in ISQC1, without the detailed explanatory material presented in that document. It has been further adapted to the environment of an SAI by substituting public sector terminology in lieu of private sector equivalents where it was believed that this would facilitate understanding.

SAIs conducting financial statement (attestation) audits should recognise that they should conform to ISQC1 (and most other IFAC Standards). The extent of the applicability of IFAC Standards to SAIs is typically set forth in a "Public Sector Perspective" that features in most IFAC Standards. In addition, however, all SAIs should recognise that many of these Standards, including ISQC1, provide guidance that can be helpful in the performance of other types of audits.

Public Sector Perspective of ISQC 1

1. *Some of the terms used in this ISQC, such as "engagement partner" and "firm" have been changed to "audit team leader or audit director and SAI (Supreme Audit Institution)", being the SAI equivalent of audit terminology used. With limited exceptions, there is no public sector equivalent to "listed entities" which has not been referred to in this adapted ISQC.*
2. *This ISQC states that the firm (SAI)'s policies and procedures are designed to maintain the objectivity of the audit quality control reviewer. The audit quality control reviewer may not be selected by the audit team leader or audit director. In many jurisdictions, there is a single statutorily appointed auditor-general (in audit office SAI models) who has overall responsibility for public sector audits. In other jurisdictions, such as Courts of Audit, overall responsibility may rest on a collegiate basis. In both circumstances, the audit reviewer should be selected having regard to the need for independence and objectivity.*
3. *In the public sector, SAI's auditors may be appointed in accordance with statutory procedures. Accordingly, considerations regarding the acceptance and continuance of auditee relationships and specific audit, may not apply.*
4. *Similarly, the independence of public sector auditors may be protected by statutory measures, with the consequence that certain of the threats to independence of the nature envisaged by ISQC 1 are unlikely to occur.*

<u>Introduction</u>

- The SAI should establish a system of quality control designed to provide it with reasonable assurance that the SAI and its personnel comply with professional standards and applicable regulatory and legal requirements, and that the reports issued by the SAI are appropriate in the circumstances.

<u>Elements of a System of Quality Control</u>

- The SAI's system of quality control should include policies and procedures, appropriately documented and communicated, addressing each of the following elements:
  (a) Leadership responsibilities for quality within the SAI;
  (b) Ethical requirements;

(c) Acceptance and continuance of auditee relationships and specific audits;
(d) Human resources;
(e) Audit performance;
(f) Monitoring.

Leadership Responsibilities for Quality Within the SAI

- The SAI should establish policies and procedures designed to promote an internal culture that recognizes that quality is essential in performing audits.

- The SAI's policies and procedures should acknowledge that the head of the SAI (or equivalent) has ultimate responsibility for the SAI's system of quality control;

- If the head of SAI assigns operational responsibility for the system to one or more individuals, the head of the SAI should appoint a person or persons with sufficient and appropriate experience and ability and the necessary authority to assume that operational responsibility;

Ethical Requirements

- The SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI and its personnel comply with relevant ethical requirements.

Independence

- The SAI should establish policies and procedures to provide it with reasonable assurance that the SAI and its personnel and, where applicable, others subject to the independence requirements (including experts contracted by the SAI), maintain independence in circumstances where required by the IFAC Code of Ethics and national ethical requirements. Such policies and procedures should enable the SAI to:
  (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them;
  (b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying necessary safeguards.

- Such policies and procedures should include requirements for:
  (a) Audit teams to provide the SAI with relevant information about auditee audits, including the scope of services provided to that auditee, to enable it to evaluate the impact, if any, on independence requirements;
  (b) Personnel to notify the SAI in a timely manner of matters that may pose a threat to independence, where applicable, so that appropriate action can be taken; and
  (c) The accumulation and communication of relevant information to appropriate personnel in order to enable:
    i. The SAI and its personnel to readily determine whether they satisfy relevant independence requirements;
    ii. The SAI to keep up to date records relating to independence; and
    iii. The SAI to take appropriate action regarding identified threats to independence on specific audits.

- The SAI should establish policies and procedures to provide it with reasonable assurance that it is notified of breaches of independence requirements and appropriate actions are taken to resolve such situations. The policies and procedures should require:

(a) Personnel to notify the SAI in a timely manner of independence breaches of which they become aware;

(b) Prompt communication by the SAI to the relevant audit team leader or audit director of identified serious breaches of the SAI's policies and procedures. Such breaches represent a threat to independence on audits for which that audit team leader or audit director is responsible and need to be addressed by the audit team leader or audit director; and

(c) Prompt communication by the audit team leader or audit director to the SAI regarding the action taken to resolve the matter.

- The SAI should obtain, at least annually, written confirmation of compliance with its policies and procedures on independence from all SAI personnel required to be independent by the IFAC Code and national ethical requirements.

- The SAI should establish policies and procedures setting out criteria for determining the need for safeguards to reduce threat of familiarity with auditee to an acceptable level when using the same senior personnel on an audit engagement over a long period of time.

Acceptance and Continuance of Auditees' Relationships and Specific Audits

- The SAI should establish policies and procedures for acceptance and continuance of non statutory auditee relationships and specific audits, designed to provide it with reasonable assurance that it undertakes or continues only those relationships and audits where it:

  (a) Has considered the integrity of the auditee and does not believe that the auditee lacks integrity;

  (b) Is competent to perform the audit and has the resources to do so; and

  (c) Can comply with ethical requirements including those relating to independence where applicable.

  The SAI should obtain such information as it considers necessary in the circumstances before accepting a non-mandatory audit, and when deciding whether to continue an existing audit, and when considering acceptance of a new audit with an existing auditee. Where issues have been identified, and the SAI decides to accept or continue the auditee relationship or a specific audit, it should document how the issues were resolved.

  Where the SAI obtains information that would have caused it to decline a non-mandatory audit if that information had been available earlier, policies and procedures on the continuance of the audit and the auditee relationship should include considerations of:

  a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the SAI to report to the person or persons who made the appointment or, in some cases, to regulatory responsibilities; and

  b) The possibility of withdrawing from the audit or from both the audit and the auditee relationship.

Human Resources

- The SAI should establish policies and procedures to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform its audits in accordance with professional standards and applicable regulatory and legal requirements, and to enable the issuance of reports by the SAI or audit team leader or audit directors that are appropriate in the circumstances.

Assignment of Audit Teams

- The SAI should assign an audit team leader or audit director to each audit to take responsibility for that audit on behalf of the SAI. The SAI should establish policies and procedures requiring that:
  (a) The identity and role of the audit team leader or audit director are communicated to key members of auditee management and those responsible for governance;
  (b) The audit team leader or audit director has both the necessary capabilities, competence, authority and sufficient time to perform the role; and
  (c) The responsibilities of the audit team leader or audit director are clearly defined and communicated to that team leader or director.

- The SAI should also assign appropriate staff with the necessary capabilities, competence and time to perform audits in accordance with professional standards and applicable regulatory and legal requirements, and to enable the issuance of reports by the SAI that are appropriate in the circumstances.

Audit Performance

- The SAI should establish policies and procedures to provide it with reasonable assurance that audits are performed in accordance with professional standards and applicable regulatory and legal requirements, and that the reports that are issued by the SAI are appropriate in the circumstances.

Consultation

- The SAI should establish policies and procedures to provide it with reasonable assurance that:
  (a) Appropriate consultation takes place on difficult or contentious items within the SAI with external experts and with the auditee;
  (b) Sufficient resources are available to enable appropriate consultation to take place;
  (c) The nature and scope of such consultations are documented; and
  (d) Conclusions from consultations are documented and implemented.

Differences of Opinion

- The SAI should establish policies and procedures for dealing with and resolving differences of opinion within the audit team, with those consulted and, where applicable, between the audit team leader and/or audit director and the audit quality control reviewer. Conclusions reached should be documented and implemented.

- Report should not be issued until differences of opinion are resolved.

Audit Quality Control Review

- The SAI should establish policies and procedures requiring, for appropriate audits, an audit quality control review that provides an objective evaluation of the significant judgments made by the audit team and the conclusions reached in formulating the report. Such policies and procedures should:
  (a) Set out criteria against which all audits and reviews of historical financial information, and other assurance and related services audits should be evaluated for the purpose of determining whether an audit quality control review should be performed in each instance; and

(b) Require the performance of an audit quality control review for all audits meeting the criteria established with (a) above.

- The SAI's policies and procedures should require the completion of the audit quality control review before the report is issued.

- The SAI should establish policies and procedures setting out:
  a) The nature, timing and extent of an audit quality control review;
  b) Criteria for the eligibility of audit quality control reviewers; and
  c) Documentation requirements for an audit quality control review.

Nature, Timing and Extent of the Audit Quality Control Review

- An audit quality control review should include an objective evaluation of:
  (a) The significant judgments made by the audit team relating to materiality and significant risks;
  (b) Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusion reached in formulating the report;
  (c) The appropriateness of the report to be issued;
  (d) Other significant matters that have come to the attention of the audit quality control reviewer;
  (e) Significant risks identified during the audit and responses to those risks;
  (f) Whether the appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters;
  (g) The significance and disposition of corrected and uncorrected misstatements indentified during the audit; and
  (h) The matters to be communicated to management and those charged with governance and other applicable parties.

Criteria for the Eligibility of Audit Quality Control Reviewers

- The SAI's policies and procedures on the eligibility of audit quality control reviewers should address:
  (a) The technical qualifications required to perform the role, including the necessary experience and authority; and
  (b) The degree to which the audit quality control reviewer can be consulted on the audit without compromising his/her objectivity.

Documentation of the Audit Quality Control Review

- Policies and procedures on documentation of the audit quality control review should include evidencing:
  (a) The procedures required by the SAI's policies on audit quality control review have been performed;
  (b) The completion of the audit quality control review before the issuance of the report; and
  (c) That there are no unresolved matters that have come to the attention of the audit quality control reviewer that would cause the audit quality control reviewer to believe that the audit was not performed in accordance with professional standards and applicable regulatory and legal requirements.

Monitoring

- The SAI should evaluate the effect of deficiencies noted as a result of the monitoring process and should determine whether they are either:
  a) 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 are appropriate in the circumstances; or
  b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.

- The SAI should communicate to relevant audit directors and team leaders and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.

- The SAI's evaluation of each type of deficiency should result in recommendations for one or more of the following:
  a) Taking appropriate remedial action in relation to an individual audit or auditor;
  b) The communication of the findings to those responsible for training and professional development;
  c) Changes to the quality control policies and procedures; and
  d) Disciplinary action against those who repeatedly fail to comply with the policies and procedures of the SAI.

- Where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the audit, the SAI should determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements. It should also consider obtaining legal advice.

- At least annually, the SAI should communicate the results of the monitoring of its quality control system to audit directors and other appropriate individuals within the SAI, including the head of the SAI. Such communication 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 the following:
  a) A description of the monitoring procedures performed;
  b) The Conclusions drawn from the monitoring procedures;
  c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.

Complaints and Allegations

- The SAI should establish policies and procedures that provide it with reasonable assurance that it deals appropriately with formal complaints and allegations about whether the work performed by the SAI in its practices in the areas of audit, assurance and related services fails to comply with professional standards and applicable regulatory and legal requirements.

Documentation

- The SAI should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

Annex E – INTOSAI Implementation Guidelines for Performance Auditing

The material in this Annex is excerpted from the INTOSAI "Implementation Guidelines for Performance Auditing".

What are the general requirements for a performance auditor?

Performance auditors must posses specific professional skill

Performance auditing is an information-based activity, with professional values occupying a central position. These values include the importance of auditors being given the opportunity to develop their skills and attain good quality of results in their audits. This includes creating an environment that is stimulating and that furthers quality improvements.

All auditors should possess adequate professional proficiency to perform their tasks. The SAIs should recruit personnel with suitable qualifications, adopt policies and procedures to develop and train SAI employees to performance their tasks effectively, prepare written guidance concerning the conduct of audits, support the skills and experience available with the SAI and review the internal procedures.

The ability to recruit the right staff is a decisive factor in performance auditing. Each staff member is a unique investment. A performance auditor must be well educated, and in general it is required that the auditor should have a university degree and experience in investigative/evaluation work. Personal qualities are also of considerable importance (analytical ability, creativity, receptiveness, social skills, integrity, judgment, endurance, good oral and writing skills etc.).

To become a performance auditor, a performance audit team-leader or a performance audit manager, certain distinctive qualifications have to be met. For instance, a performance auditor should be well educated in the social sciences and in scientific investigation/evaluation methods. Special knowledge of the different functional areas to be audited might also prove essential, but advanced skills in accounting and financial auditing are not always needed in performance auditing or program evaluation. Where SAIs have organized their performance auditing separately from financial auditing, it is quite acceptable that personnel selected for performance auditing have different backgrounds and skills than those selected for financial auditing.[28] To meet the quality requirements specified in the Auditing Standards, the SAI should have a program to ensure that its staff maintains professional proficiency through continuous education and training. A key factor in the development process is learning through practical auditing work.

Continuous education and training may include such topics as current developments in performance audit methodology, management or supervision, qualitative investigation methods, case study analysis, statistical sampling, quantitative data-gathering techniques, evaluation design, data analysis, and reader-based writing. It may also include subjects related to auditors' fieldwork, such as public administration, public policy and structure, government administration policy, economics, social sciences, or Information Technology science.

Qualifications for staff members who conduct performance audits include

- knowledge of the methods applicable to performance auditing and the education, skills, and experience needed to apply such knowledge;
- knowledge of government organizations, programs, and functions;

[28] Unless being well experienced in performance auditing or similar work, a performance audit team-leader or manager might run the risk of not being totally accepted (or respected) by the performance auditors.

- skills to communicate clearly and effectively, orally and in writing; and
- special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering etc, or expert knowledge of the subject matter concerned.

Performance auditing should be a team effort, since the issues involved are complex. Consequently, not all members need to possess every skill mentioned above. Furthermore, it may not always be possible for a SAI to recruit people who meet all the requirements. The required skills may therefore be developed once a person is in service, as long as candidates for appointment have clearly demonstrated the potential and attitude for the kind of work that performance auditing entails.

Effectiveness, professionalism and care must guide the audit work

The performance audit should be sufficiently well defined and the audit approach functional. The organization of the audit should satisfy the general requirements of good project management.

The performance audit must be carried out thoroughly, with the aim of collecting relevant, reliable and sufficient evidence in order to enable anyone else to arrive at the same conclusions as the performance audit report. This calls for exercising sound judgment when deciding the audit objective, what and when to audit, the approach and methodology, the scope of the audit, the issues to be reported, and the overall audit conclusion.

Good communication with the auditee(s) and experts from different backgrounds is important during the entire audit process. Similarly, performance audit managers must also be vigilant. It is important that the factual basis of final descriptions, analyses and recommendations is accurate. The report should be objective and balanced and have a sober tone, with the purpose of adding value for the government.

The principles of proper administration should be observed. The audit process should be well recorded. Important decisions made during the course of the audit and the underlying considerations should be recorded in writing. Accessible files and a logbook should be kept. The main objectives of documentation – besides helping the auditing team – are to record the audit evidence in support of conclusions and decisions, to provide records to assist audit management and monitoring, and to enable work to be reviewed by senior officers. Information obtained during the audit should be treated as confidential until the report has been tabled.

All government auditors should act with integrity, impartiality, objectivity, competence and professionalism. To meet these standards the performance auditor must be adequately educated and have experience of investigative/evaluation work. Personal qualities are also of considerable importance. Effectiveness, professionalism and care must guide the audit work.

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Quality assurance and quality control systems

INTOSAI auditing standards state that the SAI should establish systems to confirm that integral quality assurance processes have operated satisfactorily; ensure the quality of the audit report; and to secure quality improvements and avoid repetition of weaknesses. Quality assurance refers to policies, systems, and procedures established by SAIs to maintain a high standard of audit activity. It also refers to the requirements applicable to the day-to-day management of audit assignments. Quality control, on the other hand, refers to reviews conducted to assess the quality assurance system or the executed audit projects.

SAI quality assurance activities

As part of the SAI's professional obligations it must establish and support adequate systems of quality assurance activities. The systems comprise structures, policies, and procedures designed to provide the SAI with adequate assurance that the work undertaken by the SAI meets professional requirements and standards. Quality assurance activities include:

- Securing the quality of the planning; the planning of selected tasks should be reviewed to ensure that adequate consideration has been given to all matters considered essential.
- Securing the quality of the on-going work; the on-going work should be subject to continual review. This review is essential to maintain the quality of audit work and to promote learning and feedback.
- Securing the quality of the finalized audit; all completed tasks should be reviewed prior to signing any reports.

Quality assurance activities should be designed to ensure that all audits are conducted in accordance with relevant auditing standards. The objectives of quality assurance procedures should incorporate:

- professional competence and integrity;
- supervision and assignment of personnel to engagements;
- guidance and assistance;
- client evaluation; and
- allocation of administrative and technical responsibilities.

The SAI's general quality assurance policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood, and implemented. Events and elements in the audit work that require special attention by the audit managers and the SAI managers are considered below. Systems for quality assurance – especially systems which focus on the final stages of the audit process – are often time consuming and costly. The ideal is a fully integrated system.

Planning and budgeting and the use of consultants
The audit manager needs to take into account factors such as quality, resources, and timing in planning the audit. The budgets consist of allocations for salaries, travel, consultants, and any other direct costs. If the SAI seeks advice from external experts, the standards for exercise of due care and confidentiality of information will apply to such arrangements.

Monitoring and executing the audit
The managers should ensure that the audits are completed within budget and on time, extending the budget if justified. The audit manager must be aware of risks to timely audit completion and ensure audit work is relevant to the objectives and scope of the audit. The development of the data-gathering process and the analytical work has to be monitored. The audit manager should ensure that the audit teams are able to maintain good and proper relations with auditee(s) and other stakeholders.

Progress reporting and audit reporting
The audit manager should inform the SAI management on the progress of the audit, with recommendations for corrective action if needed. The manager must also ensure that the audit reports meet the reporting standards.

Quality assurance review program – external and internal reviews

A quality assurance review program is a series of external and internal reviews of activities undertaken by the SAI – it assesses the overall quality of the work performed and covers various issues and perspectives. Consequently, the program has to be flexible. The results of the program should be

reported to the SAI management at least annually (with a high volume of performance audits). A quality assurance review may examine adherence to policy and procedures and identify areas where there is any opportunity for improvements in these policies and procedures, or it may assess the quality of work performed to meet specified objectives or specific stakeholders' perspectives. Quality assurance reviews will generally address both adherence to specified processes and the quality of the work performed. The report on the quality assurance review program should summarize the results of all the reviews including the tasks selected (number and type), the findings, and any recommendations.

Quality assurance and quality development

It is important that all quality assurance/control activities have a high degree of legitimacy among the auditors and that the procedures and systems are not too sophisticated. Besides quality assurance and control activities, perhaps the most effective way to promote quality in audit work is to recruit competent staff and to create working conditions that:

- stimulate quality development;
- promote openness, delegation and mutual trust within the organization; and
- encourage the auditor's own sense of responsibility.

In an information-based and professional activity such as performance auditing, it is generally more important to support the audit teams in their efforts to achieve a good level of quality in their work, than to supervise them in the traditional sense of the term.

Annex F – Levels of Planning for an SAI

An SAI is likely to need a whole range of planning mechanisms. The structure of planning described in this annex was designed for an SAI that is centrally directed with a hierarchical management structure. The same needs are likely to be faced by a decentralised SAI, but a different structure may be required. The typical levels of planning for a centrally managed SAI, starting with the broadest, are as follows:

Mission and vision statements provide a basis for the corporate planning and as a general framework for the SAI's operations. To help inculcate the values of the SAI in its staff, it is desirable that the staff, at all levels, participate in the development of the mission and vision statements.

Corporate plans are needed on an SAI wide basis, to set out the overall business strategy for the SAI on a rolling 3-year basis (or other reasonable period) to lay a foundation for the strategic planning process. The corporate plan should link to the SAI's proposed budget and may be published. In this respect, the SAI will set out its mission and vision as well as overall targets for work.

Strategic plans are needed for the SAI as a whole and for each of its major components, setting out the work required to meet the SAI's aims and duties, how these will be accomplished and with what resources. Overall assessments of audit risk should be evaluated and the materiality of work areas should be considered in the development of these plans. Responsibilities should be set out in order to measure performance. Typically, this planning process should define the work for the year ahead, subject to revision as circumstances change. This should be coupled with a somewhat more tentative forecast of work to be done over, at least, a one-year period, possibly even covering three or more years. This should be proposed by the heads of major SAI components, be in line with the SAI's mission and vision statements and corporate targets, and approved (or modified) by the President (Auditor General).

Operational plans (annual operational programmes and individual audit task plans) are needed for jobs and detailed audit. These plans may be supported by resources management and time recording systems to provide data to enable monitoring, management and accountability for the work. Operational planning also covers Budgetary Plans, Preliminary Investigative Plans, Feasibility Studies and Pre-Studies.

Appropriate **information systems** will be needed to support the planning framework and other business information needs.

Internal follow up and results analysis routines are important tools for the SAI to assess and track the impact of their work. The information they provide should feed into the various planning processes.

Annex G – Audit Planning Checklist

Those reviewing the adequacy of audit planning may wish to consider the following matters:

- Ensuring that planning is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI.
- Obtaining relevant information regarding laws and regulations that might have a significant impact on the audit objectives.
- Preliminary investigative audit (an audit that aims at conducting an initial study of specific issues to help prepare the audit task plan).
- Determining objectives and scope of audit.
- Identification of sources (e.g. media, findings of auditee's internal audit, inspection and other control bodies) as background for audits.
- Determining list of activities for audit.
- Highlighting of special problems foreseen when planning the audit.
- Ensuring that members of audit team have a clear and consistent understanding of the audit task plan.
- Follow-up is made of issues in previous related audits.
- Understanding the finance, accounting and other relevant functions of the organisation.
- Identification of key elements of internal control system of auditee.
- Using appropriate analytical procedures.
- Identification and analysis of relevant ratios and comparative figures.
- Identification of trends or deviations from predicted amounts.
- Identification of sampling method and sampling population.
- Choice of relevant performance indicators.
- Assessment of inherent and control risks.
- Establishment of materiality criteria and thresholds.
- Establishment of degree of confidence decided for audit.
- Choice of appropriate experts/consultants.
- Preparation of budget and schedule for audit.
- Assessment of reasonable resources necessary to undertake audit.
- Assessment of staff requirements and team allocated for audit.
- Investigation and settlement of queries raised during review stage.
- Drawing up, approval, review of audit task plan by supervisors, if applicable.
- Other procedures and practices used in the planning phase of an audit.
- Practices to continuously enhance quality control procedures in the planning phase of audit.

Annex H – Direction, Supervision and Review in "audit offices"

Work delegated to assistants requires direction, supervision and review to provide reasonable assurance that such work is performed competently. A formal process of review of this work will also be necessary. The extent of these quality control procedures will depend on the competencies of the actual staff carrying out the tasks.

The following description was developed in the context of an SAI with central direction and a hierarchical management structure. However all types of SAI will need to have processes and systems in place to ensure that the matters in the bullets below are dealt with satisfactorily in accordance with the institutional arrangements of the particular SAI.

Direction: Appropriate direction of staff to whom work is delegated involves informing them of their responsibilities and the objectives of procedures they are to perform. It also involves informing them of matters such as the nature of the entity's business and possible accounting or auditing problems, which may affect the nature, timing and extent of audit procedures with which they are involved. Means of communicating audit directions, in addition to briefings, meetings and informal oral communications, include audit manuals and checklists as well as the plan for the specific audit.

Supervision: Supervision is closely related to both direction and review and may involve elements of both. Staff with supervisory responsibilities perform the following functions during the audit:

- monitor the progress of the audit to determine whether:
  - ➢ auditors have the necessary skills and competence to carry out their assigned tasks;
  - ➢ auditors understand the audit directions; and
  - ➢ the work is being carried out in accordance with the audit task plan;
- become informed of and address significant accounting and auditing questions raised during the audit, by assessing their significance and modifying the audit task plan as appropriate; and
- resolve any differences of judgement between personnel and consider the level of consultation that is appropriate.

Review: Work performed by audit staff needs to be reviewed by more senior staff of appropriate experience to determine whether:

- the work has been performed in accordance with the audit task plan;
- the work performed and the results obtained have been adequately documented;
- any significant audit matters have been resolved or are reflected in audit conclusions;
- the objectives of the audit procedures have been achieved; and
- the conclusions expressed are consistent with the results of the work performed and support the audit opinion.

Also to be reviewed on an appropriate basis will be:

- the audit programme and audit task plans;
- the assessments of inherent, detection and control risks, including the results of tests of control and the modifications, if any, made to the audit programme and audit task plans as a result thereof;
- the documentation obtained from substantive procedures and the conclusions drawn;
- the accounts themselves, any proposed audit adjustments and the draft report.

It is also important in the context of the above that audit work files carry evidence that review has taken place.

Annex I – Direction, Supervision and Review in "courts of audit"

In "courts of audit", vested or not with judicial functions, requirements for and key-components of direction, supervision and review are the same as those mentioned in the list developed under Annex H - Direction, Supervision and Review in "audit offices".

Significant differences regard processes and systems set up to achieve Audit Quality. They are related to their institutional arrangements and structure, including :

- Members enjoying a high degree of statutory independence (judges or with a status equivalent to that of judges), as well as a high degree of operational freedom in performing their duty ;
- In some cases, a few layers of direction and supervision;
- In some cases, intervention of Prosecutor General office, independent from the court;
- In all cases, collegial decision making arrangements.

In this context, reviewing processes participating to Audit Quality may include the following features :

- Work performed by audit staff is reviewed by "senior staff"(members or high level magistrates), as in hierarchical structures, and/or, alternatively, by "peers" of the same hierarchical level (for instance *contre-rapporteurs*) providing their own views;
- In some courts of audit, Prosecutor General or his attorneys may provide an independent opinion to throw light on the work performed, especially on legal matters;
- In all cases, audit work is reviewed at least by one college, and decision to be made is taken collectively.

In addition, as far as judicial decisions are at stake, the contradictory process is subject to detailed and compulsory arrangements, including appeal possibility against rulings. These arrangements provide for full consideration of auditees views and therefore contribute to Audit Quality.

Annex J – Audit Execution Checklist

Those reviewing the adequacy of audit execution may find it helpful to focus on the following matters:

- ❑ The audit is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI.
- ❑ Auditors have a sound understanding of techniques and procedures such as inspection, observation, enquiry, interviewing, etc to collect audit evidence.
- ❑ All phases of the audit have been carried out as planned and approved.
- ❑ Valid explanations are available for non-implementation of any significant areas in the audit task plan.
- ❑ Appropriate approval exists for significant deviations that have taken place from approved audit.
- ❑ Staff resources used for audit are largely in line with those planned in terms of time, grade of staff and expenses entailed.
- ❑ Justification is available for material deviations from budgeted staff resources.
- ❑ Appropriate audit techniques and audit procedures were used to fulfil each audit objective in order to provide for effective audit evidence.
- ❑ Computer assisted audit techniques (CAATS) were used as appropriate.
- ❑ Appropriate tests were used for evaluating the reliability of internal controls.
- ❑ Appropriate analytical procedures were used and the reliability, independence and quality of relevant supporting data were assessed.
- ❑ Sampling methods were used according to the SAI's manuals and/or sound statistical methods.
- ❑ All tests of transactions are clearly related to audit objectives, adequately explain nature and extent of audit work and provide an overall conclusion as to results of audit work.
- ❑ Audit steps and procedures were designed to obtain sufficient and appropriate evidence.
- ❑ Full investigation was made of all queries raised during audit.
- ❑ There are adequate working papers in respect of:
  - evaluation of internal control systems;
  - audit of routine procedures;
  - tests of controls;
  - analytical review;
  - substantive tests; and
  - audit of computer-based applications.
- ❑ Working Papers are appropriately cross-referenced.
- ❑ Audit completion checklists are comprehensive and have been completed, approved and duly evidenced.
- ❑ Work of consultants and other experts has been properly monitored.
- ❑ Other procedures and practices used in the execution phase of an audit.
- ❑ Practices to continuously enhance procedures in the execution phase of audit.

Annex K – Audit Reporting Checklist

Those reviewing the adequacy of audit reporting may wish to consider the following matters:

- Reporting is in accordance with auditing policies, standards, manuals, guidelines and practices of the SAI.
- The form and content of reports are in accordance with established procedures (e.g. title, signature and date, objectives and scope, addressee, legal basis, timeliness, etc).
- Terminology used in report can be easily understood by persons to whom report is presented and technical terms are fully explained.
- All audit findings have been evaluated in terms of materiality, errors and other irregularities.
- All errors, deficiencies and unusual matters have been properly identified, documented and satisfactorily resolved or brought to the attention of a senior SAI officer, if applicable.
- The final Audit Report covers all areas representing the objectives of the audit or explanations are provided for omissions.
- Observations and conclusions in report are supported and well documented to ensure completeness, accuracy and validity of working papers.
- All evaluations and conclusions are soundly based and supported by competent, relevant and reasonable audit evidence.
- Only sufficiently material audit findings are included in the main audit report.
- The report is timely, comprehensive, performed by suitably qualified staff, appropriately documented and adequately incorporates the audit opinion.
- Letters of Weakness/ Queries/ Management Letters are submitted to auditee in due time.
- Receipt of relevant and timely replies to SAI reports and other correspondence is ensured.
- Replies are carefully studied.
- All findings, conclusions and recommendations contested by auditee are duly evaluated.
- Material relevant comments by auditee are referred to in the audit report, if applicable.
- Relevant significant events occurring following completion of audit are taken into account in final audit report.
- All significant fraud or other irregularities are notified to appropriate authorities.
- Permanent audit files have been updated to take into account results of audit.
- Material items requiring subsequent follow-up by SAI have been duly identified, recorded and taken into account.
- Other procedures and practices used in the reporting phase of an audit.
- Practices to continuously enhance procedures in reporting phase of audit.

Annex L – Checklist for Self Assessment and Obtaining Views of Auditees

Those who decide it would be useful and helpful to seek the views of auditees about the work of an SAI may wish to consider some of the following possible lines of inquiry. These questions could also be used for a "self assessment" process.

Adding value

- Was the focus of the audit too wide, too narrow, about right?
- What insights into services did the audit provide?
- What changes have been prompted or reinforced by the audit?

Approach and methods

- Do you consider that the examination used suitable techniques for:
  - Obtaining data?
  - Analysing data?
- Was the auditee given the opportunity to comment on:
  - Aims of the audit?
  - Proposed methodology?
  - Appointment of consultants?
- If negative answers are received, explanations should be sought.

Working relationships

- To what extent was the audit staff courteous and professional in dealings with the auditee and its staff?
- Was the auditee:
  - Kept up to date with progress?
  - Given an opportunity to comment as results emerged?
- If negative answers are received, explanations should be sought.

Contribution to modernising Government

To what extent did this report make a positive contribution to the following aspects of the Government?

- Promoting good governance
- Better financial management
- Supporting innovation
- Forward looking
- Citizen-focused
- Supporting appropriate risk-taking
- Improving the civil service
- Outcome focused
- Better use of Information Technology
- If negative answers are received, explanations should be sought.

Fair and objective reporting

- Did the draft reports present the facts:
  - Accurately?
  - Fairly?
- Were the views of other parties:
  - Incorporated?
  - Given a fair hearing?
- How good and fair was the press coverage?

General comments

- How would you rate the overall quality of the audit report(s)?
- How effective was the report in making things better? Or in saving money?