

QUALITY ASSURANCE FOR FINANCIAL AUDITS

Handbook for The Office of the Director of Audit of Saint Lucia



| No. | Title | Page |
|--|--|------|
| Foreword | | |
| Glossary | | |
| Acronyms | | |
| Section 1 : Introduction - Quality, Quality Control and Quality Assurance | | |
| 1.1 | Characteristics of Quality | |
| 1.2 | Quality Control | |
| 1.3 | Quality Assurance as Part of the Quality Control Framework | |
| Section 2 - Quality Control in SAIs | | |
| 2.1 | Quality Control Framework at SAI Level | |
| 2.1.1 | Introduction | |
| 2.1.2 | Leadership Responsibilities for Quality | |
| 2.1.3 | Relevant Ethical Requirements | |
| 2.1.4 | Acceptance and Continuance of Client Relationships and Specific Engagements | |
| 2.1.5 | Human Resources | |
| 2.1.6 | Engagement Performance | |
| 2.1.7 | Monitoring | |
| 2.2 | Quality Control at Financial Audit Level | |
| 2.2.1 | Introduction | |
| 2.2.2 | ISA 220 - Quality Control for an audit of Financial Statements | |
| 2.2.3 | ISA 220 - Key Requirements | |
| 2.2.4 | Financial Audit Process | |
| Section 3 - Quality Assurance in SAIs | | |



| | | |
|-------------------|--|--|
| 3.1 | Quality Assurance Function in SAIs | |
| 3.2 | Setting up Quality Assurance Function in SAIs | |
| 3.3 | Quality Assurance Review Process | |
| Appendices | | |
| References | | |

Foreword

In its Fundamental Auditing Principles, INTOSAI has recognized the essential importance of quality in audit work and the role that quality assurance plays in ensuring quality. In keeping with that principle, members of CAROSAI in cooperation with IDI sought to enhance quality in audit work of its membership through the development and implementation of a quality assurance function for financial audits.

Hence a guidance handbook was developed to provide practical guidance to help Supreme Audit Institutions (SAIs) of the CAROSAI region establish and/or strengthen quality control systems and implement effective quality assurance reviews. The Handbook was later adapted to suit the requirements of the SAI of St. Lucia. The Handbook includes detailed information about quality control at the SAI and financial audit engagement levels because such controls are essential prerequisites for a meaningful quality assurance function. In the appendices of the Handbook are job aids (templates, checklists and samples) which are intended to provide practical 'how to' guidance on the quality assurance review process. These guidance and tools have been adapted from various sources and follow international best practice. The design of this handbook is based on the premise that that SAI of St. Lucia will implement policies and procedures intended to meet the requirements of the international standards on auditing and quality control. .

We wish to thank the team of representatives from member SAIs of CAROSAI, SAI of Canada and the IDI who successfully developed the Quality Assurance Handbook from which this handbook was later adapted. We are grateful to them for their dedication and appreciative of their valuable contributions.

Averil James Bonnette
Director of Audit
SAI – St. Lucia

GLOSSARY OF TERMS USED IN THIS HANDBOOK

Accounting estimate—An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where ISA 540 addresses only accounting estimates involving measurement at fair value, the term “fair value accounting estimates” is used.

Analytical procedures—Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Applicable financial reporting framework—The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.

Appropriateness (of audit evidence)—The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.

Assertions—Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

Assess—Analyze identified risks to conclude on their significance. Assess, by convention, is used only in relation to risk. (also see *Evaluate*)

Audit documentation— The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “work papers” are also sometimes used).

Audit evidence—Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. (See “*Sufficiency of audit evidence*” and “*Appropriateness of audit evidence*”.)

Audit file— One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

Auditor—Auditor is used to refer to the person or persons conducting the audit, usually the “engagement partner” (or “engagement leader” in this handbook) or other members of the engagement team, or, as applicable, the SAI. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant

Audit organisation — An entity of professional accountants. In the private sector, the organisations may be a sole practitioner, partnership or corporation; in the public sector the organisation may be a Supreme Audit Institution.

Criteria—The benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal or less formal. There can be different criteria for the same subject matter. “Suitable criteria” are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment.

“*Suitable criteria*” exhibit the following characteristics:

- (a) Relevance: “relevant criteria” contribute to conclusions that assist decision-making by the intended users.
- (b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. “Complete criteria” include, where relevant, benchmarks for presentation and disclosure.
- (c) Reliability: “reliable criteria” allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.
- (d) Neutrality: “neutral criteria” contribute to conclusions that are free from bias.

(e) Understandability: “understandable criteria” contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

Engagement documentation—The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).

Engagement leader—The person in the audit organisation who is responsible for the engagement and its performance, and for the report that is issued on behalf of the audit organisation, and who, where required, has the appropriate authority from a professional, legal or regulatory body. In many jurisdictions, there is a single appointed Auditor General who acts in a role equivalent to that of “engagement partner” (as described in ISQC-1) and who has overall responsibility for public sector audits. If, however, the Auditor General appoints an employee or other suitably qualified person to perform an audit on his/her behalf, it is the appointed auditor who effectively discharges the obligations of the “engagement partner” who is referred to as the “engagement leader” in this handbook. (See also *IFAC Glossary of Terms*).

Engagement quality control review—A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities and those other engagements, if any, for which the SAI has determined an engagement quality control review is required.

Engagement quality control reviewer—An auditor at the “engagement leader” level, other person in the SAI, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report.

Engagement team—All “engagement leaders” and staff performing the engagement, and any individuals engaged by the SAI who perform procedures on the engagement. This excludes external experts engaged by the SAI.

Evaluate—Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. Evaluation, by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management’s response to a risk. (also see *Assess*)

Financial audit—An independent assessment of, and reasonable assurance about whether an entity’s reported financial condition, results, and use of resources are presented fairly in accordance with the financial reporting framework. (See *Regularity audit*)

Financial statements—A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time, or the changes therein for a period of time in accordance with a financial

reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but it can also refer to a single financial statement.

Fraud—An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Government entities—a governmental unit, agency, department, bureau, or a consolidated group of such entities.

Independence—as defined in the Lima Declaration and the INTOSAI Code of Ethics. (*See also IFAC Glossary of Terms*).

Inspection (in relation to quality control)—In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures.

Instance of non compliance with authorities—Failure to adhere to law or regulation, including budgetary authority, for a transaction.

Internal control—The whole system of financial and other controls, including the organisational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information. (*See also IFAC Glossary of Terms*).

Jurisdiction—The right and power to interpret and apply the law.

Legislature—An officially elected or otherwise selected body of people vested with the responsibility and power to make laws for a sovereign unit, such as a state or nation.

Legislation—A law or set of laws proposed by a government and made official by a parliament.

Management—The person(s) with executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

Practice Note—Included in the INTOSAI Financial Audit Guidelines. The Practice Note explains how to apply the ISA in a financial audit in the public sector. It also contains guidance relevant to audits of public sector entities in addition to what is provided for in the ISA.

Professional Standards—International Standards on Auditing (ISAs) and relevant ethical requirements.

Professional Standards (in the context of ISQC 1)—IAASB Engagement Standards, as defined in the IAASB’s *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, and relevant ethical requirements.

Public Sector—National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions, corporations and enterprises).

Public Sector Auditor—A person or persons appointed under statute or agreement; a person or persons acting as the agent or agents of a national audit agency or a Court of Accounts composed of judges.

Quality Assurance Reviews or Monitoring (in relation to quality control)—A process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.

Reasonable Assurance (in the context of assurance engagements, including audit engagements, and quality control)—A high, but not absolute, level of assurance.

Regularity Audit—According to ISSAI 1004 regularity audit embraces:

- (a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- (b) attestation of financial accountability of the government administration as a whole;
- (c) audit of financial systems and transactions, including evaluation of compliance with applicable statutes and regulations;
- (d) audit of internal control and internal audit functions;
- (e) audit of the probity and propriety of administrative decisions taken within the audited entity; and
- (f) reporting of any other matters arising from, or relating to the audit that the Supreme Audit Institution considers should be disclosed.

The terms “regularity audit” and “financial audit” are often used interchangeably. Such references to audits includes an audit of financial statements, and some or all of the elements set out in a) to f) above, depending on the mandate of the Supreme Audit Institution.

Relevant Ethical Requirements—As defined in the INTOSAI Code of Ethics. The *IFAC Glossary of Terms* defines this term as “the ethical requirements to which the engagement team and engagement quality control reviewer are subject”, which ordinarily comprise Parts A and B of the International Federation of Accountants’ *Code of Ethics for Professional Accountants* (IFAC Code) together with national requirements that are more restrictive.

Review (in relation to quality control)—Appraising the quality of the work performed and conclusions reached by others.

Service Organisation—A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities’ information systems relevant to financial reporting.

Statutory— Decided or controlled by law.

Substantive Procedure—An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

- (a) Tests of details (of classes of transactions, account balances, and disclosures); and
- (b) Substantive analytical procedures.

Sufficiency (of audit evidence)—The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.

Supreme Audit Institution —The public body of a State which, however designated, constituted or organized, exercises by virtue of law, the highest public auditing function of that State. In some Supreme Audit Institutions there is a single appointed Auditor General who acts in a role equivalent to that of “engagement partner” and who has overall responsibility for public sector audits. Other Supreme Audit Institutions may be organized as a Court of Accounts or having a collegiate or board system.

Those charged with governance— In the public sector, governance responsibilities may exist at several organisational levels as well as in several functions (i.e. vertically or horizontally). As a result, there may be instances where several distinct groups are identified as those charged with governance. Furthermore, an audit in the public sector might involve both financial statement objectives as well as compliance objectives, and in some cases that may involve separate governance bodies. The *IFAC Glossary of Terms* defines this term as the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.



Acronyms

| | |
|---------|--|
| CAROSAI | Caribbean Organisation of Supreme Audit Institutions |
| EQCR | Engagement Quality Control Review |
| INCOSAI | International Congress of Supreme Audit Institutions |
| IDI | INTOSAI Development Initiative |
| IFAC | International Federation of Accountants |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| ISA | International Standards of Auditing (issued by IFAC) |
| ISQC 1 | International Standard on Quality Control (issued by IFAC) |
| ISSAI | International Standards of Supreme Audit Institutions |
| ODA | Office of the Director of Audit |
| PAC | Public Accounts Committee |
| QAR | Quality Assurance Review |
| QARRF | Quality Assurance Review Recording Form |
| QC | Quality Control |
| SAI | Supreme Audit Institution |
| WP | Working Paper |

Section 1

Introduction-

Quality, Quality Control and
Quality Assurance



1. Introduction - Quality, Quality Control and Quality Assurance

1.1 Characteristics of Quality

Quality is the degree of compliance of a process or its outcome with a predetermined set of criteria, which are presumed essential to the ultimate value it provides.

A Supreme Audit Institution (SAI) seeks to carry out its audit work at a consistently high level of quality in the following dimensions¹:

- ✓ 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 audit-related work; and
- ✓ Effectiveness in terms of results and impacts achieved.

1.2 Quality Control

Quality control within an SAI consists of policies and procedures that are put in place to assure that its audit work is of a consistently high quality. An SAI establishes and maintains a system of quality control to provide it with reasonable assurance that:

- The SAI and its personnel comply with professional standards and applicable legal and regulatory requirements; and

¹ Source: Contact Committee of the Heads of the SAIs of the European Union

- Audit reports issued by the SAI are appropriate in the circumstances.

Quality Control is implemented with respect to the SAI's activities that support all of its audit activities and for all aspects of individual audits including:

- demonstrating that leadership has a commitment to quality;
- ensuring that ethical principles are established and followed;
- ensuring that the SAI has enough competent, qualified and ethical staff;
- selecting matters for audit;
- deciding the timing of the audit;
- planning the audit;
- conducting the audit;
- evaluating audit findings;
- reporting audit results, including conclusions and recommendations and following up audit reports to ensure that appropriate action is taken;
- monitoring the effectiveness and design of the SAI's quality controls including inspecting individual files to provide assurance that appropriate reports have been issued.

1.3 Quality Assurance as Part of the Quality Control Framework

1.3.1 Quality Control Standards

A quality control framework that is relevant for all organisations, including SAIs, that perform audits of financial statements is set out in the International Standard on Quality Control 1 (ISQC - 1) ***“Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”*** and ISA 220 ***“Quality Control for an Audit of Financial Statements”*** issued by the International Auditing and Assurance Standards Board (IAASB)². ISQC-1 sets out a framework for an organisation as a whole while ISA 220 sets out quality control standards for individual financial statement audits. The IAASB is the

² Please visit www.ifac.org to review the Handbook of International Standards on Auditing and Quality Control.

independent auditing and assurance standard setting body of the International Federation of Accountants (IFAC).

INTOSAI has adopted financial audit guidelines (international standards for SAIs - ISSAIs) based on the international standards of auditing (ISAs). At this time, INTOSAI has not adopted ISQC-1 but plans to develop a code of conduct on Quality Control. CAROSAI has used ISQC-1 as the basis for the quality control framework underlying this Handbook until the INTOSAI code on Quality Control is issued.

In this handbook the requirements of ISQC - 1 have been used to describe a Quality Control Framework relevant to CAROSAI. ISQC - 1 provides guidance regarding the requirements of a quality control system at the institutional level. As described in ISQC-1 the objective of the SAI is to establish and maintain a system of quality control to provide it with reasonable assurance that:

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

These two standards, (ISQC - 1 and ISA 220) include the public sector perspective and can be suitable for use in the SAI environment. ISQC - 1 is focused on policies, procedures and systems of control for the SAI as a whole. ISA 220 is aimed at the implementation of quality control procedures of individual audits and therefore focuses on the audit team and its leadership. INTOSAI has adopted ISA 220 to address the circumstances of supreme audit institutions as ISSAI 1220. This Handbook refers to ISA 220 because that standard has been updated more recently than ISSAI 1220. An SAI's compliance with ISA 220 would be documented in each audit file while compliance with ISQC-1 is documented elsewhere (e.g. in the SAI's overall audit, planning, human resources or administrative policies, procedures and practices).

Many of the key instruments that are employed to comply with the two standards are linked. For example, when the SAI has auditing methodology and manuals and trains and develops its auditors in their use, it meets requirements of ISQC-1. When audit teams use the methodology and manuals to carry out audit engagements, their use is documented in audit files and meets requirements of ISA 220 (or ISSAI 1220).

1.3.2 Importance of Quality Assurance

Monitoring, or quality assurance as used in this Handbook, is one element of ISQC-1. It is a process comprising of an ongoing consideration and evaluation of the SAI's system of quality control, including a periodic inspection of a selection of completed audit engagements, designed to provide the SAI with reasonable assurance that its system of quality control is appropriately designed, operating effectively and that audit reports have been issued that are appropriate under the circumstances. Quality assurance therefore, is a significant component of the quality control framework because it provides that assurance, independent of the SAI's audit functions, to the head of the SAI.

Quality Assurance is the process established by a SAI to ensure that:

- a) the SAI and its personnel have adhered to professional standards and applicable legal and regulatory requirements;
- b) appropriate quality controls are designed and are in place;
- c) those quality controls are effectively implemented;
- d) potential ways of strengthening or otherwise improving quality controls are identified; and
- e) it has assurance that reports issued by the SAI are appropriate in the circumstances.

As such, quality assurance is an assessment process focusing on the design, operation and outputs (reports) of the quality control system by persons independent of the system / audit under review. Quality assurance helps ensure that the audit reports and processes meet the required standards and international best practices.

The benefits that can be derived from an effective quality assurance function include the following:

- ✓ Enhancing credibility and reputation of the SAI by documenting that recognized standards were followed in carrying out audit work and issuing reports.
- ✓ Improving audit performance and results.

- ✓ Improving the efficiency and cost effectiveness of audits, this can lead to savings in audit time and cost.
- ✓ Improving the capability of the SAI.
- ✓ Demonstrating the integrity, accountability and competence of the SAI and its personnel.
- ✓ Identifying training needs and providing input to training and development programmes.
- ✓ Motivating personnel of the SAI by demonstrating the quality of work and providing opportunities for rotation.
- ✓ Measuring the performance of the SAI.
- ✓ Avoiding possible litigation and other challenges to the SAI work.

1.3.3 INTOSAI Support for Quality Assurance

INTOSAI has adopted financial audit guidelines based on the international standards of auditing (ISAs) including ISA 220 which is reflected in ISSAI 1220. As previously discussed, INTOSAI has not yet adopted quality control standards at the institutional level, therefore this handbook is based on ISQC – 1.

The International Standards for Supreme Audit Institutions (ISSAIs) recognize the need for SAIs to establish a quality assurance function. The ISSAI 200 INTOSAI Auditing Standards-General Standards³ (**Paragraph 1.25**) states that:

“The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI’s internal standards and procedures.”

These Standards are further amplified by **paragraph 1.27**, which specifies that:

“The SAI should establish systems and procedures to:

- (a) confirm that integral quality assurance processes have operated satisfactorily;

³ The International Standards of Supreme Audit Institutions (ISSAI) are issued by the INTOSAI. For more information kindly visit www.issai.org

- (b) ensure the quality of the audit report; and
- (c) secure improvements and avoid repetition of weaknesses.”

To meet the requirements of this standard, the SAI establishes a system of quality control and then develops and implements policies and procedures designed to ensure that this system is implemented. These policies and procedures are established by reference to relevant national and international standards (e.g.. ISQC-1) and best practices aligned with objectives of the SAI.

And Paragraph 1.28 states that:

“... it is desirable for SAIs to establish their own quality assurance arrangements. That is, planning, conducting 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.”

This paragraph emphasizes the importance of SAIs conducting their own reviews of audit performance using personnel who were not members of the audit team and periodically reporting on the outcome of quality reviews to the most senior management of the SAI.

The establishment of a separate QA function within the SAI independent of the audit units or engaging external experts such as other SAIs or audit firms are ways of enhancing the quality of SAI’s work.

And Paragraph 1.29 states that:

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

And Paragraph 1.30 states that:

“The quality of the work of the SAI can be enhanced by strengthening the internal review and probably by independent appraisal of its work.”





Section 2

Quality Control in SAI

Saint Lucia

2. Quality Control in SAI Saint Lucia

2.1 Quality Control Framework at SAI Level

2.1.1 Introduction

A quality control framework for organisations that perform audits of financial statements and carry out other assurance engagements is set out in the International Standard on Quality Control 1 (ISQC-1) issued by the International Auditing and Assurance Standards Board (IAASB).

A system of audit quality control consists of policies and procedures designed to ensure that requirements of professional standards and applicable legal and regulatory requirements and ethical codes are met or exceeded.

An audit quality control system is based on the underlying professional principles:

- Ethical conduct;
- Independence and objectivity;
- Maintaining professional competency;
- Due care and quality of work;
- Generally accepted standards of practice;
- Clarity of wording and guidance; and
- Staff development, satisfaction and retention.

These principles are reflected in INTOSAI's Fundamental Auditing Principles (ISSAIs 100, 200, 300 and 400) and the Code of Ethics (ISSAI 30).

ISQC - 1 sets out a quality control framework to achieve these underlying principles into six elements of quality control for audit organisations, namely :

- Leadership responsibilities for quality.
- Relevant ethical requirements.

- Acceptance and continuance of client relationships and specific engagements.
- Human resources.
- Engagement performance.
- Monitoring.

ISQC-1 recognizes that this quality control framework is appropriate to all organisations that perform audits of financial statements and carry out other assurance engagements. The current version of ISQC - 1 used to develop this handbook came into effect as of December 15, 2009.

INTOSAI has adopted financial audit guidelines based on the international standards of auditing (ISAs). INTOSAI has not adopted ISQC-1 but has indicated that it plans to develop a code of conduct on quality control.

ISQC-1 is a relevant quality control framework that can be used by Supreme Audit Institutions as the basis for a system of quality control until the INTOSAI code on Quality Control is issued.

The remainder of this section summarizes each element of ISQC-1 to demonstrate applicability to staff members of the ODA. The requirements of each element of the standard are briefly summarized, the applicability to the ODA is described and examples of policies and procedures to address the requirements are given. Readers should refer to the standard itself for full requirements.

2.1.2 Element 1 - Leadership Responsibilities for Quality

The first element of a system of quality control described in the International Standard on Quality Control 1 (ISQC - 1) is leadership responsibilities for quality control. This element requires the SAI to establish policies and procedures designed to promote an internal culture that recognizes that quality is essential in performing engagements and that the leadership of the SAI has ultimate responsibility for the system of quality control.

The key requirements of this element of the standard are:

- The ODA has policies and procedures in place that promote a culture that emphasizes that quality is essential.
- The ODA has policies and procedures that acknowledge that the Director of Audit has the ultimate responsibility for the organisation's system of quality control.
- Where operational responsibility for the system of quality control has been delegated, the ODA's policies and procedures should ensure that person has the appropriate authority and qualifications to assume that responsibility.

As with all aspects of ISQC-1, the ODA has the policies and procedures requiring **documentation** that provides evidence of the effective operation of this element of quality control.

Applicability of this element to SAI Saint Lucia

- This element of ISQC-1 is fully applicable to the ODA.

Examples of policies and procedures that the ODA can implement to meet the requirements of this element:

- Having a policy that explicitly acknowledges that the Director of Audit SAI has ultimate responsibility for quality;
- Formally delegating operational responsibility for the system of quality control to a person with suitable qualifications and authority (e.g. a Deputy or Audit principal or equivalent) ;
- The leadership of the ODA establishes a quality assurance function to get assurance that policies and procedures lead to the performance of work that is compliant with the professional standards and applicable legal and regulatory requirements and that audit reports that have been issued were appropriate under the circumstances;
- The leadership of the ODA consistently promotes a quality-oriented internal culture through communiqués, policies, procedures and during meetings;

- The identification of weaknesses in the quality control system is viewed as an opportunity to improve rather than assign blame;
- The ODA’s mission, emphasize the paramount importance of audit quality and are consistently reinforced and followed by the leadership in practice;
- The leadership of the ODA ensures that there are sufficient resources for the development, documentation and implementation of quality control procedures;
- The leadership ensures that its messages and directives to all staff emphasize the importance of consistently implementing ODA’s quality control policies and procedures;
- Such messages are incorporated in the ODA’s internal documentation and training materials and reflected in performance appraisals; and
- Leadership “leads by example.”

Refer to ISQC-1, paragraphs 18 and 19 and the related application guidance A.4 to A.6 for additional guidance on policies and procedures that support leadership responsibility.

2.1.3 Element 2 – Relevant Ethical Requirements

The second element of a system of quality control described in the ISQC - 1 is relevant ethical requirements. The Office of the Director of Audit is expected to establish policies and procedures that are designed to provide it with reasonable assurance that the ODA and its personnel comply with relevant ethical requirements.

The key requirements of this element of the standard are:

- The ODA has policies and procedures designed to provide it with reasonable assurance that the ODA and its personnel comply with relevant ethical requirements.
- The ODA has policies and procedures designed to provide it with reasonable assurance that the ODA, its personnel and others subject to independence requirements maintain their independence as required by relevant ethical requirements.

- The policies and procedures required include ensuring there is sufficient information available on the scope of services provided, requiring personnel to notify the office of circumstances and relationships that could create a threat to independence and the accumulation and communication of relevant information to personnel.
- The ODA has policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations.
- The ODA identifies and evaluates circumstances and relationships that create threats to independence and where such threats are identified, takes appropriate action to eliminate or minimize them.
- The ODA has policies and procedures that set out criteria for determining the need for safeguards to reduce familiarity threats to an acceptable level and, where applicable, rotational requirements for engagement leaders and engagement quality control reviewers, particularly for listed entities.
- The ODA obtains written confirmation at least once per year of compliance with its policies and procedures on independence from staff that are required to be independent by relevant ethical requirements.
- The ODA ensures that personnel adhere to the professional ethics of integrity, objectivity, professional competence, due care, confidentiality and professional behaviour.

As with all aspects of ISQC-1, the SAI has the policies and procedures requiring **documentation** that provides evidence of the effective operation of this element of quality control.

Applicability of this element to The ODA

- Independence and other relevant ethical requirements are relevant to the ODA as a whole and to individual members.

- Relevant ethical requirements can be found in the International Federation of Accountants Code of Ethics for Professional Accountants (IFAC Code), INTOSAI's Founding Principles (ISSAI 1 – the Lima Declaration), INTOSAI's Requisites for the Functioning of SAIs (ISSAI 10 - The Mexico Declaration, ISSAI 11 - Guidelines and good practices related to SAI independence and ISSAI - 30 Code of Ethics), INTOSAI's Fundamental Auditing Principles (ISSAI 200 - *General standards in Government Auditing and standards with ethical significance*), The Code of Ethics of SAI Saint Lucia, The Audit Manual, Code of Conduct of Professional Bodies, The Staff Orders for the Public Service and other policies of the Government as issued in Public Service Circulars.

- ISQC-1 notes that statutory measures may provide safeguards (e.g. fixed terms for the Director of Audit, constitutional protection, and financial independence) for the independence of the office. However, threats to independence may still exist regardless of any statutory measures designed to protect them. Consequently, the office of the Director of Audit should identify threats to independence of the institution and its members that are not addressed by statutory protection and implement policies and procedures to deal with those threats.

- In implementing the professional requirements established by ISQC-1, the ODA may take note of principles established by INTOSAI designed to support the institutional independence of SAIs. The Lima Declaration (ISSAI 1) approved by the IX INCOSAI of October 1977 has 3 elements supporting the independence of SAIs :
 - Independence of Supreme Audit Institutions

1. Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.
 2. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organisational independence required to accomplish their tasks.
 3. The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a Supreme Court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed.
- Independence of the members and officials of The Office of the Director of Audit
 1. The independence of the ODA is inseparably linked to the independence of its Director, who is defined as the person who has to make the decisions for the Office and is answerable for his/her decisions to third parties.
 2. The procedures for removal from of the Director of Audit is embodied in the Constitution.
 3. In their professional careers, staff of the ODA must not be influenced by the audited organisations and must not be dependent on such organisations.
 - Financial independence of The Office of Director of Audit
 1. The ODA shall be provided with the financial means to enable them to accomplish their tasks.
 2. If required, the ODA shall be entitled to apply directly for the necessary financial means from the Ministry of Finance.

3. The ODA shall be entitled to use the funds allotted to them under a separate budget heading as they see fit.

- The Mexico Declaration on Independence (ISSAI 10) from the XIX Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) further elaborates on independence considerations for SAIs by setting out 8 principles supporting SAI independence:
 - The existence of an appropriate and effective constitutional/statutory/legal framework and application of the provisions of this framework
 - The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties
 - A sufficiently broad mandate and full discretion, in the discharge of SAI functions
 - Unrestricted access to information
 - The right and obligation to report on their work
 - The freedom to decide the content and timing of audit reports and to publish and disseminate them
 - The existence of effective follow-up mechanisms on SAI recommendations
 - Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.
- ISSAI 200 - *General standards in Government Auditing and standards with ethical significance* states that the auditor and the SAI must be independent (paragraph 2.2) and the office should avoid a conflict of interest between the auditor and the entity under audit (paragraph 2.31).

- The ODA does not commonly perform audits of listed entities as referred to in ISQC-1. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Therefore, there may be instances when the ODA determines, based on its quality control policies and procedures, that the audit of a public sector entity merits the application of expanded quality control procedures such as those for listed entities.
- ISQC-1 uses the term “engagement partner” to describe the responsibility for quality control at the engagement level. In this handbook the term “engagement leader” is used to describe the Audit Principal responsible for the engagements. As noted in ISQC-1, legislation may establish the Director of Audit as the person who has all of the responsibilities equivalent to an engagement partner. As a result, it may not be possible to comply strictly with the rotation requirements. Nonetheless, for public sector entities considered significant, it may be in the public interest for the office to establish policies and procedures to promote compliance with the spirit of rotation of engagement leaders (Audit Principals).

Examples of policies and procedures that the ODA can implement to meet the requirements of this element:

- Assessing institutional independence using the principles set out in the Lima and Mexico Declarations and, if necessary, reporting to the legislature on inadequate statutory protection to ensure the independence of the ODA and its members.
- Developing a Code of Ethics in keeping with the office’s policies, the INTOSAI Code of Ethics and the IFAC Code.
- Establishing a technical expert on ethical and independence issues within the SAI who is available for consultation.

- Ensuring that the Code of Ethics is communicated to all personnel and that the importance of complying with the Code is regularly reinforced.
- Encouraging all staff to report threats and breaches of independence so they can be dealt with on a timely basis.
- Providing education and training to those who are subject to independence and ethical requirements.
- Ensuring that staff members understand the various standards and ethical codes that govern their behaviour by conducting in-house training to promote the importance of quality control.
- Implementing a “whistleblower” policy that permits anonymous concerns about ethical behaviour to be raised. Demonstrate the importance of this policy by addressing concerns that are raised.
- Implementing a procedure that requires appropriate personnel confirm, at least annually, compliance with relevant ethical standards, including independence.
- Implementing policies and procedures to identify and address threats to, and breaches of independence. Examples of threats or situations that can lead to breaches include “self-interest” where a senior member of the Office has a close family member who is a senior official of an audited entity or “self-review” where a senior member of the Office was recently a senior official of an audited entity. The IFAC Code, INTOSAI Code of Ethics and The Code of Ethics for Auditors at the ODA provides additional guidance and examples.

- Implementing policies and procedures that establish criteria to identify circumstances leading to the familiarity threat, for example limiting the length of time individuals can be assigned to an audit, and policies, such as rotation, to address the threat.

Additional information: ISQC - 1 paragraphs 20 – 25 and the related application guidance A.7 to A.17, the IFAC Code and ISSAIs.

2.1.4 Element 3- Acceptance and Continuance of Client Relationships and Specific Engagements

The third element of ISQC - 1 establishes requirements for SAIs to have policies and procedures for the acceptance and continuance of client relationships and specific engagements.

The key requirements of this element of the standard are:

- The ODA has policies and procedures in place to provide it with reasonable assurance that it will only have relationships and carry out assurance engagements if:
 - the ODA is competent to perform the engagement and has the capabilities, including time and resources, to do so;
 - it can comply with relevant ethical requirements; and
 - it has considered the integrity of the entity, and does not have information that would lead it to conclude that the entity lacks integrity.
- The ODA's policies and procedures include the requirement to obtain information about the audited entity, identify any potential conflicts of interest and resolve those conflicts if they exist.

- The ODA's has policies and procedures to address circumstances where it obtains information that would have caused it to decline the engagement had that information been available earlier.

As with all aspects of ISQC-1, the SAI has the policies and procedures requiring **documentation** that provides evidence of the effective operation of this element of quality control.

Applicability of this element to SAI Saint Lucia

- The application guidance for ISQC-1 notes that the ODA may be appointed in accordance with statutory procedures. Accordingly, all of the requirements and considerations regarding the acceptance and continuance of client relationships and specific engagements may not be applicable. In particular, where the ODA is appointed Auditor by law, it may not be possible to withdraw from an audit. Consequently, the ODA may consider other options for circumstances where the requirements of this element cannot be met.
- The ODA also need to be aware of the requirements of ISSAI 200 - *General standards in Government Auditing and standards with ethical significance* that can be relevant to the acceptance and continuation decisions described in ISQC-1. Paragraph 2.31 of ISSAI 200 requires the SAI to avoid conflicts of interest between the Auditor and the entity under audit. Paragraph 2.33 requires the Auditor and the SAI to possess the required competence.
- It is a good practice for the ODA to establish policies and procedures on acceptance and continuance as described in ISQC – 1 even where The Office is appointed as Auditor by law. These policies and procedures provide valuable information to public sector Auditors in determining if potential conflicts of interest exist, in performing risk assessments and in carrying out reporting responsibilities.

The ODA is mandated by its Audit Acts to audit the accounts of all government entities. However, there are circumstances where government entities are given a choice of Auditors. In the circumstances where the ODA has the choice or discretion to accept or refuse an audit, the requirements of ISQC - 1 are fully applicable.

Examples of policies and procedures that the ODA can implement to meet the requirements of this element:

- In determining whether it has the competence, capabilities and resources to carry out the audit, the ODA would consider whether it has:
 - sufficient knowledge of the audited entity's industry or subject matter under audit;
 - sufficient personnel with the necessary competence and capabilities;
 - the ability to hire experts if necessary;
 - the ability to complete the audit within the reporting deadline;
 - individuals possessing the necessary requirements available to perform the engagement quality control review; and
 - experience in, or ability to gain, the required knowledge and skill concerning the audit entity's regulatory or reporting requirements.

The ODA can develop checklists to assist in the assessment of the industry or subject matter and compare this to its capacity to conduct the audit engagement.

- In considering its ability to comply with relevant ethical requirements, the ODA can consider information from the second element of ISQC - 1 including, for example, determination of whether there are threats to independence including conflicts of interest, self-interest threats or self-review threats that must be addressed. For an SAI, an important consideration can be the relationship of SAI staff with the management of the entity, including factors such as recent work experience in the audited entity or

area, and family or personal relationships with management of the audited entity or area.

- In assessing whether it should accept an engagement to carry out the audit of a particular entity, the SAI could consider:
 - identity and business reputation of the audit entity, including management and governing board;
 - audit entity's business practices;
 - attitude of entity's management and others concerning the interpretation of accounting standards and the internal control environment;
 - entity's deliberate attempt to limit the scope of work
 - entity's history of any wrongdoing or other fraudulent business practices.

Sources of information that may be used to assess the integrity of audited entities include:

- information from bankers, legal counsel and industry peers;
- background checks from various databases;
- communication with existing or previous providers of auditors in accordance with relevant ethical requirements, and discussion with other third parties.

The SAI can develop a checklist to assess the audited entity as an input to the process of assessing risk and developing appropriate audit procedures in response.

- Where a SAI is appointed by law and identifies issues that in other circumstances would not permit it to accept or continue a relationship or engagement, it can consider consultation with legal counsel, the need to raise concerns to the legislature and/or the impact on its audit report.

Refer to ISQC-1, paragraphs 26 to 28 and the application guidance in A.18 to A.23 for additional guidance on policies and procedures that support acceptance and continuance of client relationships and specific engagements.

2.1.5 Element 4 - HUMAN RESOURCES

The fourth element of ISQC-1 requires the SAI to establish policies and procedures related to human resources.

The key requirements of this element of the standard are:

- The ODA has policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capability and commitment to ethical principles necessary to:
 - (a) perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
 - (b) enable the Director of Audit or its engagement leaders to issue reports that are appropriate in the circumstances.

- The ODA assigns responsibility for each audit engagement to an Audit Principal (“engagement partner” in the standard). The ODA’s policies and procedures require identification of the Audit Principal to the entity management and those charged with governance, ensure that the Audit Principal has the appropriate competence, capability, and authority to perform the role and the responsibilities of the Audit Principal are clearly defined and communicated to that leader.

- The ODA has policies and procedures to assign appropriate personnel with the necessary competence, and capability to meet the objectives of ISQC-1.

As with all aspects of ISQC-1, the ODA has the policies and procedures requiring **documentation** that provides evidence of the effective operation of this element of quality control.

Applicability of this element to SAI Saint Lucia

- This element of the standard is applicable to the ODA. As noted in the application guidance in ISQC-1, the head of the ODA may have statutory responsibilities that cannot be delegated. The ODA can comply with the intent of this element of ISQC-1 by designating individuals as Audit Principals (engagement leaders) with clearly defined roles and responsibilities for each engagement.

- ISSAI 200 - *General standards in Government Auditing and standards with ethical significance* emphasizes the importance of the SAI's human resources. The general auditing standards require the SAI to adopt policies and procedures to:
 - recruit personnel with suitable qualifications (see paragraph 1.3).
 - develop and train employees to enable them to perform their tasks effectively and to define the basis for the advancement of Auditors and other staff (see paragraph 1.5).
 - support the skills and experience available within the ODA and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 1.15).

ISSAI 200 also requires the auditor and the ODA to possess the required competence (see paragraph 2.1c).

Examples of policies and procedures that the ODA can implement to meet the requirements of this element by:

- Recruitment – The ODA recruits enough capable, competent personnel with a commitment to ethical principles through a selection process that ensures persons with the appropriate qualities and characteristics are recruited. The Office of the Director of Audit does not have full control of the recruitment process but the Director of Audit

should ensure that he/she has as much input as practicable into the selection process. In addition, in order to assist in the recruitment process, the ODA can develop competency profiles to document specific human resource needs that may be different from the overall public service.

Recruitment procedures also include the option of hiring external persons with suitable expertise when the ODA does not have the expertise in-house.

- Performance Evaluation, Promotion, Career Development and Compensation -
These policies and procedures are designed to engender commitment, loyalty, personal well-being and a commitment to ethical standards. They are also designed to ensure that employees are appropriately compensated and have a path for growth and development. There are policies and procedures to provide information to personnel on the SAI's expectations regarding performance and demonstration of commitment to ethical principles, regarding avenues and requirements for advancement as well as for providing feedback on performance. There are consequences for supervisors and managers who fail to provide performance evaluations on a timely basis. The consequences of non-compliance with ethical and other policies and procedures are made clear e.g. disciplinary action. ISQC-1 makes provision for small audit organisations by stating that they may employ a less formal method of performance evaluation. The SAI maintains personnel files that record career development, competencies, professional development courses taken, work experience and performance evaluations to document how it meets this requirement.
- Competencies and Capabilities - Effective policies and procedures emphasize the need for continuing training of all levels of staff. The ODA provides the necessary training resources and assistance to enable personnel to develop and maintain the required competencies and capabilities. Avenues for developing competencies include professional education, continuing professional development, work experience, coaching by more experienced staff and independence education for personnel who are

required to be independent. Examples of policies and procedures that the ODA may have include maintenance of records of attendance at relevant courses, regular assessment of training and development needs, consequences for staff who do not attend required training courses and participant evaluation of training courses. The ODA may use a suitably qualified external person to carry out professional development activities when internal technical and training resources are unavailable.

- The estimation of personnel needs - Effective management of the human resources function includes determining the personnel needs at all levels. The ODA may have policies and procedures to monitor the workload of Audit Principal to ensure the sufficiency of time to adequately discharge their responsibilities. The specific requirements of engagement teams with respect to the levels of experience, expertise needed, the level of professional judgment to be exercised and the understanding of the entity's quality control policies and procedures are considered in determining the personnel needs of each engagement team and thus the ODA as a whole. The ODA can have an audit and staff scheduling system to allocate staff and minimize extreme peak workloads as well as a system to monitor progress against the work schedule to address this requirement.

Refer to ISQC-1, paragraphs 29 to 31 and the application guidance in A.24 to A.31 for additional guidance on policies and procedures that support human resources.

2.1.6 Element 5 - ENGAGEMENT PERFORMANCE

The fifth element of ISQC-1 requires the SAI to establish policies and procedures related to engagement performance.

The key requirements of this element of the standard are:

The ODA has policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements and that the ODA issues reports that are appropriate in the circumstances. These policies address three major areas which directly affect the quality of the audit opinion issued by the ODA:

- Matters relevant to promoting consistency in the quality of audit engagements;
- Supervision responsibilities; and
- Review responsibilities.

As with all aspects of ISQC-1, the SAI has the policies and procedures requiring **documentation** that provides evidence of the effective operation of this element of quality control.

Applicability of this element to SAI Saint Lucia

- This element of the standard is applicable to the ODA. As noted in the application guidance in ISQC-1, the head of the SAI may have statutory responsibilities that cannot be delegated. The ODA can comply with the intent of this element of ISQC-1 by designating individuals to act as Audit Principals with clearly defined roles and responsibilities for each engagement.
- ISSAI 200 - *General standards in Government Auditing and standards with ethical significance* includes the requirement for an SAI to adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 1.13). The general auditing standards state that the auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 2.39).
- ISSAI 300 - *Field Standards in Government Auditing* also contains standards that are relevant to engagement performance including:

- The Auditor should plan the audit in a manner which ensures that an exercise of high quality is carried out in an economic, efficient and effective way and in a timely manner (see paragraph 1.1).
- The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by a senior member of the audit staff (see paragraph 2.1).
- The Auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control (see paragraph 3.1).
- In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits. (see paragraph 4.1)
- Competent, relevant and reasonable evidence should be obtained to support the Auditor's judgment and conclusions regarding the organisation, programme, activity or function under audit (see paragraph 5.1).
- In regularity (financial) audit, and in other types of audit when applicable, Auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure were complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements (see paragraph 6.1).

Examples of policies and procedures that the ODA can implement to meet the requirements of this element:

- Consistency in the quality of engagement performance - The ODA has policies and procedures, such as audit manuals and standardized audit methodology including audit programmes and/or checklists that prescribe standardized activities for the performance of the audit engagement and promote consistency. The ODA has a process for keeping its manuals and methodology up to date with responsibility assigned to the Deputy Director (Professional Development). Staff has a thorough understanding of these policies and procedures gained through professional development, coaching and supervision and on the job experience. Audit teams have a debriefing after the engagement to identify what was done well and areas where efficiency and audit procedures could be improved.
- Supervision - The roles, responsibilities, functions and duties of supervisors are clearly established through job descriptions. The ODA policy facilitates effective supervision and management at various levels of the organisation. Audit teams are briefed on the engagement to ensure a common understanding of objectives, scope, risks and audit strategies in response to risks. Effective supervision includes coaching staff to help improve performance.
- Consultation – Difficult or contentious issues sometimes require consultations with technical experts or experienced personnel to resolve. The ODA identifies individuals to consult (including technical expertise within the office or, if necessary, from outside) and circumstances that could lead to consultation. Policies help promote a culture of consultation and improve the application of professional judgment. Senior management of the ODA recognizes consultation as a strength that contributes to better audits, not an indication of lack of knowledge or a weakness on the part of individuals.

Documentation of the nature, scope and results of the consultations is maintained as a vital record and to contribute to clear understanding of the issues, the results and the related implementation of final decisions.

- Review - The work of less experienced team members is reviewed by more experienced engagement team members. A review consists of consideration of whether:
 - the work has been performed in accordance with the ODA's policies and procedures, professional standards and applicable legal and regulatory requirements;
 - significant matters have been raised for further consideration;
 - appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 - there is a need to revise the nature, timing and extent of work performed;
 - the work performed supports the conclusions reached and is appropriately documented;
 - the evidence obtained is sufficient and appropriate to support the report; and
 - the objectives of the engagement procedures have been achieved.
- Engagement Quality Control Review - An engagement quality control review provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such reviews are undertaken in circumstances where the ODA identifies the need to apply additional quality control procedures in performing an audit engagement. Below are some conditions for determining when, and how to conduct an engagement quality control review.

- An engagement quality control review is carried out for all audits of financial statements of listed entities (which are not entities commonly audited by SAIs). For other entities, the ODA has criteria to determine when an engagement quality control reviewer is appointed. Examples may include audits where the audit entity has complex accounting issues (e.g. complicated financial instruments, fair value accounting, and application of new accounting policies), where there is a history of disagreements, where it is required by law, where the nature of the entity is of broad interest to the public or the audit entity is very large.
- The nature and extent of the review depends on the complexity, risks, regulatory requirements, among other things, associated with the entity to be reviewed. The engagement quality control review is conducted before the audit is finalized so that significant matters can be resolved before the report is finalized.
- The ODA has criteria for the eligibility of engagement quality control reviewers including sufficient and appropriate technical expertise, experience and authority to function in the capacity and the requirement to be objective. The engagement quality control reviewer is not a member of the audit team and is not selected by the Audit Principal or others directly responsible for the audit. For the Office of the Director of Audit, an individual appointed as an engagement quality control reviewer would be at least the equivalent of an engagement leader (Audit Principal) as defined in this Handbook.
- The results of the engagement quality control review are documented. In particular, the audit documentation reflects that the engagement quality control reviewer is satisfied that there are no unresolved issues before the audit report is finalized.

- Differences of Opinion - The ODA has policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, with the engagement quality control reviewer. These policies include referrals of differences of opinion to senior management of the office up to and including the Director of Audit, if necessary. The ODA has a policy that provides detailed guidance on the steps to be taken to resolve differences of opinion including documentation of the resolution and implementation of the conclusions reached.
- Engagement Documentation - The ODA has policies and procedures requiring engagement teams to complete the assembly of final engagement files on a timely basis. ISQC-1 requires audit files to be finalized within 60 days of the issue of the audit report. After that time, no additional documentation is added to the file. If changes are made to the file after the finalization, there is a record of the change, why it was made and who authorized it. Further details on maintaining engagement documentation is presented below.
 - The audit files clearly demonstrate who created, changed and reviewed documentation. Unauthorized changes to documentation are prevented by means such as passwords, back-ups, controls over distribution of engagement documentation and controls over access to, distribution of and storage of hard copy engagement documentation.
 - The ODA has policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. In particular, information in the office's audit files is the property of The ODA and should only be released outside of the office in accordance with legal requirements or professional standards.

- The ODA has policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the office or as required by law or regulation.

Refer to ISQC-1, paragraphs 32 to 47 and the application guidance in A.32 to A.63 for additional guidance on policies and procedures that support engagement performance.

2.1.7 Element 6 - Monitoring

The sixth element of ISQC - 1 requires SAIs to establish a process to monitor its system of quality control.

The key requirements of this element of the standard

- The ODA establishes a monitoring process that provides assurance that the policies and procedures in relation to quality control are relevant, adequate and operating effectively. The monitoring process includes an ongoing consideration and evaluation of the office's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each Audit Principal. Responsibility for the monitoring process is assigned to persons with sufficient and appropriate experience and authority in the office to assume that responsibility. Those performing an engagement or the engagement quality control review are not involved in inspecting the engagements they were involved in.
- The ODA evaluates the effect of deficiencies noted as a result of the monitoring process to assess if they require immediate corrective action.
- The ODA communicates to relevant Audit Principals and other appropriate personnel, deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.

- The recommendations for appropriate remedial action for deficiencies noted through monitoring include remedial action in relation to individuals, communication of findings to training and development personnel, changes to the quality control policies and procedures and disciplinary action.
- The ODA establishes policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement.
- The ODA communicates at least annually the results of the monitoring of its system of quality control to Audit Principals and other appropriate individuals within the office, including the Director of Audit and other senior managers.
- The ODA establishes policies and procedures designed to provide it with reasonable assurance that it deals appropriately with complaints and allegations that the work performed by the office fails to comply with professional standards and applicable legal and regulatory requirements; and allegations of non-compliance with the ODA's system of quality control.
- Remedial action arising from complaints and allegations, if required, are the same as those for deficiencies identified through inspections or reviews.

As with all aspects of ISQC-1, the ODA has the policies and procedures requiring **documentation** that provides evidence of the effective operation of this element of quality control.

Applicability of this element to the ODA

- This element is applicable to the ODA. In particular, paragraph 1.25 of ISSAI 200 - *General standards in Government Auditing and standards with ethical significance* notes that the general standards for the office include the requirement that the the ODA

should adopt policies and procedures to review the efficiency and effectiveness of the office's internal standards and procedures (see paragraph 1.2e).

- Because of the importance of ensuring a high standard of work by the ODA, it should pay particular attention to quality assurance programmes in order to improve audit performance and results. The benefits to be derived from such programmes make it essential for appropriate resources to be available for this purpose. It is important that the use of these resources be matched against the benefits to be obtained.
- The ODA 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.
- As a further means of ensuring quality of performance, additional to the review of audit activity by personnel having line responsibility for the audits concerned, it is desirable that the ODA establishes its own quality assurance arrangements. That is, planning, conducting and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified personnel not involved in those audits, with consultation with the relevant Audit Principal regarding the outcome of the internal quality assurance arrangements and periodic reporting to the office's top management.

Examples of policies and procedures that the ODA can implement to meet the requirements of this element:

- The ODA establishes a process to independently monitor compliance with quality control policies and procedures to provide an assessment of:

- whether there is adherence to professional standards and other legal requirements;
 - whether the existing system of quality controls is properly designed and effectively implemented; and
 - whether the ODA's quality control policies and procedures are applied to ensure that reports issued are appropriate.
- The monitoring process has ongoing consideration and evaluation of the quality control system. Inspections of individual engagements are conducted cyclically with at least one completed engagement for each Audit Principal reviewed during a three-year period.
 - There is ongoing consideration and evaluation of the system of quality control by considering such matters as:
 - Analysis of:
 - new developments in professional standards and legal requirements and how they are reflected in the current policies;
 - written confirmation of compliance with policies and procedures on independence and continuing professional development; and
 - decisions related to acceptance and continuance of engagements with specific audit entities.
 - Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the ODA's policies and procedures relating to education and training. Document corrective actions to be taken and improvements needed;
 - Communicate with appropriate personnel, including senior managers, weaknesses identified;

- Follow-up to ensure that modifications are promptly incorporated.
- Policies that ensure the inspection process include the selection of individual audits some of which may be selected without the prior knowledge of the audit team.
- The results of the quality assurance process are important to ensuring that the ODA's system of quality control is appropriately designed and effectively implemented. Consequently, the quality assurance function reports at least annually on the results of its reviews. This report is addressed to the Director of Audit and is circulated throughout the organisation. Senior managers use the annual report and other quality assurance reports to identify opportunities to correct deficiencies and the office's system of quality control. Audit Principals review the annual report and other reports of the quality assurance function to identify good practices and potential deficiencies that may be relevant to audits that they are responsible for.
- If the quality assurance function identifies audit reports that have been issued that are not appropriate or have not complied with professional standards, the ODA implements corrective action. This can include recalling the audit report and issuing a corrected version, carrying out additional procedures to determine if the report did meet professional standards and ensuring errors are corrected in subsequent periods.
- While there are a number of models for implementing a monitoring or quality assurance function for a SAI (e.g. internal unit, contracting for services, rotation among qualified members of the SAI, cooperation with other SAIs), it is essential that
 - the individuals performing the quality assurance reviews have the capabilities and competencies to carry out the reviews;
 - the individuals are independent of the audit or institutional element being reviewed and

- the individuals have the necessary organisational authority to carry out the review.
- The ODA establishes a system that provides a clearly defined avenue for personnel to raise any concerns without intimidation. This includes policies that permit members to raise concerns with senior management of the ODA, up to and including the Director of Audit, without fear of intimidation and retaliation.
- The ODA has policies and procedures to ensure that appropriate documentation relating to monitoring including:
 - monitoring procedures
 - a record of the evaluation of:
 - adherence to professional standards and applicable legal requirements;
 - the appropriateness and effectiveness of the quality control system; and
 - whether the office's quality control policies and procedures have been appropriately applied.
 - deficiencies noted and further action necessary

Refer to ISQC-1 paragraphs 48 to 56 and the related application guidance A.64 to A.72 for additional guidance on policies and procedures that support monitoring responsibility.

2.2 Quality Control at Financial Audit Level

2.2.1 Introduction

Before conducting quality assurance review (QAR) of financial audits, it is important for a reviewer to understand the requirements of quality control for individual financial audits as outlined in the International Standards on Auditing (ISA) 220 which INTOSAI has adopted as International Standards of Supreme Audit Institutions (ISSAI 1220). Reviewers should also have a good understanding of auditing standards applicable to the audit of financial statements.

In this section we will review the requirements of ISA 220 and discuss its applicability to financial audits carried out by the ODA. We will also review the different stages of the financial audit process and key requirements of the certain professional standards in ISAs.

The system of quality control for the financial audit process discussed herein is based on the International Standards on Auditing (ISA), the INTOSAI Auditing Standards and International Standards of Supreme Audit Institutions (ISSAI). Where these standards have been adopted by INTOSAI, the ISSAI reference is used; otherwise the ISA reference is used.

2.2.2 ISA 220 - Quality Control for an Audit of Financial Statements

This ISA establishes the specific responsibilities of the Auditor regarding quality control procedures for an audit of financial statements. It places the quality control mechanisms of an individual audit of financial statements within the context of an SAI's system of quality control. Moreover, it presupposes that an SAI's system of control follows the requirements of ISQC-1.

ISA 220 is directly linked to the audit methodology of audit organisations and aims to ensure that audit teams have reasonable assurance that:

- (a) the audit complies with professional standards and applicable legal and regulatory requirements; and
- (b) the Auditor's report issued is appropriate in the circumstances.

The application guidance in ISA 220 contains considerations for the ODA. In addition, the practice notes for ISSAI 1220 provide supplementary guidance to the ODA on ISA 220.

Specifically ISSAI 1220 is relevant to auditors of public sector entities in their role as auditors of financial statements.

2.2.3 ISA 220 - Key Requirements

ISA 220 provides guidance on specific responsibilities of the Audit Principal and/or audit team members regarding quality control procedures that are applicable to audit assignments. Specifically, ISA 220 requires an Audit Principal to take responsibility for the quality of audits and implement quality control procedures that are applicable to an individual audit assignment.

The key requirements of this standard are discussed under the following main groupings:

- Leadership Responsibilities for Quality on Audits
- Relevant Ethical Requirements
- Acceptance and Continuance of Client Relationships and Audit Assignments
- Assignment of Engagement Teams
- Engagement Performance
- Monitoring

A summary of the quality control for each of these groupings is presented below. ISA 220 and ISSAI 1220 should be referred to for detailed requirements.

Leadership Responsibilities for Quality on Audits

- The Audit Principal takes responsibility for the overall quality of each audit to which he or she is assigned. (Ref. ISA 220 Paragraphs 8 and A.3)

Relevant Ethical Requirements

- The Audit Principal remains alert throughout the audit for evidence of non-compliance with relevant ethical requirements by members of the audit team. (Ref. ISA 220 paragraphs 9 and A.4 to A.5)
- Where it has come to the attention of the Audit Principal that members of the audit team have not complied with ethical requirements, the Audit Principal in consultation

with others in the office should determine the appropriate action necessary and document such decisions. (Ref. ISA 220 paragraphs 10 and A.5)

- The Audit Principal forms a conclusion on compliance with independence requirements, and obtains information to evaluate whether -
 - there are potential threats to independence or any identified breaches;
 - evaluates information on identified breaches of the ODA's independence policies and procedures to determine whether they create a threat to independence for the audit, and takes appropriate action to eliminate or reduce to acceptable levels such threats and document conclusions. (Ref. paragraphs 11 and A.5 to A.7)

For SAIs, relevant ethical requirements include the INTOSAI Code of Ethics, ISSAI 200 - *General standards in Government Auditing and standards with ethical significance* and national ethical requirements applicable to SAI Auditors in a particular environment. (Ref ISSAI 1220 Practice Note 5).

Acceptance and Continuance of Client Relationships and Audit Assignments

- The Audit Principal should be satisfied that appropriate procedures regarding the acceptance and continuance of relationships with the audited entity and specific audits have been followed, and that conclusions reached in this regard have been documented. (Ref. paragraph 12 and A.8 to A.9). An SAI may be appointed in accordance with statutory procedures and, therefore, may not be in a position to decline or resign from an engagement. However, the requirements for ISA 220 may be useful in identifying risks associated with a particular entity or engagement that need to be addressed. An SAI considers issues such as visibility and sensitivity of the financial statements, and the relevant risks, and the performance of other procedures relevant to fulfilling their reporting responsibilities. (Ref. ISSAI 1220)

Assignment of Engagement Teams

- The Audit Principal should be satisfied that the audit team collectively has the appropriate capabilities, competence and time to perform the audit in accordance with professional standards and applicable regulatory requirements, and to enable the issuance of an Auditor's report in the circumstances. (Ref. ISA 220 paragraphs 14 and A.10 to A.12)

Engagement Performance

- The Audit Principal is responsible for the direction, supervision and performance of the audit in compliance with professional standards and regulatory and legal requirements, and to ensure that the Auditor's report that is issued is appropriate in the circumstances. (Ref. ISA 220 paragraphs 15 and A.13 to A.15, A.20)
- The Audit Principal ensures reviews are performed in accordance with the ODA's review policies and procedures which should meet the requirements of ISQC-1. (Ref: ISA 220 paragraphs 16 and A.16 to A.17, A.20 and ISQC-1 paragraphs 32 and A.34)
- The Audit Principal is responsible for ensuring that reviews of the working papers are carried out, in order to be satisfied that they demonstrate that sufficient appropriate audit evidence has been obtained to support conclusions reached for the Auditor's report to be issued. (Ref. ISA 220 paragraphs 17 and A.18 to A.20)
- The Audit Principal is responsible for the audit team undertaking appropriate consultation on difficult or contentious matters; being satisfied that members of the audit team have undertaken appropriate consultation during the course of audit with other team members and others at the appropriate level within or outside the ODA; and being satisfied that the nature and scope of, and conclusions resulting from such consultations are documented and agreed with the party consulted; and determining that conclusions resulting from consultations have been implemented. (Ref. ISA 220 paragraph 18 and A.21 to A.22).

(i) Engagement Quality Control Review

In cases where the ODA requires that an engagement quality control review is to be performed for an audit, the Audit principal should:

- determine that an engagement quality control reviewer has been appointed;
- discuss significant matters arising during the audit, including those identified during the audit quality control review, with the engagement quality control reviewer; and
- withhold issuing the Auditor's report until the completion of the engagement quality control review. An engagement quality control review should include an objective evaluation of the significant judgments made by the audit team, and the conclusions reached in formulating the Auditor's opinion and report. (Ref. ISA 220 paragraphs 19 to 21 and A.23 to A.31)

(ii) Differences of Opinion

Where differences of opinion arise within the audit team with those consulted and, where applicable, between the Audit Principal and the engagement quality control reviewer, the audit team should follow the ODA's policies and procedures for dealing with and resolving differences of opinion. (Ref. ISA 220 paragraph 22)

Monitoring

- The Audit Principal should consider the results of the ODA's quality assurance reviews to determine whether deficiencies noted will have any impact, on the audit engagement. (Ref. ISA 220 paragraphs 23 and A.32 to A.34).

2.2.4. Financial Audit Process

A quality control system ensures the enforcement of quality requirements as set out by the International and INTOSAI Standards, and local rules and regulations governing the ODA. The aim of this section is to discuss the audit process of financial statements as they relate to the professional auditing standards.

The steps in the audit process can be broadly grouped into four phases:



- Pre-Engagement
- Planning
- Conducting, and
- Reporting.

Table 1 presents an overview of key International Standards on Auditing and Quality Control (ISA) and International Auditing Standards of Supreme Audit Institutions (ISSAI) where appropriate and the relevant Code of Ethics that relate to the four phases of the audit process.

All the standards set out by the ISAs and the ISSAIs have not been presented. A comprehensive list of all the auditing standards included in the 2009 IASB Handbook is at Appendix 2.2.A and a list of the standards endorsed by INTOSAI is at Appendix 2.2.B.

Members of the audit team should be familiar with the contents of ISAs relevant to the audit. The Audit Principal should ensure that audit team members review relevant ISAs as part of the planning and conducting of the financial audit process.

Table 1-- Key Stages of the Financial Audit Process

| KEY STAGES | ACTIVITIES | AUDITING STANDARDS |
|-----------------------|---|---|
| PRE-ENGAGEMENT | Compliance with the codes of ethics and Fundamental Auditing Principles | IFAC Code of Ethics for Professional Accountants INTOSAI Code of Ethics ISSAI 100, 200,300, 400 |
| | Competency of audit engagement team | ISSAI 30 ISA 220 ISSAI 1220 ISA 210 |
| PLANNING | Understanding the entity and its environment | ISA 315 ISSAI 1315 |
| | Establishing audit objective and scope | ISA 200 |
| | Determining materiality | ISA 320 |

| KEY STAGES | ACTIVITIES | AUDITING STANDARDS |
|-----------------------------|---|-------------------------------------|
| | Assessing the risk of material misstatement | ISA 330 ISSAI 1330 ISA 315 |
| | Preparing detailed audit plan | ISA 300 ISSAI 1300 |
| | Design of audit procedures for assessed risk | ISA 330 ISSAI 1330 |
| Conducting | Using sampling and other means of testing | ISA 530 |
| | Performing tests of controls | ISA 330 |
| | Performing analytical procedures | ISA 520 |
| | Performing substantive procedures | ISA 330 ISSAI 1330 |
| | Adequacy and presentation of Disclosure | ISA 330 ISSAI 1330 |
| | Evaluation of misstatements identified during the audit | ISA 450 ISSAI 1450 |
| | Evaluating the sufficiency and appropriateness of audit evidence | ISA 330 ISSAI 1330 ISA 500 |
| | Audit Evidence | ISA 500-599 |
| | Considering auditing of accounting estimates including fair value | ISA 540 |
| | Related parties | ISA 550 |
| | Subsequent events | ISA 560 |
| | Considering the appropriateness of management's use of the going concern assumption | ISA 570 |
| Written representations | ISA 580 | |
| Using Work of Others | Audits of group financial statements Internal Auditors Auditor's expert | ISA 600. ISA 610. ISA 620 |
| | | |
| REPORTING | Considering fraud in financial audit | ISA 240 |
| | Communicating audit conclusions | ISA 260 ISSAI 1260 |



| KEY STAGES | ACTIVITIES | AUDITING STANDARDS |
|------------|------------------------------|---|
| | Evaluating audit conclusions | ISA 700 |
| | Preparing the audit report | ISA 700 ISA 705 ISA 706 ISA 710 ISA 720 ISA 739 ISA 759 |

Pre-engagement Phase

The pre-engagement phase refers to the basic considerations before starting a financial audit engagement. This has reference to the IFAC Code, Fundamental Auditing Principles established by INTOSAI and competency of the audit team.

i. Codes of Ethics and Fundamental Auditing Principles

The IFAC Code establishes ethical requirements for professional Accountants and provides a conceptual framework for all professional Accountants to ensure compliance with the five core principles of professional ethics, namely:

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour.

A Code of Ethics for Auditors in the ODA of Saint Lucia was developed in January 2004 which incorporates all five core principles of the IFAC Code.

The International Standards of Supreme Audit Institutions has also established a Code of Ethics (ISSAI) 30 for Auditors in the public sector including SAIs. ISSAI 30 is directed at the individual auditor, the Director of Audit, executive officers and all individuals working for or on behalf of

the ODA who are involved in audit work. A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of Auditors. The independence, powers and responsibilities of an SAI Auditor place high ethical demands on the SAI and the staff they employ or engage for audit work. The Code of Ethics for Auditors in the ODA considers the ethical requirements of civil servants in general and the particular requirement of Auditors, including the latter's professional obligations.

ISSAI 30 recognises that it is of fundamental importance that the SAI is looked upon with trust, confidentiality, and credibility. This ISSAI states that an auditor promotes these values by applying the ethical requirements embodied in the concepts of integrity, independence, objectivity, impartiality, political neutrality, conflicts of interest, professional secrecy, competence and professional development.

In addition to the codes mentioned in the preceding paragraphs, INTOSAI has established Fundamental Auditing Principles in:

- *ISSAI 100 - Basic principles in government auditing*
- *ISSAI 200 - General standards in government auditing and standards with ethical significance*
- *ISSA 300 – Field standards in government auditing*
- *ISSA 400 – Reporting standards in government auditing.*

INTOSAI developed these standards to provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit. They should be viewed in the particular constitutional, legal and other circumstances of the SAI of Saint Lucia.

The basic principles for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the Auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

Auditing standards are consistent with the principles of auditing. They also provide minimum guidance for the Auditor in helping determine the extent of auditing steps and procedures that

should be applied in the audit. Auditing Standards constitute the criteria or yardstick against which the quality of the audit results is evaluated.

ii. Assignment of Engagement Teams

As presented above, **ISA 220** requires that the audit team collectively has the appropriate capabilities, competence and time to perform the audit in accordance with professional standards and applicable regulatory requirements, and to enable the issuance of an auditor's report in the circumstances.

Planning Phase

ISA 300 (Planning an Audit of Financial Statements) requires an Auditor to establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. The planning activities that embody this requirement are:

- Understanding the entity and its environment (ISA 315, ISSAI 1315)
- Establishing audit objective and scope (ISA 200, ISSAI 1220)
- Determining materiality (ISA 320)
- Assessing the risks of material misstatement (ISA 315, ISSAI 1315, ISA 420)
- Considering the going concern assumption (ISA 570)
- Considering fraud in financial audit (ISA 240)
- Preparing a detailed audit plan (ISSAI 1300)

ISSAI 1300 also notes that in the public sector environment there may be need to include additional planning such as obtaining an understanding of the legal and regulatory framework applicable to the entity due to the broader objectives of the audit and considerations of the expectations of the legislature and other users of the auditors' report.

ISSAI 1300 notes further that additional reporting responsibilities for the entity established by the legislature and additional responsibilities for the public sector as a result of the audit

mandate or other requirements may influence the scope and timing of the audit, and the nature of communication.

Conducting Phase

As stated in **ISA 500**, the objective of an auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

ISA 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. In implementing procedures to address those risks ISA 330 requires the auditor to:

- perform tests of controls to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.
- perform substantive procedures for each material class of transactions, account balance, and disclosure. ISA 520 indicates that analytical procedures may also be performed as substantive procedures.
- perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.
- obtain more persuasive audit evidence the higher the auditor's assessment of risk by increasing the quantity of the evidence or obtaining evidence that is more relevant or reliable, or both.

- evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain.

ISA 520 requires an auditor to perform analytical procedures near the end of the audit to assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (Ref: ISA 520 para. A.17to A.19)

In addition to the requirements specified in **ISA 330** and **ISA 520**, **ISA 450** also requires the auditor to accumulate non trivial misstatements identified during the audit in order to evaluate the effect of identified misstatements on the audit; and to assess the effect of uncorrected misstatements, if any, on the financial statements.

In the public sector environment, **ISSAI 1450** notes that public sector auditors may also accumulate instances of non-compliance with authorities and may classify them as factual, judgmental or projected.

ISA 600 requires the auditor to determine whether, and to what extent, to use the work of other auditors and if using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit

Underpinning all of the above requirements is the need for an auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: ISA 500 para. A.1 to A.25).

ISA 500 indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance that an auditor obtains from evidence existing within the accounting records or from representations made by management. ISA 505 further expounds on the use of external confirmations as a source of reliable audit evidence.

ISA 230 requires the auditor to prepare, on a timely basis, audit documentation that provides:

- a sufficient and appropriate record of the basis for the auditor’s report; and
- evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

Reporting Phase

The reporting phase includes evaluating audit conclusions, communicating audit findings, and preparing the audit report.

- **Evaluating audit conclusions**

ISA 700 provides guidance on the matters the auditor considers in forming an opinion on the financial statements. The auditor should review, assess and evaluate the conclusions drawn from the audit evidence obtained as a basis for the expression of an opinion on the financial statements. The auditor should determine the significance of audit findings and classify them as to the severity of where and how they will be reported.

- **Communicating audit findings**

ISA 260 provides guidance on communication of audit matters arising from the audit of financial statements between the auditor and those charged with governance of an entity. These communications relate to audit matters of governance interest.

ISSAI 1260 states that the objectives of a financial statement audit in the public sector are often broader than to express an opinion on the financial statements. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the auditor found any instances of non-compliance with authorities including budget and accountability and/or reporting on the effectiveness of internal control.

- **Preparing the audit report**

ISA 700 provides standards on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of the financial statements of an entity. The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements.

ISSAI 1805 notes that in the public sector the wording of the opinion may be prescribed by relevant legislation or the audit mandate. In such circumstances, public sector auditors apply the prescribed wording, taking into account paragraphs 20 and 21 of **ISA 805**.

The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit and that the audit was conducted in accordance with International Standards on Auditing. The auditor's report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

The auditor's report should state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

When the International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework.

- **Modified Reports**

ISA 705 specifies instances where an audit opinion can be modified. An opinion can be modified when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or the auditor

is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

- ***Emphasis of Matters Paragraphs***

ISA 706 provides guidance where additional communication in the auditor's report when the auditor considers it necessary to draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.


- **Comparative Information**

ISA 710 deals with the auditor's responsibilities relating to comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in ISA 5101 regarding opening balances also apply.


The objective of this ISA is to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented in accordance with the requirements for comparative information in the applicable financial reporting framework; and to report in accordance with the auditor's reporting responsibilities.

- **The Auditor's Responsibilities Relating to Other Information in Documents containing Audited Financial Statements**

ISA 720 provides guidance on an auditor's responsibilities relating to other information in documents containing audited financial statements and the auditor's report. The

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objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor’s report include other information that could undermine the credibility of those financial statements and the auditor’s report.



SECTION 3

QUALITY ASSURANCE IN SAI

SAINT LUCIA

3. Quality Assurance in the Office of the Director of Audit

3.1 Introduction

This section highlights the quality assurance review process and looks at the different aspects of creating and managing a quality assurance function. The purpose of the quality assurance function (monitoring) is to provide the ODA with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. If a quality assurance review identifies weaknesses or deficiencies in the design or implementation of quality controls, the review report should include recommendations to management to correct the weaknesses or deficiencies.

As described in ISQC-1, quality assurance review is intended to provide the Director of Audit with reasonable assurance that the ODA's system of quality control is designed and operating effectively to ensure that professional standards and legal requirements are met and that audit reports and opinions issued by the ODA are appropriate. Generally, the quality assurance review process involves the five stages used in the audit process - pre-planning, planning, conducting, reporting and follow up.

ISSAI 200 - *General standards in Government Auditing and standards with ethical significance* (para 1.25) states that the SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures. Paragraph 1.26 of ISSAI 200 explains that because of the importance of the SAI in ensuring a high standard of work, the SAI should pay particular attention to the quality assurance programme in order to improve audit performance and results.

Generally, some kind of a quality assurance function exists in each SAI. However, SAIs should continuously strive to ensure that the function meets the requirements of international best practices as described in ISQC-1 and ISSAI 200.

3.2 Setting up the Quality Assurance Function in Saint Lucia's SAI

3.2.1 Purpose

This subsection highlights the importance of a quality assurance (QA) function and gives guidance on how to create, manage and maintain the quality assurance function.

Summary

Setting up a QA function involves a number of steps including assessing the need for such a function and/or the need to strengthen an existing QA function, developing and implementing a QA policy, developing a QA handbook for practical guidance, selecting the right people, and clarifying their roles and responsibilities.

The steps to establish a QA function depend on the circumstances of the ODA. The steps highlighted in this chapter are designed to be implemented for a SAI without a QA function.

The roles and responsibilities of the ODA's management in the administration of a quality assurance function once it has been established are also described.

Key steps

The following are the key steps in establishing a QA function described in this subsection:

- ✓ assessing the ODA's needs for the QA function;
- ✓ developing and maintaining a QA policy;
- ✓ creating staff awareness of the QA function;
- ✓ developing (or adapting) a QA handbook ;
- ✓ setting up the QA function; and
- ✓ managing the QA function.

3.2.2 Objectives of the Quality Assurance function

Quality assurance is the process established by the ODA to ensure that:

- the ODA and its staff adhere to professional standards and relevant legal and regulatory requirements;
- appropriate quality controls are designed and are in place;
- quality controls are being properly implemented;
- potential ways of strengthening or otherwise improving quality controls are identified; and
- there is the assurance that reports issued by the ODA are appropriate in the circumstances.

The main aim of the quality assurance function within the ODA is to provide assurance to the Director of Audit that the office's system of quality control is appropriately designed and effectively implemented and that audit reports that have been issued are appropriate. When weaknesses in quality control are identified at either the institutional or individual audit levels, the quality assurance function suggests strategies for correcting those weaknesses. Quality assurance is therefore an ongoing process to ensure the ODA and its staff follow the quality control system, and providing ongoing assurance to the Director that audit reports that have been issued are appropriate.

3.2.3 Assessing the need for a QA function in the ODA

The purpose of a needs assessment is to identify gaps between the requirements of professional standards and best practice and actual practice of the QA within the ODA. The needs of the ODA depends on its mandate, the nature of the audits carried out, size of the ODA and the strength of the quality control framework. The assessment allows management to help determine contents of the policy, detailed guidelines, tools, staff and budget as well as infrastructure relating to the QA function.

The assessment exercise can be conducted either by internal staff of the ODA (creating an implementation team) at middle and higher management levels, or by another SAI in the CAROSAI region as well as from outside the region such as INTOSAI, IDI, etc.

While compiling an implementation team, the following aspects should be considered:

- ✓ qualifications of the team members;
- ✓ ensure senior management support for quality assurance and the task force;
- ✓ consideration of the future involvement of the task force members in QA activities; and
- ✓ terms of reference of the task force including duties, responsibilities, time frame, etc.

The assessment tools may include: surveys, questionnaires, interviews, focus group discussions and reviews of documents, including documents of SAIs with experience in QA.

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

- ✓ size of the office - In the CAROSAI region, size of the SAIs plays an important determining factor in how the quality assurance function is structured;
- ✓ QA practices in SAIs with more experience in this subject;
- ✓ ISQC-1, INTOSAI and IAASB standards and guidelines describing best practices in quality control and quality assurance;
- ✓ rules and regulations regarding the requirements for a QA function;
- ✓ nature, size, complexity, risks and average annual number of financial audits undertaken by the ODA;
- ✓ status of quality controls in the ODA;
- ✓ qualifications and professional experience and skills of staff members; and
- ✓ stakeholder interests, in particular the legislature or Parliament.

3.2.4 Developing and Implementing the QA policy

As noted in the overview of ISQC-1 in section 2, the Director of Audit is expected to assume ultimate responsibility for the system of quality control. A system of quality control for the ODA is an essential prerequisite for quality assurance to have relevance. In other words, a key objective of the QA function is to provide assurance on the design and implementation of the ODA's system of quality control. A comprehensive QA policy approved by the Director emphasizes the importance of the QA function in ensuring quality.

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

The team should benchmark the draft policy to ISQC-1 requirement for “monitoring” to ensure that the final agreed policy is complete and relevant. Some of the issues that a QA policy should address include:

- ✓ purpose of the QA function;
- ✓ reporting lines within the function and within the ODA;
- ✓ authority given to and qualifications required of the head of the QA function
- ✓ responsibilities and operating principles including:
 - nature, frequency and scope of QA reviews; and
 - reporting by the QA function including annual reporting, reporting on results of reviews of audit engagements and on the performance of the function.

If there is already a QA policy in place, it can be updated to meet the requirements of ISQC-1 or other best practices, and/or to incorporate any changes in audit processes.

A sample QA policy can be found in **Appendix 3.2.A**.

The ODA’s QA policy should be reviewed periodically and when necessary, incorporate changes to reflect new professional, policy, legal or regulatory requirements. When undertaking this review, the office should consider lessons learnt with regard to quality control and assurance as well as international developments in auditing, quality control and quality assurance.

3.2.5 Creating staff awareness

Staff awareness is a critical aspect for the implementation of an effective QA function. Quality control is the responsibility of all the staff at the ODA from the Director of Audit down to the Audit Clerk 1 and requires a clear understanding of the office’s quality control framework. As part of the understanding of the office’s overall quality control framework, the staff members should understand the role and importance of the quality assurance function in contributing to the quality objectives of the organisation. The QA unit of the SAI together with senior management should create awareness at all levels of staff of the role and importance of QA.

3.2.6 Establishing a QA function

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

- allocate staff to form a separate QA unit;
- in the case of a limited number of experienced qualified staff:
 - assign special QA duties to staff (peer reviews) in rotation (different teams can perform the QA function) or
 - form QA committee(s);
- arrange QA reviews by other SAIs or other professional bodies; and
- hire external experts to periodically assess the ODA's quality control systems.

3.2.7 Options for Small SAIs in CAROSAI

Due to the limited number of experienced qualified staff in some SAIs, it may not be feasible to create a separate QA function. However, there are other options available to these SAIs. The head of the SAI can allocate the responsibility to oversee QA in the SAI to a specific individual or an ad hoc committee. The specific individual or ad hoc committee is given its own terms of reference and period of operation. Since the individuals selected may have other responsibilities, it is advisable to rotate them after a predetermined period. This means that a number of persons in the SAI should be adequately trained to enable them to undertake the QA reviews. Another option available to SAIs in the CAROSAI region is to consider setting set up a regional QA function using QA trained auditors from various SAIs to perform this function. When a SAI requires a QAR to be undertaken, it could make the request to the supervising body

and a team can be assembled and sent to the particular SAI. The terms and conditions of this agreement would have to be agreed upon by heads of SAI within the CAROSAI region.

3.2.8 External reviewers

The office of the Director of Audit may acquire expertise from qualified specialists, consultants and technical experts, professional associations and other organisations, as needed to conduct QA reviews. The experts may give technical advice to the ODA at the latter's request. The ODA should ensure that the specialists and experts are qualified and have competence in their areas of specialisation, and should document such assurance.

3.2.9 Staffing the QA Function

QA unit size

In certain regions it is common practice for SAIs with a large audit staff to establish a separate QA unit. If the ODA adopts this approach, the size of the unit will depend on the size of the office and also the stage of its technical development. ISQC-1 (paragraph A.66) suggests a three year inspection cycle. In other words, the work of each Audit Principal is reviewed at least once every three years. In addition to having sufficient resources to carry out the reviews of individual audits, the QA function requires enough resources to review the design and operation of the institutional level quality control framework. Depending on the factors described previously, the QA manager may have two to four auditors assigned as QA reviewers. Only experienced, qualified auditors who have demonstrated a good understanding of the ODA's audit procedures should be assigned to the QA function. The leadership of the QA function should have authority and experience equivalent to the Audit Principal as described in section 2 of this handbook. The ODA has to consider the risk of putting so many resources to QA that it may compromise resources available to ensure the timely completion of the actual audits. There could also be situations where the ODA increases resources allocated to its quality review function:

- the ODA is in the process of rolling out new audit procedures and systems;
- there are new standards to comply with; and/or
- there are new audit areas to review

3.2.10 Competencies of QA staff

The QA team should collectively possess the following competencies:

- ✓ Analytical skills
- ✓ Ability to synthesize
- ✓ Interpersonal skills
- ✓ Communication skills
- ✓ Facilitation skills
- ✓ Audit experience in all areas
- ✓ Managerial abilities

The reviewers should be auditors who are experienced and skilled in implementing the ODA's audit procedures. In order to be credible, quality reviewers should have skills at least equal to those who performed the audit. Possession of the above mentioned skills enable review team members to implement review practices effectively and produce a credible report. It can also add value, and may be necessary in certain circumstances, if the team has other skills relevant to the audit being reviewed, such as IT audit, or include those with skills in financial or regularity audit or particularly complex accounting issues or management experience.

On occasion, it can be a significant challenge to identify and establish a team with all the necessary competencies. In some cases all the requisite skills and experience may not be available in the QA team. The QA team can be supplemented by using external experts in particular areas.

The knowledge and skills of the QA staff are significant elements of an efficient and effective QA function. Therefore it is essential to ensure the continuous professional development of the QA staff.

The QA staff should have collective knowledge and experience of their subject matter (in this case financial audit) to fulfil their roles and responsibilities effectively. In addition to having sufficient knowledge, skills and competencies, it is essential that the QA function be led by a person with sufficient and appropriate experience and authority to undertake the task.

The ODA's management also need to consider how to instil the appropriate ethical values as outlined in the IFAC Code and the INTOSAI Code of Ethics in the QA team. These values include the following:

- **Independence, objectivity and impartiality**

The members of the review team should be independent from the audit entities and the audit team. Quality reviewers should behave in a way that demonstrates their independence. The following criteria should be considered in this regard:

- the reviewer should not have been a member of the audit team, and should not be selected by the audit team;
- the head of the QA unit or a senior official should be responsible for selection and appointment of the reviewers;
- the reviewer has not otherwise participated in the audit; and
- the reviewer did not make decisions related to the audit.

Similarly members of the review team reviewing institutional level quality controls should not have had responsibility for the element being reviewed.

- **Integrity**

Reviewers have a duty to adhere to high standards of behaviour (e.g. honesty and openness) in the course of their work and in their relationships with the audit team and others being reviewed. In order to sustain confidence, the conduct of reviewers should be above suspicion and reproach.

Reviewers should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities, which could influence or be perceived as influencing their independence and integrity.

- **Conflict of interest**

Quality reviewers should take steps to ensure that there is no real or perceived conflict of interest such as being involved in reviews that may include audits that they participated in or elements of the institutional quality control system they had responsibility for.

- **Professional secrecy**

Reviewers should not disclose information obtained in the reviewing process to third parties, either verbally or in writing, except for the purposes of meeting the QAR objectives.

- **Professional competence and due care**

Reviewers have a duty to conduct themselves in a professional manner at all times, and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality. Reviewers must not undertake work they are not competent to perform. Reviewers should know and follow applicable auditing, accounting and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the ODA.

3.2.11 Functions of QA team

The team will review the adequacy of, and compliance to, quality controls at the ODA level as well as at individual audit level. The QA reports should also identify weaknesses and propose

recommendations for consideration and follow-up action by the ODA's top management. The team will also conduct follow-ups to assess the status of implementation of their recommendations. They will assess the outcome of those recommendations that were implemented, and identify reasons for non-implementation of any particular recommendation.

3.2.12 Roles of QA staff

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

- **QA Manager or Director**

The QA manager or director, as the head of the QA unit, will report to the Director or top management of the ODA, and will be responsible for overall aspects of the QA function including the development of the unit operational plan (see **Appendix 3.3.A** for an example). He or she will also formulate strategies to undertake the QA function and measure outcomes of the QA function.

- **Team Leader**

The team leader for the QA review will report to the QA Manager or director, and should assume the overall responsibilities of the QA review. In the **planning stage** he or she will develop review objectives, scope, time and targets and formulate the review methodology. He or she will delegate the responsibilities to team members, and develop the review plan (see Appendix 3.3.B for an example) and review the QAR checklist (see **Appendix 3.3.E** or **Appendix 3.3.F** for sample checklists at the ODA and financial audit level respectively) to ensure that it reflects current professional standards and policies of the ODA.

In the **conducting stage**, the team leader will provide advice and necessary guidance to the team members about the plan, objectives and on actually conducting the review. He or she will also monitor and assure that the QAR process is in accordance with QA standards, policies and procedures. He or she will analyse the findings and articulate the conclusions and recommendations.

In the **reporting and follow-up stage**, the team leader will write or review the audit reports and discuss and present the findings to the ODA management. He or she will also follow up on any outstanding issues.

- **Team Members**

Team members for the QA review will be responsible to the team leader, and will conduct the review based on the plan agreed upon in the planning stage and according to the ODA's QA policies and procedures. They will gather evidence to support findings through interviews, documentation reviews, and observations. They will also prepare and document necessary working papers to support their findings. Finally, they will prepare a draft report on the findings of the review.

3.2.13 Training and professional development

Continuous development is needed for the QA management and staff. Workshops, seminars, talk programmes, focus group discussions and panel discussions, should be organised regularly to maintain and upgrade the competence of QA staff in the following areas:

- ODA's QA policy;
- best practices and changes in standards for audit quality control systems and practices;
- QA standards, procedures and best practices
- roles and responsibilities of QA staff;
- ethical requirements; and
- soft skills relating to presentation, negotiation, group leading, etc.

The ODA may also consider secondment of QA staff to, and from, SAIs with proven strong QA practices and traditions. The QA staff should have collective knowledge and experience of their subject matter (in this case financial audit) to fulfil their roles and responsibilities effectively.



3.3 Quality Assurance Reviews in SAI Saint Lucia

3.3.1 The Quality Assurance Review

The Quality Assurance Review (QAR) is the culmination of the quality assurance process. At this point the reviewer carries out the examination to determine if the policies, procedures, controls and applicable standards are designed and being applied or implemented to ensure that the ODA and its personnel comply with relevant standards, ODA policies and procedures and that reports issued are appropriate. The review also identifies opportunities to improve the efficiency and effectiveness of the ODA.

Quality Assurance Reviews are carried out at two levels:

- Institutional level – examining the design and implementation the ODA’s overall systems and practices of quality control.
- Financial audit level – examining the implementation of quality control and audit procedures at the engagement level to ensure the engagement team has implemented relevant quality controls, followed the ODA’s audit methodology and that there is sufficient appropriate audit evidence to support the audit report.

The QA review at ***institutional level*** can be a comprehensive review that deals with all elements of the quality control framework or one that focuses on the design, implementation and effective operation of selected elements of that framework.

The QA review at the **financial audit level** is an inspection of the audit files of individual engagements (in whole or in part) to determine if the audit team has applied the ODA’s audit methodology, policies and procedures, gathered sufficient appropriate audit evidence and complied with relevant legislation, professional standards and ethical requirements.

Institutional Level

Some of the issues for consideration when conducting a quality assurance review at the institutional level are:

- determine if the ODA's legal framework is sufficient to meet the independence and mandate expectations of the Lima and Mexico Declarations;
- determine if the ODA has implemented policies to ensure compliance with relevant ethical and independence requirements;
- assess the extent that the leadership of the ODA promotes a culture of quality and implements systems and practices that acknowledge quality as essential;
- assess the human resource processes and systems in place to determine if the ODA has reasonable assurance that it has sufficient personnel with competence, capabilities and commitment to ethical principles to meet the overall objectives of quality control;
- assess the ODA's audit methodology and practices to determine if they are based on International and INTOSAI standards and aligned with international best practices;
- assess, where relevant, if the ODA's policies and procedures identify and address risks to acceptance and continuance of entity relationships and specific engagements;
- identify ways to strengthen internal administration and support services; and
- assess whether the ODA is effectively addressing current and emerging issues and taking advantage of new opportunities.

A review at the institutional level considers (a) the design of the ODA's quality control policies, procedures and practices and (b) their effective operation. For the first consideration, the quality assurance reviewer compares the ODA's framework to an accepted standard, such as ISQC-1, and concludes whether there is compliance with each element. Where deficiencies are found the reviewer recommends improvements. For the second consideration, the reviewer examines evidence to determine if the policy, procedure or practice operates as designed. For example, if the ODA has a policy requiring written confirmation of independence as required by ISQC-1, the reviewer would review a sample of staff members to determine if the confirmations were filed and to determine if the ODA identified and took action to deal with independence threats or breaches.

Appendix 3.3.E is a detailed checklist, based on the requirements of ISQC-1 and best practices, designed to guide the reviewer in assessing the design of quality controls at the institutional

level. This checklist can be modified to reflect relevant national requirements or the ODA's policies that go beyond the requirements of ISQC-1.

Financial Audit Level

Some of the issues for consideration when conducting a quality assurance review at the financial audit level are:

- determine if required quality controls at the engagement level are in place;
- determine if existing controls at the engagement level are being properly implemented;
- assess the quality of audit practices employed during the audit and ensure the audit report is appropriate and supported by sufficient, appropriate audit evidence, and identify ways to strengthen or otherwise improve controls and practices;
- determine if proper documentation of control procedures at the engagement level exists;
- determine if the audit was properly planned, and whether risks were identified and received the appropriate attention;
- confirm that sufficient, appropriate audit evidence exists and is documented in the audit file to support the opinion in the audit reports;
- confirm that the working papers are in accordance with relevant standards and the ODA's policies and procedures;
- determine if conclusions are properly explained and supported by audit working papers;
- determine that audit opinions are fully supported and documented in working papers;
and
- confirm that the financial statements are presented in accordance with government accounting and other relevant regulations and standards, and that the audit report issued is appropriate.

Appendix 3.3.F is a detailed checklist, based on the requirements of ISQC-1, ISA 220 and other international standards of auditing, designed to guide the reviewer in assessing the design and implementation of quality controls at the financial audit level. This checklist can be modified to reflect relevant national requirements or the ODA's policies that go beyond the requirements of the international standards of quality control and auditing.

Before we proceed it is necessary to ensure that reviewers understand the distinction between the **quality assurance review** and the **engagement quality control review**. The quality assurance review is similar to an audit to determine whether the ODA has complied with its policies, procedures, relevant standards and laws. This is done after the audit report has been issued or the institutional level control is implemented. This can be described as a ‘cold review’. The engagement quality control review is a control that is implemented as part of the audit activity. It is done during the course of an audit but before the audit report is completed and has an influence on the final audit report. This can be described as a ‘hot review’ and is one of the quality controls employed during the audit itself.

3.3.2 Types of Quality Assurance Reviews

There are two types of Quality Assurance Reviews - **internal and external reviews**.

These are described below:

- **Internal review**

This handbook provides a step-by-step approach for performing internal quality assurance reviews.

The internal review is a periodic review carried out by the ODA to meet the ongoing monitoring requirements of ISQC-1 or other quality control framework. As described earlier, internal reviews can be conducted by an established Quality Assurance unit or through a peer review mechanism involving different divisions, units, or sections.

- **External reviews**

In an **External Review**, a peer SAI, a private auditing firm, management consulting firm, or academic expert, who is independent of the organisation and who does not have any real or apparent conflict of interest, carries out the review. An external review usually focuses on the institutional level quality controls although it would likely include a sample of reviews at the engagement level to determine if controls were implemented

in practice. The external reviewer may rely on the work of the internal quality assurance review if it is assessed to be functioning properly.

3.3.3 Why should a QAR be conducted?

Among other things a QAR allows the ODA to benchmark its practices against relevant standards (ISQC-1 for example) and international best practices to provide an objective means of assessing the quality of its practices and products. The findings of the QAR will allow the ODA to:

- provide assurance to the Director of Audit and stakeholders that audits have been carried out in accordance with recognized standards and that the ODA has policies and procedures in place to consistently assure quality;
- assess and improve its efficiency and effectiveness;
- assess the risk to the ODA of the staff not having appropriate competencies or that audits do not adhere to professional standards, applicable legal and regulatory requirements and the ODA's policies and procedures; and
- plan and implement strategies for upgrading the ODA's policies and procedures and knowledge and skills of staff, the ultimate benefit being an improved office with the facilities and ability to produce audit reports appropriate to the circumstances.

3.3.4 The QAR Process

The phases of either an institutional or financial audit review are the same as any audit i.e., planning, conducting, reporting, follow up.



Figure 1: Quality Assurance Review Process



Planning the Quality Assurance Review

The planning process involves the preparation of two categories of plans:

- an operational plan - This is the overall or annual plan for the QA function designed to reflecting its plans to carry out reviews at the institutional level and/or the financial audit level .
- an individual engagement review plan
- **Operational plan**

The operational plan is approved by the relevant senior management at a sufficiently high level. In relation to the **institutional level** the operational plan ensures that the overall

scope of quality assurance reviews addresses all elements of the quality control framework (possibly in turn over a number of years). For **financial audit level** reviews the operational plan is designed to ensure that there is sufficient coverage of individual financial audits to ensure compliance with the ODA's QA policy (i.e. ensuring each Audit Principal's audit responsibilities are considered on a cyclical basis, and that audits that are considered high risk or significant are selected for review). Inputs to develop the plan include the terms of reference, the QA policy, risk assessments, the views of top management, budgets, resources and background information. An example of an operational plan can be found in **Appendix 3.3.A**.

- **Individual engagement review plan**

The individual engagement review plan is developed for each review to be done at both institutional and financial audit levels. The components of the plan are similar to the plan for any audit - i.e. objectives, resources required, scope and approach, criteria (e.g. ODA's policies and ISQC-1 at the institutional level and the ODA's audit methodology and international standards of audit for financial audit level reviews), responsibilities assigned, legal or other framework. An example of typical contents of the individual engagement review plan can be found at **Appendix 3.3.B**

- **Timing and selection**

The time at which the QARs are conducted and the areas selected for review can be dependent on:

- priorities set, including policies relating to selection on a cyclical basis (e.g. ISQC-1's suggestion that each Audit Principal's audits are inspected at least once every three years;
- risk assessments, including the views of top management;
- the requirements of the QA policy;
- resources available, including those who have the experience and authority to carry out the reviews;

- circumstances (e.g. new audits, new engagement leaders, recently identified areas of high risk) which make the results particularly timely; and
- other activities of the ODA that would make persons unavailable for interviews or other QAR evidence gathering procedures.

The operational plan should take these factors into account. However, once the plan is set the ODA should make every effort to implement it to ensure that there is sufficient coverage to address identified risks and implement its quality assurance policy.

- **Scope and Approach**

The scope of quality assurance reviews (QARs) extends to all the activities being carried out by the ODA. It involves assessing the controls in place and determining whether they are being followed and are consistent with the relevant standards such as ISQC-1 and ISAs and/or ISSAIs:

Institutional level QAR: The scope of the QAR at Institutional level includes an assessment of elements of the quality control framework of the ODA. It involves assessing the design of policies and procedures and determining whether they are being effectively implemented. The strength of the design of the quality control framework is assessed by comparison with relevant standards such as ISQC 1 and ISSAIs and/or ISAs.

Financial audit level QAR: The scope of the QAR at this level examines the processes followed and the documentation produced by financial audit teams to assess whether audits meet the requirements of the ODA's audit methodology and relevant standards such as ISAs and/or ISSAIs.

- **Risk Assessment**

To achieve the QAR objective and help the ODA mitigate its risk the QAR team can consider the following factors in assessing risk:

Financial audit level – give priority to reviewing audits of entities considered by the ODA as high risk clients, audits of clients with complicated accounts, audits which have a history of

problems, audits where there were concerns raised by the engagement quality control reviewer and new audits conducted by the ODA and compliance with the ODA's policy on cyclical coverage of Audit Principals.

Institutional level – give priority to areas identified by staff as problematic, areas where documented policies do not exist, and elements of ISQC-1 identified by the QAR team as significant based on their knowledge of the ODA, interviews with senior managers and background research.

- **Methodology**

The evidence gathering activities include:

- Document review
 - at the **Institutional level** this will include policies, procedure manuals, agreements, Codes of Ethics, files and reports with a comparison to relevant professional standards and ethical requirements.
 - at the **financial audit level** this will include the ODA's audit methodology, files, working papers, laws, regulations and other relevant documents to assess the implementation of the ODA's audit methodology and quality control procedures.

- Interviews.

The QAR team can use interviews to gather relevant information from staff members. The process can be formal or informal based on how the designed questionnaire is administered.

- Surveys

A survey is another method of administering a questionnaire designed to get input from a number of people based on a set of consistent questions.

- Focus Group

A focus group can be defined as a group of interacting individuals having some common interest or characteristics, brought together by a moderator/facilitator,

who uses the group and its interaction as a way to gain information about a specific or focused issue.

- Physical observation

Physical observation is a visual process made by the QAR team to record what they see using a checklist sheet. Observation may be on physical surroundings or of ongoing activities, processes or discussions.

Conducting the QAR

The QAR should be conducted in accordance with the approved individual engagement review plan. However, as the review proceeds, unanticipated circumstances may require that the plan be modified. All changes should be approved at the Deputy Director - Programs level. The QAR will be conducted using specifically designed work programmes. **Appendix 3.3.E** is a detailed questionnaire (work programme) based on ISQC-1 and best practices designed to guide the QAR at the institutional level. **Appendix 3.3.F** is a detailed questionnaire (work programme) based on international standards of auditing to guide the review at the financial audit level. These checklists are also used for documenting the results of the review as findings for each question are cross-referenced to the appropriate section of audit file being reviewed and the QA file. The files of each QAR should have sufficient appropriate evidence to support findings, conclusions and recommendations.

- **Supervision**

The leader of the review team should maintain adequate supervision over the team and the progress of the work to ensure that the work is carried out in a professional and timely manner. There should be evidence of supervisory review in the QAR documentation. The extent and nature of the supervision will depend upon such factors as the number of persons in the team, their experience, expertise, qualifications and aptitude. If it is not possible to set up a QAR team because of a limited number of staff, the person who is responsible for the QA function should assign someone at a sufficiently high level with whom discussions or consultations can be held with regard to the planning, findings (particularly contentious issues) and reporting of the QAR. To

enhance the supervisory and review function, the ODA may choose to use the checklist for monitoring and supervising Quality Assurance Reviews at **Appendix 3.3.C** as a guide.

- **Evidence Gathering**

The findings of the QAR team must be supported by sufficient, appropriate evidence.

The QAR team is auditing the auditors and any evidence that is not beyond scrutiny will be 'shut down'/disregarded/will not be accepted.

The methods of evidence gathering used e.g. interviews, surveys, focus groups etc., must be documented in the working papers and the analysis of data collected and resultant findings must be carefully documented. As noted earlier the checklists in appendices **3.3.E** and **3.3.F** should be referenced to the evidence supporting review findings.

Depending on the size of the area being reviewed the plan may require that all of that area be reviewed. For example, all HR policies in an institutional level review or all working papers of a particular audit or all audits done during a particular period at the financial audit level.

For an area that is quite large, the QAR team will apply samplings or other techniques to extract areas for review. For example, at the **financial audit level**

- Targeted working paper files of the audit of specific accounts within an audit could be selected for review. However, generally, a QAR would always examine planning (including risk assessment and strategy), evidence of review and supervision, audit work to support conclusions in areas identified as high risk, required communications and reporting;
- a number of components across the audits, such as planning, materiality, risk assessment, may be selected.
- comments and findings of the Engagement Quality Control Reviewer or others consulted may suggest areas of risk that should be areas of focus for the review.

- **Analysis**

Information gathered must be appropriately analysed to be able to draw conclusions and identify gaps or weaknesses in the ODA's quality control framework. Methods that can facilitate data collection and analysis include the use of checklists, templates and tables to make the process easier. Qualitative information collected in narrative form can be summarised in tabular form which allows the reviewer to identify gaps and weaknesses in the processes. At **Appendix 3.3.G** is a **quality assurance review recording form** that can be used to record and analyze findings for reviews at the institutional and financial audit level. Use of this form facilitates the development of conclusions and recommendations and will readily show linkages between causes and effects that help the reviewer develop a report. **Appendix 3.3.H** shows an example of a completed quality assurance review recording form for one observation at the institutional level.

In analysing data collected the reviewer should look at trends in actions and responses - e.g. the reviewer has noted that over a period of years there has not been a significant change in the percentage of staff submitting the annual confirmation of independence. The reviewer should also look at quantum, e.g. responses supporting a particular perspective such as "66% of interviewees stated that they did not know that the ODA had adopted the INTOSAI Code of Ethics". Quantification of results in the final report assists the reader in understanding the extent or significance of the reviewer's observations. So, from the example describing the lack of awareness of the adoption of the INTOSAI Code of Ethics, the reviewer and the reader can conclude that the ODA's personnel are not sufficiently aware of the relevant ethical requirements that they are expected to adhere to.

The QA reviewer should be an appropriately experienced auditor who will bring a level of analytical skills to the exercise. Apart from using the checklists the reviewer should

consult the relevant audit procedures in the ODA's procedures manual as well as the ISSAIs, ISAs and other relevant standards for guidance.

- **Reporting**

For individual quality assurance reviews the review team:

- analyses and summarizes detailed findings and observations from the review;
- and
- prepares a report on the overall review results.

The analysis and summary of findings and observations is linked to the relevant and appropriate evidence in the review documentation. This summary is used to prepare the overall review report.

The Quality Assurance Unit also distributes, at least annually, an overall report on the results of the monitoring of its system of quality control to Audit Principals and other appropriate individuals within the ODA, including the Director of Audit and top management.

- i) **Preparing a report at Institutional Level**

As a first step for reporting and identifying individual findings the QAR team should consider the following information:

- **Positive observations:** The QAR report should identify those findings where the ODA's system of quality control is designed and implemented in a way that meets the requirements of ISQC-1, SAI policies and any other relevant standards or regulations.
- **Negative observations:** All material negative observations should be reported precisely by stating the nature and extent of the findings. The finding is a clear, accurate description of "what is" – the facts that the reviewer observed.
- **Suggested Report Format**
- **Table of Contents**

- **Executive Summary** – Provides a brief summary of the main findings and conclusions of the report. This section is very brief and covers only the highlights of the report. The executive summary may contain the following:
 - brief background describing the purpose of the report;
 - significant observations,
 - conclusions, and
 - key recommendations.

- **Introduction** - Explains the background for the review report, the scope and objectives of the quality assurance review:
 - Review objective - clearly stated in a manner consistent with the requirements of paragraph 48 of ISQC-1 (i.e. to provide reasonable assurance that the policies and procedures in the area being reviewed are relevant, adequate and operating effectively).
 - Review scope - clearly identifies the element or portion of the element being reviewed and the time period covered by the review.
 - Overall criteria – If ISQC-1 is the standard on which the review is based, the key expectations in the body of the standard (e.g. for relevant ethical requirements, the overall expectation is found in paragraph 20. More specific expectations expressed in paragraphs 21 to 25 and in the application guidance in paragraphs A.7 to A.17 are described in the findings section of the report).
 - Risk assessment – briefly describes the factors that were identified that lead to selecting the area being reviewed (e.g. known or suspected instances of non-compliance, length of time since last review, results of previous reviews or reports).

- **Approach and methodology used** - This includes the procedures followed by the quality assurance review team. It would cover items such as:

- main data gathering techniques used with quantification where possible (e.g. the positions of those interviewed, the number of interviews conducted, survey questionnaires administered or documents examined);
- any deviations from the approved review plan should be described; and
- limitations, if any, of the approach. A limitation is a factor that inhibits the ability of the reviewer to carry out the review. Weaknesses in the policies and procedures reviewed are findings; not limitations. (e.g. inability to access certain information or documents; unavailability or lack of co-operation from key personnel).

- **Findings** - In this section, the review team describes the findings for each element, such as leadership, ethical requirements, human resources etc.

One approach that can be used to clearly communicate the significance of findings and observations is to categorize them as follows in the quality assurance review report.

- **Meets requirements** – a summary of the positive observations which do not need further action because they comply with ISQC-1
- **Meets requirements but can be improved** – a summary of positive observations in areas where the policies and procedures can still be enhanced. Recommendations for improvement should be included.
- **Does not meet requirements (immediate action needed)** - A summary of key findings for areas that are not in compliance with ISQC-1 but the ODA can or must take immediate remedial action. These can be areas that can be readily fixed or areas where, if not immediately addressed, the ODA would be exposed to high risk.
- **Does not meet requirements (long term plan needed)** - A summary of key findings for areas that are not in compliance with ISQC-1 but the ODA would have to prepare a long term plan in order to address the shortcomings.

Within each of the above categories a suggested approach for clearly communicating the results of the review is:

- Heading – topic area being reviewed.
- Clearly state the specific criteria or expectation (cross referenced to the applicable paragraph of ISQC-1 or other relevant source)
- Finding – A clear statement of what the reviewer observed with a clear description of how this meets or does not meet the expectation.
- Cause – For findings where the reviewer concludes that an area meets the requirement but there is a need for improvement, or the policies and procedures do not meet requirements, the reviewer strives to identify underlying reasons (why? why? why?) for the finding. For example, a lack of policies or procedures may be as a result of insufficient professional resources available for development and maintenance.
- Effect - For findings where the reviewer concludes that there is a need for improvement or the policies and procedures do not meet requirements, the reviewer identifies the real or potential consequences. For example, insufficient capable, competent human resources will likely negatively impact the ODA’s ability to issue audit reports that are appropriate and in conformity with relevant standards.
- Recommendation - For findings where the reviewer concludes that an area meets the requirement but there is a need for improvement or the policies and procedures do not meet requirements, the reviewer provides recommendations to address the specific problem. The quality of the recommendation is directly linked to the reviewer’s success in identifying the real underlying

cause (understanding “the why” logically leads to a good recommendation). Recommendations at the institutional level should be addressed to the appropriate senior manager (up to and including the Director of Audit) responsible for the policy and/or procedure reviewed. Good recommendations are sometimes described as being SMART

S – specific;

M – measurable;

A – attainable;

R – realistic; and

T- time bound.

- **Overall conclusion** – The review team’s opinion against the objectives of the review after they have considered all the findings. An appropriate conclusion could be – “During the period examined, there was reasonable assurance that the ODA had policies and procedures designed to provide it with reasonable assurance that its personnel complied with relevant ethical requirements and these policies and procedures operated effectively {except for . . . }”. If the review team concludes that the ODA does not meet the review objective, the conclusion could be “During the period examined, there was not reasonable assurance that the ODA has policies and procedures designed to provide it with reasonable assurance that its personnel complied with relevant ethical requirements and these policies and procedures operated effectively”.
- **Management response** – The response should come directly from the Director of Audit or the individual delegated responsibility for the ODA’s system of quality control. It should not be the reviewer’s summary or interpretation of management’s response. A suitable management response to the recommendations and overall conclusion could include comments on whether the findings, recommendations and conclusions are accepted or not and, if accepted, a commitment is given to develop an

action plan within a reasonable period of time. The management response should be signed and dated.

A possible sample of the format of an institutional level review report is included in **Appendix 3.3.I**. An example of the possible contents of the institutional level review for one element – Relevant Ethical Requirements - is given in Appendix **3.3.J**. This example is provided to indicate the possible contents of a report and to demonstrate how the guidance on reporting provided above may look in practice.

(ii) Preparing a draft report outline at Financial Audit Level

The final report at the financial audit level is based on the findings in the work programme or checklist. As noted previously, **Appendix 3.3.F** provides a checklist for reviewing an audit and highlights the major areas required by the ISAs and ISSAIs. The checklist covers the phases of an audit from the pre-planning to reporting. It is intended to assist the QA reviewer in assessing compliance with the standards and identifying areas where the ODA needs to put measures in place to address non compliance. As with all checklists, it is a guide to assist the reviewer in applying professional judgement and should be used by an experienced auditor in conjunction with the relevant standards and sections of the ODA's audit methodology. In the comments column the QA reviewer should include:

- brief description of the reasons why the requirement has either been found to be met or not met with a reference to the audit file and, where necessary, the review file;
- a statement about the risks posed by non compliance; and
- reasons given by the audit team for non compliance.


The findings in the checklists are summarised in the **Quality Assurance Review Recording Form (QARRF)**. This form may be filled out by the team leader or other person assigned to pull together all the findings of the various review tasks. A sample of this form is shown at **Appendix 3.3.G**. Important areas under the phases of an audit which were examined are listed and the findings are summarised. All findings should be appropriately referenced to the supporting

working papers (e.g. the checklist at **Appendix 3.3.F**). This summary review form should include a conclusion about compliance for each phase of the audit.

- While describing the findings the draft QAR report should:
 - (a) list all findings for each phase of the financial audit process,
 - (b) evaluate the risk associated with each finding, and
 - (c) identify the main reasons underlying each finding.
- **Effect:** This attribute identifies the real or potential effect of the findings. The review team should consider how the existence of problems or findings may influence the ODA's policy and audit processes in future.
- **Cause:** The reasons for identified findings and problems are to be recorded. The reasons underlying the identified problems form the basis for making appropriate recommendations.
- **Comments made by the senior audit manager:** The reviewer should obtain and record all comments from the appropriate senior managers on the observations made.

N.B. After discussion with senior management, the QAR team is required to:

- summarise the comments and other evidence obtained during the discussion;
- analyse the evidence with the explanations received;
- for matters on which there was not a consensus of views, carry out further investigations based on additional information or evidence provided to the team; and
- agree on the amendments (based on additional information or facts that the team may not have been previously aware of) to be made on the draft report. Discuss the recommendations and decide on the findings to be included in the report to be submitted to the Director of Audit.

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The comments from senior management on the draft report are intended to identify information or additional evidence that the team may not have considered. The QAR report is “evidence based” and the findings and conclusions are based on sufficient, appropriate evidence.

The Final Review Report will highlight the major findings of the QAR. ***The format of the final report will be decided by the ODA according to its own policies and practices.***

The Final Report at Financial Audit Level

The following is a format suggested:

Table of Contents

Executive Summary - This section must be very brief and cover only the highlights of the report. i.e. all the main ideas and findings. The executive summary may contain the following:

- *brief background;*
- *significant observations,*
- *conclusions,*
- *key recommendations, and*
- *summary of management's response.*

The Executive Summary should not be a simple repetition of the sections from the main body of the report but should be consistent with it. The executive summary should communicate the main messages from the review, in particular those areas where the ODA needs to make improvements. Review teams have varying approaches to drafting Executive Summaries. Some draft it early in the process, and update it as the structure and detailed content of the main report evolves while others draft it at the end.

Introduction – This explains the background for the review including a brief overview of the audited entity including the scope, date, purpose of and staff assigned to the audit. The introduction should also include information on the quality assurance review including:

- Review objectives - Usually to provide reasonable assurance that the audit was carried out in accordance with relevant standards (e.g. ISAs) and that the audit report issued was appropriate under the circumstances.
- Review scope – Describes the audit or portion of the audit being examined.
- Overall criteria – Usually the ISAs or national auditing standards.
- Names of reviewers and dates the review was carried out.

Approach and Methodology - This would include the actual work done and the procedures followed by the quality assurance review team. It would cover items such as:

- the quality control framework used as a basis for analyzing the ODA's quality controls;
- the main data gathering techniques used (e.g. review of audit files and, if a selected files were reviewed, list of those files, interviews, analysis, questionnaires); and
- limitations, if any, of the approach in particular, if any limits were placed on the scope of review) .

Observations - findings and recommendations (main body of report) - For each area of the audit being reviewed, the review team should include the following items in the report with both positive findings and weaknesses identified.

- **Specific criteria or expectations** - The team may consider the expectations for each phase of the audit process as identified by the relevant standards. Table 1 of this handbook lists the key stages of the financial audit process and the related standards. This section clearly describes the expectation with reference to the specific requirement of the ODA's methodology and/or the relevant professional standard.
- **Findings** - This should be a brief description of the existing practices and audit activities. The description should be sufficiently clear so that a knowledgeable reader should be able to understand what the reviewer observed or did not observe based on the expectations established. This section also explains how the current condition conforms to the requirements of the relevant standard and also identifies the gaps between what the reviewer observed and the expectations.
- **Causes** – It is critical to identify these factors when weaknesses are observed, since they form the basis for recommendations. The identification of underlying causes is essential to developing good recommendations. The reviewer should keep asking “why?” until he or she is satisfied that the root cause of the problem has been identified. For example the reviewer may note that a procedure required by an international standard has not been followed for a particular audit. If the reviewer stops there, the resulting

recommendation – “this procedure should be implemented” is not particularly helpful. But further questioning may reveal that the ODA’s policies do not require this procedure or it could be that the audit team was unaware of the requirement. Even then, further inquiry may be required to determine what the ODA needs to do to address the problem.

- **Effects** – Consequences or potential consequences of the weaknesses observed.
- **Recommendations** - Suggestions for improvements to ensure compliance with the ODA’s audit methodology and international standards. The recommendations should be clear, meaningful and practical. Recommendations should be addressed to the appropriate manager. Usually a recommendation in response to a lack of compliance with existing policies and procedures is addressed to the Audit Principal responsible for the audit. Recommendations to correct gaps in the ODA’s policies and procedures are addressed to the senior manager responsible for methodology and/or the senior manager with responsibility for the ODA’s overall system of quality control. The recommendation should be clear, specific and concrete and address the underlying causes of the finding. The QA team may follow-up on implementation at a later date. The recommendation should be clear enough that an experienced reviewer unfamiliar with the review can judge if it was subsequently implemented. If a weakness observed suggests that the audit report that was issued is not appropriate, appropriate remedial action should be recommended.

Overall Conclusion – The overall conclusion should clearly conclude whether:

- The report issued was appropriate under the circumstances (i.e. the audit opinion is supported by sufficient appropriate audit evidence document in the files) and
- There is sufficient appropriate evidence that the audit team adhered to relevant professional standards, government policies and applicable legal and regulatory requirements in carrying out the audit.

When weaknesses are found, reaching this conclusion requires the exercise of professional judgment by the review leader to determine the significance of weaknesses observed.

Management Response –The Audit Principal responsible for the audit should indicate if he or she agrees with the observations, conclusions and recommendations. If the Audit Principal agrees, the response should give a brief overview of the proposed actions in response or, if available, the response can be the detailed action plan. If the responsible Audit Principal disagrees with the observations, conclusions or recommendations, the reasons should be provided. If the negative observations are as a result of weaknesses in the ODA’s policies or procedures, a response related to those findings and recommendations should also come from the manager responsible for the development and maintenance of the policy and procedure. The responsible manager(s) should sign and date the response.

Appendices - These will include any information or details the team thinks will appropriately support the findings, conclusions and recommendations.

A sample of the format of a Financial Level QAR Report is included as Appendix **3.3.K**. An example of the possible contents of the financial level review in respect of two observations pertaining to the pre-planning stage of an audit is given in Appendix **3.3.L**. This example is provided to indicate the possible contents of a report and to demonstrate how the guidance on reporting provided above may look in practice.

3.3.5 Follow-up

The reports of QARs will not gain impetus if appropriate follow-up actions are not undertaken. Follow up reviews may be undertaken either by Quality Assurance Units or internal committees especially formed for the purpose. The review team will use the action plan prepared by management to assess the extent of implementation of the action plan and reasons for non-implementation of any items in the action plan. During the follow-up it is also important to ensure that actions implemented have addressed the underlying finding or observation that lead to the recommendation. Appropriate follow-up actions are necessary to ensure that the agreed action plan is implemented or adequate steps are being taken to implement it. See **Appendix 3.3.M** for more detailed information on follow-up.

3.3.6 Preparing an overall report on the results of Quality Assurance Reviews

The Quality Assurance Unit prepares and distributes, at least annually, a report on the results of its monitoring of the ODA's system of quality control to Audit Principals and other appropriate individuals within the ODA, including the Director of Audit and top management. Other appropriate individuals can include those responsible for systems and practices that are considered part of the ODA's quality control framework (e.g. human resources, planning, finance and budgeting, etc.) This report is sufficiently detailed and clear to enable the ODA, the Director of Audit, top management, Audit Principals and other appropriate individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities.

The information communicated in the overall report includes at least the following:

- A description of the monitoring procedures performed. For example, this would include a brief description of the reviews carried out during the period and the degree to which the Unit achieved the goals in its plan and met the requirements of the QAR policy.
- The conclusions drawn from the monitoring procedures. In particular the report would provide reasonable assurance that the ODA's policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. Where the results of the QA reviews do not provide this assurance, the report would draw attention to this with a clear, detailed description of the circumstances.
- Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. Therefore, the report takes into account the results of QA reviews and follow-up reports.

This report meets the reporting requirements of ISQC-1 paragraph 53. In addition, this report is one of the communications that Audit Principals should review to meet the requirements of ISA 220 paragraph 23. That section requires an Audit Principal to consider the results of the office's



monitoring process as evidenced in the latest information circulated by the ODA and whether deficiencies noted in that information may affect the audit engagement.



APPENDICES

List of Appendices

Appendix 2.2.A - LIST OF INTERNATIONAL STANDARDS ON AUDITING AND QUALITY CONTROL

Appendix 2.2.B -INTERNATIONAL STANDARDS OF SUPREME AUDIT INSTITUTIONS (ISSAI)

Appendix 3.2.A - SAMPLE SAI QUALITY ASSURANCE REVIEW POLICY

Appendix 3.3. A- OPERATIONAL PLAN

Appendix 3.3.B -CONTENTS OF QAR INDIVIDUAL ENGAGEMENT REVIEW PLAN

**Appendix 3.3.C - CHECKLIST FOR MONITORING AND SUPERVISING QUALITY ASSURANCE
REVIEWS**

Appendix 3.3.D - DOCUMENT REVIEW

Appendix 3.3.E - REVIEW CHECKLIST AT THE INSTITUTIONAL LEVEL

Appendix 3.3.F - REVIEW CHECKLIST AT THE FINANCIAL AUDIT LEVEL

Appendix 3.3.G - QUALITY ASSURANCE REVIEW RECORDING FORM (QARRF)

**Appendix 3.3.H – EXAMPLE OF A COMPLETED QARRF FOR ONE OBSERVATION
(INSTITUTIONAL LEVEL)**

Appendix 3.3.I – SAMPLE FORMAT OF REPORT AT INSTITUTIONAL LEVEL

Appendix 3.3.J - EXAMPLE OF AN INSTITUTIONAL LEVEL REPORT FOR ONE ELEMENT

Appendix 3.3.K - SAMPLE FORMAT OF REPORT AT FINANCIAL AUDIT LEVEL

Appendix 3.3.L – EXTRACTS FROM A SAMPLE FINANCIAL AUDIT REPORT

Appendix 3.3.M - FOLLOW-UP



Appendix 2.2.A

List of International Standards on Auditing and Quality Control

INTERNATIONAL STANDARDS ON QUALITY CONTROL (ISQC)

International Standards on Quality Control (ISQC) 1, Quality controls for firms that perform audits and reviews of financial statements, and other assurance and related services engagements

AUDITS OF HISTORIC FINANCIAL INFORMATION

ISA 200, OVERALL Objectives of the independent Auditor and the conduct of an audit in accordance with international standards of auditing

ISA 210, Agreeing the terms of audit engagements

ISA 220, Quality control for an audit of financial statements

ISA 230, Audit documentation

ISA 240, The Auditor's responsibilities relating to fraud in an audit of financial statements

ISA 250, Consideration of laws and regulations in an audit of financial statements

ISA 260, Communicating with those charged with governance

ISA 265, Communicating deficiencies in internal control to those charged with governance and management

Risk Assessment and Responses to Assessed Risks

ISA 300, Planning and audit of financial statements

ISA 315, Identifying and assessing the risks of material misstatement through understanding the entity and its environment

ISA 320, Materiality in planning and performing an audit

ISA 330, The Auditor's responses to assessed risks

ISA 402, Audit consideration relating to an entity using service organisation

ISA 450, Evaluation of misstatements identified during the audit

Audit Evidence

ISA 500, Audit evidence

ISA 501, Audit evidence-specific consideration for selected items

ISA 505, External Confirmations

ISA 510, Initial audit engagements – opening balances

ISA 520, Analytical procedures

ISA 530, Audit sampling

ISA 540, Auditing accounting estimates, including fair value accounting estimates and related disclosures

ISA 550, Related parties

ISA 560, Subsequent events

ISA 580, Written representations

Using Work of Others

ISA 600, Special consideration-audits of group financial statements (Inclusion the work of component auditors)

ISA 610, Using the work of internal auditors

ISA 620, Using the work of the Auditor's expert

Audit conclusions and reporting

ISA 700, Forming an opinion and reporting on financial statements

ISA 705, Modifications to the opinion in the independent Auditor's report

ISA 706, Emphasis of matter paragraphs and other matter paragraphs in the independent Auditor's report

ISA 710, Comparative information –corresponding figures and comparative financial statements

ISA 720, the Auditor's responsibilities relating to other information in documents containing audited financial statements

Specialised Areas

ISA 800, Special considerations- audits of financial statements prepared in accordance with Special Purpose Frameworks

ISA 805, Special consideration- audits of single financial statements and specific elements, accounts or items of a financial statement

ISA 810, Engagements to report on summary financial statements

Refer to the IFAC Website <http://www.ifac.org> to review the complete, most recent standards.



Appendix 2.2.B

International Standards of Supreme Audit Institutions (ISSAIs)

INTOSAI took the initiative to have a new framework of professional standards developed back in 2004 and set up a Professional Standards Committee (PSC) to head the work. At this point, the combined efforts of INTOSAI's committees and working groups have resulted in the development of all the professional standards and guidelines presented here, but the ISSAI website provides access also to various draft versions of planned documents and the titles of documents still under development.

Refer to <http://www.issai.org>.

The Framework

Level 1: Founding Principles - contains the founding principles of INTOSAI. The Lima Declaration.

Level 2: Prerequisites for the Functioning of Supreme Audit Institutions - state and explain the basic prerequisites for the proper functioning and professional conduct of SAIs.

Level 3: Fundamental Auditing Principles - contain the fundamental principles in carrying out auditing of public entities.

Level 4: Auditing Guidelines - translate the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis for auditing tasks. Level 4 Auditing Guidelines is further divided into 2 sub levels namely, Auditing Guidelines - implementation guidelines and Auditing Guidelines - specific guidelines.

Level 1: Founding Principles

The Lima Declaration - Endorsed 1977

Level 2: Prerequisites for the Functioning of Supreme Audit Institutions

| | | |
|-----------------|---|------------------|
| ISSAI 10 | <u>Mexico declaration on SAI independence - Appendix</u> | Endorsed 2007 |
| ISSAI 11 | <u>Guidelines and good practices related to SAI independence - Appendix</u> | Endorsed 2007 |
| ISSAI 30 | <u>Code of Ethics - Appendix</u> | Endorsed 1998 |
| ISSAI 40 | Audit Quality Control | Planned for 2010 |



Level 3: Fundamental Auditing Principles

| | | |
|------------------|---|---------------|
| ISSAI 100 | <u>INTOSAI Auditing Standards - Basic Principles</u> | Endorsed 2001 |
| ISSAI 200 | <u>INTOSAI Auditing Standards - General Standards</u> | Endorsed 2001 |
| ISSAI 300 | <u>INTOSAI Auditing Standards - Field Standards</u> | Endorsed 2001 |
| ISSAI 400 | <u>INTOSAI Auditing Standards - Reporting Standards</u> | Endorsed 2001 |

Level 4 Auditing Guidelines

ISSAI 1000-2999 implementation guidelines on financial audit:

| | | |
|-------------------|--|---------------|
| ISSAI 1300 | <u>Planning an audit of financial statements</u> | Endorsed 2007 |
| ISSAI 1315 | <u>Identifying and assessing the risks of material misstatement through understanding the entity and its environment</u> | Endorsed 2007 |
| ISSAI 1330 | <u>The Auditor's responses to assessed risks</u> | Endorsed 2007 |
| ISSAI 1450 | <u>Evaluation of misstatements identified during the audit</u> | Endorsed 2007 |
| ISSAI 1800 | <u>Special considerations—Audits of Special Purpose Financial Statements</u> | Endorsed 2007 |
| ISSAI 1805 | <u>Engagements to report on Summary Financial Statements</u> | Endorsed 2007 |

ISSAI 3000-3999 implementation guidelines on performance audit:

| | | |
|-------------------|---|---------------|
| ISSAI 3000 | <u>Implementation guidelines for performance auditing</u> | Endorsed 2004 |
|-------------------|---|---------------|

ISSAI 4000-4999 Implementation Guidelines on compliance audit:



| | | |
|-------------------|--|----------------------------|
| ISSAI 4000 | General introduction to guidelines on Compliance Audit | <u>Endorsement version</u> |
| ISSAI 4100 | Compliance Audit guidelines for audits performed separately from the Audit of Financial Statements | <u>Endorsement version</u> |
| ISSAI 4200 | Compliance Audit Guidelines related to Audit of Financial Statements | <u>Endorsement version</u> |

Level 4: Auditing Guidelines - Specific guidelines

ISSAI 5000-5099 guidelines on international institutions:

ISSAI 5100-5199 guidelines on environmental audit:

ISSAI 5200-5299 guidelines on privatisation:

ISSAI 5300-5399 guidelines on IT-audit:

ISSAI 5400-5499 guidelines on audit of public debt:

ISSAI 5500-5599 guidelines on audit of disaster-related aid:

Appendix 3.2.A

Sample SAI Quality Assurance Review Policy

Mission and Scope of Work

- The purpose of the Quality Assurance Review (QAR) function is to provide information, advice, and assurance to the head of the SAI as to whether important SAI management systems for audit practices, administrative services, and management processes are appropriately designed and effectively operated to comply with the generally accepted auditing and assurance standards and the SAI's policies, guiding principles, Mission and Vision.
- QAR helps the SAI accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of audit, quality control, risk management, internal control and governance processes.
- QAR follows the International Standard on Quality Control 1 (ISQC-1).

Accountability

- The head of the SAI is the client for quality assurance review reports. The head of the SAI approves the scope and coverage of the quality assurance review plans. The plans focus primarily on providing assurance services to the Head of the SAI. Other services, such as advisory services, are provided only as an exception.


Independence and Professional Qualifications

- The Director, QAR is responsible for the quality assurance review function in the SAI. The Director, QAR is appointed by the Head of the SAI. This position is independent from the office's management and operations. The Director, QAR reports administratively to the Assistant Auditor General, Professional Practices and functionally to the Head of the SAI.
- The Director, QAR is required to hold a recognized professional accounting designation.
- The Director, QAR has unfettered access to the Head of the SAI.
- The Director, QAR will ensure that individuals involved in quality assurance reviews are sufficiently qualified and independent of the activities under examination.

Responsibilities and Operating Principles

- Specifically, the Director, QAR is responsible for:
 - developing and obtaining approval for the quality assurance review policy;
 - ensuring that relevant professional standards are followed;
 - developing a quality assurance review operational plan that is consistent with the SAI's objectives, based on a risk assessment, done at least annually, which considers the input of senior SAI management;

- developing the guidance and tools to be used in carrying out reviews;
 - conducting the reviews;
 - coordinating review activities and plans with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of effort;
 - meeting quarterly with the Head of the SAI; ;
 - reporting the results of quality assurance reviews to the Head of the SAI; and
 - developing and maintaining a quality assurance and improvement programme that covers all aspects of the review function and continuously monitors its effectiveness.
- All audit practices are subject to quality assurance review including all performance audits and financial audits.
 - Quality assurance reviews of a selection of completed audit engagements will be performed on a cyclical basis and will include at least one engagement for each engagement leader over three years.
 - Engagements are selected without prior notification.
 - Results of the quality assurance reviews should be communicated at least annually to the Head of the SAI. The reports should follow the monitoring section of ISQC-1 and include
 - a description of the review procedures performed;
 - the conclusions drawn from the review procedures;
 - where relevant, a description of systemic, repetitive or other significant deficiencies and of actions taken to resolve or amend those deficiencies; and
 - recommendations for appropriate remedial action.
 - The quality assurance function is periodically subject to review by an external organisation. The external review reports are subject to review and approval by the Head of the SAI.
 - The QAR function is periodically subject to review by an external organisation as part of a peer review of audit practices. The peer review reports are subject to review and approval by the Head of the SAI.
 - The criteria of significance, relevance and risk are used to select areas for review. As well, the scope includes all important aspects of the SAI's policies and practices to ensure audit quality control, risk management strategy and practices, management control frameworks and practices, and information used for decision-making and reporting.
 - The QAR function has access to all SAI information needed to carry out its reviews. All SAI employees are expected to cooperate fully with QAR staff and staff assigned to conduct the work under the direction of the Director, QAR.
 - Quality assurance review is an element of continuous improvement. It identifies areas where improvements in systems, practices, or professional development can be made. Particular instances will be discussed with the responsible managers.
 - Openness and communication with management and staff characterize all quality assurance reviews. The views of key players are sought before a QAR report is finalized.

- 
- Quality assurance review reports are presented to the senior management for information and made available to all engagement leaders.
 - The QA function will follow up and report on QAR recommendations, to ensure that necessary corrective actions are implemented.
 - The SAI will ensure that the necessary financial and human resources, including staff at an appropriate level and with appropriate experience, are made available to the Director, QAR to conduct the reviews in its plans.

Appendix 3.3.A

Operational Plan

Normally, the **QAR Operational Plan** for the QA function should contain, among others, the following components:

(i) Scope and approach of the reviews

The nature, number and focus of reviews to be conducted during the planning period – the focus on elements at the institutional level or financial audits selected and how this meets the requirements of QAR policy – should be specified in the plan. The terms of reference (TOR) for the reviews to be conducted for the planning period should be included.

During planning, the QA unit also considers follow-up reviews of audits and elements of the quality control framework which had deficiencies identified during the previous year, to ensure that the deficiencies were corrected.

(ii) Types of the review to be conducted during the year

The reviews will include elements at the institutional level (i.e. in response to requirements of ISQC-1) and reviews of selected financial audits.

(iii) Timing of the reviews

Financial audit level reviews are conducted every year. The frequency can vary from year to year depending upon the availability of resources but the minimum recommended by ISQC-1 is that the work of each engagement leader is reviewed at least once every three years.

A full institutional level review is time consuming. In order to ensure full coverage of all elements of ISQC-1, SAIs can plan to review individual quality control elements over a period of time. A structured long term approach to reviewing each element of the quality control framework, consistent with the SAI's strategic planning cycle may be suitable. This permits reviews to be conducted in smaller, more manageable parts.

(iv) Quality assurance review budget

The QA function needs to have sufficient resources to conduct the reviews. The quality assurance review budget should be approved by the head of the SAI annually. The estimated resources required for each review and for the QAR function in total should be specified in the plan.

(v) Team leader for each review and selection of team

A team leader who was not involved in the audit engagement or quality control element being reviewed and has sufficient and appropriate experience and authority should be appointed for each review. The review team should consist of staff with suitable qualifications and experience to conduct these reviews depending on the type of review. The team leaders and members for each review should be specified in the plan.

(vi) Special considerations, if any

Any significant risks or adjustments to usual practices would be noted here. For example, if the QAR function identified the need to use outside specialists for a review; it would be noted here with the reasons why this assistance was required.

APPENDIX 3.3.B

Contents of QAR Individual Engagement Review Plan

1. Framework for the audit or institutional element
 - SAI's mandate to carry out the audit / SAI policy for this area
 - Financial reporting framework (i.e. GAAP or other) / link to ISQC-1 or other relevant quality control framework
 - Audit reporting requirements (e.g. standards used, fair presentation opinion) / expected result from the policies and procedures for an institutional element
2. Risk Assessment
 - Any areas, issues or matters that have been identified as having high risk. The plan briefly describes the factors that were identified that lead to selecting the area being reviewed (e.g. known or suspected instances of non-compliance, length of time since last review, results of previous reviews or reports)
3. Review Objectives
 - Nature and extent of assurance from the review (e.g. overall conclusion or focused on specific areas).
4. Review scope and approach:
 - Areas and files to be examined and tested / individuals to be interviewed
 - Criteria to be used for the review (e.g. ISQC-1 or ISAs/ISSAIs)
 - Methodologies to be employed including sampling strategies
 - Any special problems foreseen and approach for addressing these
5. Resources required and when:
 - Review staff
 - Time and cost budgets
 - Timing and dates of review
6. Liaison persons



- Key auditors responsible for the audit / individuals responsible for that element of the quality control framework
7. Management arrangements for the review
- Administrative arrangements for carrying out the review
8. Form and content of final report including process for clearance.
- Using example in **Appendix 3.3.I** or SAI's agreed upon format for reporting
 - Agreed on procedures for discussing and clearing findings with management.

Appendix 3.3.C

Checklist for Monitoring and Supervising Quality Assurance Reviews

1. QA review has been carried out in accordance with QAR policies and procedures of the SAI and used relevant policies, standards, manuals, guidelines and practices of the SAI in carrying out the review.
2. QA team has a sound understanding of techniques and procedures for gathering information, such as inspection, observation, and enquiry to collect evidence and was not involved in the audit or QC element reviewed.
3. The phases of the QA review have been carried out as planned and approved.
4. Valid explanations are available for non-implementation of any required quality control procedures.
5. Appropriate approval exists for significant deviations that have taken place from approved quality control procedures.
6. Resources used for QA are consistent with the budget in the approved plan and any significant variance has been explained.
7. Appropriate techniques and procedures are used to ensure that the review conclusions are based on sufficient appropriate evidence.
8. All planned procedures and tests are carried out during the review.
9. The team leader has evaluated the effect of deficiencies noted as a result of the monitoring process, and has determined whether:
 - the element or audit being reviewed complies with applicable quality control requirements and/or professional standards; or
 - there are systemic, repetitive or other significant deficiencies that require prompt corrective action.
10. The supporting evidence is assessed to be:



- reliable,
- independent and
- relevant.

11. QA steps and procedures have been designed to obtain sufficient, reliable, and relevant evidence.
12. All queries raised during the QA review are investigated and cleared.

Appendix 3.3.D

Document Review

Documents that can be used during the document review include:

LEADERSHIP

- Constitution of the country with reference to articles referring to the external audit function
- Specific Audit Legislation
- By-laws and regulations
- Public Financial Management legislation
- Any other documents that could clarify the mandate and legal basis of the Supreme Audit Institution (SAI) Annual report
- Strategic plan
- Operational plan
- Delegations and management framework
- Internal audit reports
- Senior management committee meeting minutes
- Speeches and messages from the Head of the SAI
- Newsletters, messages and communiqués from the Head of the SAI
- Risk management framework

ETHICAL REQUIREMENTS

- Constitution of the country with reference to articles referring to the external audit function
- Specific Audit Legislation
- By-laws and regulations
- Public Financial Management legislation
- Any other documents that could clarify the mandate and legal basis of the Supreme Audit Institution (SAI)

- Government-wide Code of Conduct, IFAC and INTOSAI code of ethics and/or code of ethics of the SAI
- Quality control manual

ACCEPTANCE AND CONTINUANCE

- Policy on Acceptance and Continuation
- Risk management framework
- Previous assessment reports conducted by donors / peers / self assessment
- Stakeholder survey results
- Media clips

HUMAN RESOURCES

- Human Resource Management policy documents
- Conditions of service
- Minimum qualification framework for new appointments
- Scheme of service
- Performance Appraisal manual
- Recruitment and selection procedures
- Succession planning manual
- Promotion policy, rules and regulations
- Performance assessment results of the past three years per job level
- Copy of the organisational structure of the SAI
- Staff retention policy
- Promotion policy
- Career development policy
- List of qualifications of staff
- Assessment results of staff for the last three years
- Training plan of the SAI

- Training manuals
- Training courses (sample)
- Annual training reports
- List of research projects the SAI has approved for the next year/two years
- Co-operation agreements with professional associations
- Continuous professional development (CPD) programme of the SAI
- Change management strategy of the SAI.
- Staff assignment process

ENGAGEMENT PERFORMANCE

- Auditing standards of the SAI (all types of audits conducted)
- Audit manuals, guides and methodology of the SAI (all disciplines)
- Documents of the technical review process of the SAI
- Audit files (samples) of different types of the audit
- Audit reports (sample) of different types of the audit
- Documents relevant to audit tools used by the SAI.
- Internal audit reports
- Peer review reports (if any)
- Self assessments (if any).
- Policies on engagement quality control review, consultation, differences of opinion and documentation

MONITORING

- Quality Assurance Review policies and procedures
- Working papers
- Reports
- Written communication of results to management and auditors



Appendix 3.3.E

Review Checklist at the Institutional Level

CAROSAI

REVIEW CHECKLIST – QUALITY CONTROL PRACTICES AT INSTITUTIONAL LEVEL RELATED TO AUDIT ENGAGEMENTS (June 2009)

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|----------------------------------|
| SAI UNDER REVIEW: |
| PERIOD COVERED BY REVIEW: |
| DATE OF REVIEW: |
| REVIEWERS: |

CAROSAI

REVIEW CHECKLIST – QUALITY CONTROL PRACTICES AT INSTITUTIONAL LEVEL RELATED TO AUDIT ENGAGEMENTS (June 2009)

INSTRUCTIONS TO REVIEWERS

1. This checklist is intended to assist in carrying out and documenting a review to provide commentary on management practices related to financial audit engagements. This checklist, which is the first step, is designed to assist in your review to ensure that policies and procedures have been appropriately developed and documented. On completion of this testing, additional procedures should be developed to evaluate whether the policies and procedures are operating effectively and have been appropriately communicated.
2. The reviewer is encouraged to refer to the CAROSAI Quality Assurance Handbook, ISQC-1 and the INTOSAI Standards for SAIs before undertaking the review work.
3. This checklist focuses on issues considered important to ensure quality at the institutional level. The questions posed on these issues are based on the International Standard on Quality Control (ISQC) 1 “Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services” issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. References to the ISQC-1 have been included throughout this document where applicable. Criteria which are not referenced are considered to be best practice.
4. With a view to efficiency, the quality assurance review should be sufficient to formulate well-informed comments on pertinent management practices by focusing on key management decisions (directives, policy statements and designated responsibilities) and examining certain aspects of management processes important to ensuring the effectiveness of these management decisions. Review guides are simply a means to an end. They leave room for judgment.
5. In addition to documented evidence of management practices the reviewer may need to rely on discussions with staff.

6. This checklist was produced as part of an on-going effort to improve professional practice. In the course of the review, the reviewer should be attentive to opportunities for improving management practices as well as the quality assurance process.
7. This checklist does not cover all quality control practices that are specific to Supreme Audit Institutions. SAIs are therefore encouraged to customize this guide to consider these elements.
8. The following three general questions are used to review management practices:
 - Has the SAI *developed* an adequate management practice (policy, tool or action) to deal with the issue?
 - Is the practice effectively *communicated* to management and staff?
 - Is the practice *consistently applied* as demonstrated through control results and/or activities?

Explanations with references to supporting evidence are required for any negative responses to the review guide questions

TABLE OF CONTENTS

MANAGEMENT PRACTICES RELATED TO AUDIT ENGAGEMENTS (including the requirements of the ISQC-1)

1. Leadership responsibilities for quality within the SAI
2. Ethical requirements – General
3. Ethical requirements – Independence
4. Acceptance and continuance of client relationships and specific engagements
5. Human Resources – General
6. Human Resources – Professional development, education and training
7. Engagement performance
8. Consultation
9. Differences of opinion
10. Engagement quality control review (prior to issue of Auditor's report)
11. Engagement documentation
12. Engagement quality control review – Reviewer and documentation
13. Engagement documentation and retention
14. Monitoring (after issue of Auditor's report)
15. Complaints and allegations
16. Documentation of system of quality control
17. Other elements not directly related to audit engagements



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|---|---------------------|
| MANAGEMENT PRACTICES RELATED TO AUDIT ENGAGEMENTS (INCLUDING THE REQUIREMENTS OF ISQC-1) | | |
| <p>1. Leadership Responsibilities for Quality within the SAI</p> <p>The objectives for this area are to assess whether the SAI is promoting an internal culture (i.e.: “tone at the top”) that recognizes that quality is essential in performing audit engagements, that audit work is carried out, with due regard for quality, and that quality takes precedence over all other considerations.</p> <p>Reviewers are expected to judge and conclude whether the SAI’s leadership is sending an appropriately strong message to staff on audit quality and personal integrity.</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, does the SAI have policies and procedures:</p> <ul style="list-style-type: none"> a) designed to promote an internal culture of audit quality (ISQC-1 .18)? b) that require that the Head of the SAI assumes ultimate responsibility for the system of quality control? (ISQC-1 .18)? | | |
| <p>To assess the above mentioned standards, the reviewer should assess whether:</p> <p>Criteria:</p> <ul style="list-style-type: none"> i. There are clear, ongoing, consistent messages from all levels of the SAI’s management to promotion a quality-oriented culture based on discussions with the Head of the SAI and other senior managers of the SAI, as applicable (ISQC-1 A.4) <ul style="list-style-type: none"> • the Head of the SAI has <u>personally</u> supported and promoted the paramount importance of quality audit work in the SAI • they have communicated this to their people in the last year • They have monitored whether their | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| efforts are successful | | |
| ii. Quality control policies and procedures have been developed, documented, and implemented and are updated on a timely basis | | |
| iii. The “mission statement” or equivalent is compatible with the paramount importance of delivering quality audit services | | |
| iv. There are clearly established responsibilities for the Head of the SAI and other senior personnel, of appropriate experience and ability to whom responsibilities for quality control and performance are delegated (ISQC-1 .19). | | |
| v. Review the feedback from any employee or parliamentarians’ satisfaction survey, or equivalent, during the last 12 months, and consider whether it may be indicative of problems the SAI is having delivering quality audit services. | | |
| vi. There is no undue emphasis on cost constraints and time budgets, to the detriment of audit quality. | | |
| vii. There are sufficient resources for the development, documentation and support of its quality control policies and procedures (ISQC-1 A.5 c). | | |
| iii. There are policies and procedures that clearly outline who has the authority to sign or forward reports on behalf of the SAI, who may use and sign correspondence on SAI letterhead, and who may speak publically on behalf of the SAI. | | |
| ix. Standard formal guidelines for reports and other written communications have been developed. | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| <p>2. Ethical Requirements – General</p> <p>The objectives of this section (in addition to section 3) are to assess whether the SAI has established and implemented policies and procedures to provide it with reasonable assurance the SAI, its personnel and, where applicable, others subject to ethical requirements (including specialists contracted by the SAI), comply with independence and other ethical requirements in all required circumstances.</p> <p>The SAI’s policies and procedures should emphasize the fundamental principles, which are reinforced by, in particular, the leadership of the SAI, education and training, monitoring, and a process for dealing with non-compliance.</p> <p>Based on the review of the policies and procedures, as a result of discussions and/or observed practices, does the SAI:</p> <p>a) have established policies and procedures designed to provide it with reasonable assurance that the SAI and its personnel comply with applicable ethical requirements? (ISQC-1 .20)</p> | | |
| <p>Criteria:</p> <p>i. The existence of a formal Code of Ethics (Rules of Professional Conduct) that, in addition to the requirements regarding independence (section 3), covers the following ethical requirements (ISQC-1 A.7):</p> <ul style="list-style-type: none"> • Integrity; • Objectivity; • Professional competence and due care; • Confidentiality; and • Professional behaviour. | | |
| <p>ii. A reporting mechanism frequently called “whistle blowing” that encourages personnel to anonymously report to SAI management, their concerns about inappropriate conduct by the SAI</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| or its personnel including a provision for freedom from reprisal for such action. | | |
| iii. Methods and processes for establishing, promoting, and monitoring ethical conduct among all personnel, with reference to integrity, objectivity (independence is dealt with below), professional competence, due care, confidentiality, and professional behaviour (ISQC-1 A.8 and A.9). | | |
| iv. A process for dealing with breaches (and waivers) of the Code of Ethics/Conduct (ISQC-1 .21 to .23). | | |
| v. Review any information received related to whether any individual from the SAI was the subject of a complaint to a professional association during the last 12 months concerning an apparent breach of the Rules of Professional Conduct, or because of doubt being raised as the person's competence, reputation or integrity. | | |
| vi. There is a policy regarding a respectful work environment in which all individuals are treated with respect and dignity and free from discrimination and harassment, and supportive to motivation and productivity. | | |
| vii. There is a procedure in place to assist in ensuring a respectful work environment. | | |
| viii. There is a dispute resolution mechanism in place to deal with disagreements. | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>3. Ethical Requirements – Independence</p> <p>Based on the review of the policies and procedures, as a result of discussions and/or observed practices, does the SAI:</p> <ul style="list-style-type: none"> a) have policies and procedures designed to provide it with reasonable assurance that the SAI, its personnel and, where applicable, others subject to independence requirements (including specialists contracted by the SAI) maintain independence in all required circumstances? (ISQC-1 .21) b) have policies and procedures that require personnel to provide the SAI with relevant information about client engagements, including the scope of services provided to those clients, to enable it to evaluate the overall impact, if any, on independence requirements, and to notify the SAI in a timely manner of circumstances and relationships that create a threat to independence so that appropriate action can be taken (ISQC-1 .22)? c) have policies and procedures to provide notification of breaches of independence requirements and enable it to take appropriate action (ISQC-1 .23)? d) ensure that the independence information obtained by the SAI is accumulated and communicated to the appropriate personnel (ISQC-1 .22)? e) At least annually, obtain written confirmation of compliance with its policies and procedures on independence from all SAI personnel required to be independent (ISQC-1 .24)? f) have policies and procedures that set out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an audit engagement over a long period of time and | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>address applicable ethical requirements where rotation of the practitioner and others is prescribed (ISQC-1 .25)?</p> <p>g) have independence education for personnel who are required to be independent (ISQC-1 A.25)?</p> | | |
| <p>Criteria:</p> <p>Policies and Procedures should:</p> <p>i. define who is responsible for independence matters. Consider whether they have the appropriate expertise, experience, authority and support to be effective.</p> | | |
| <p>ii. require communication of the SAI's independence requirements to its personnel and where applicable, others subject to them (ISQC-1 .21 a)).</p> | | |
| <p>iii. ensure that the frequency of communication is sufficient to keep independence awareness in the SAI at a high level.</p> | | |
| <p>iv. 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 safeguards, or, if considered appropriate, to withdraw from the audit engagement (ISQC-1 .21 b)).</p> | | |
| <p>v. require all who are subject to independence requirements to promptly notify the SAI of independence breaches of which they become aware.</p> | | |
| <p>vi. require the SAI to promptly communicate identified breaches to the individual responsible for independence matters who, with the SAI needs to address the breach and take appropriate action (ISQC-1 .23).</p> | | |
| <p>vii. require prompt communication to the SAI by the individual responsible for independence matters</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| of the actions taken to resolve the matter so the SAI can decide if further action is required. | | |
| viii. require the SAI to provide independence education to personnel who are required to be independent. | | |
| ix. document that in order to reduce a familiarity threat, senior personnel assigned to an engagement are rotated periodically or an engagement quality control review is conducted (ISQC-1 .25 and A.13). | | |
| x. require written confirmation of independence obtained from personnel required to be independent (ISQC-1 .24). | | |
| In addition, the SAI should: xi. have processes in place to evaluate the appropriateness of undertaking special requests (performance audit requests for example) for audit clients. | | |
| xii. assess the adequacy of the information contained in the written confirmation of independence. The SAI should have a process to ensure that new employees are cleared for independence and, if applicable, other ethical requirements immediately upon joining the SAI. | | |
| xiii. have a policy regarding the recovery of costs for audit engagements, where applicable. | | |
| xiv. document the process for an actual or threatened litigation between the SAI and an audit client | | |
| xv. have appropriate technical resources available to deal with independence issues as they arise. | | |
| xvi. communicate and make available a list of prohibited investments, and establish a system to keep personnel informed of changes. | | |
| xvii. communicate the policy regarding gifts and | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| hospitality. | | |
| viii. indicate the policy regarding compliance by joint auditors, and auditors for which their work is being relied on by the SAI with respect to the SAI's independence rules. | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>4. Acceptance and Continuance of Client Relationships and Specific Assurance Engagements</p> <p>The objectives for this section are to assess whether the SAI has established and implemented policies and procedures designed to provide it with reasonable assurance that it identifies and assesses the potential sources of risk associated with a client or specific engagement; and it does not accept or undertake an engagement if there are constraints that would prevent the completion of the engagement. Such policies and procedures should be applied both before accepting a new engagement and when the SAI is deciding whether it is willing to continue to provide services to an entity (legislative requirements must also be taken into consideration). When issues have been identified, and the SAI decides to accept or continue the client relationship or specific engagement, it should document how the issues were resolved.</p> <p>Based on procedures performed, does the SAI have policies and procedures designed to:</p> <ul style="list-style-type: none"> a) identify and assess potential sources of risk associated with a client relationship or specific assurance engagement (ISQC-1 .26, A.19 and A.20, A.23)? b) obtain information it considers necessary before accepting a new assurance engagement and when it is deciding whether it is willing to continue to provide assurance services to an entity. Where issues have been identified, and the SAI decides to accept or continue the client relationship or a specific assurance engagement, it should document how the issues were resolved (ISQC-1 .27 A.21, A.23)? | | |
| <ul style="list-style-type: none"> c) ensure that it reconsider its association with a client and seek legal advice on the possible actions it could take when the SAI obtains information that would have caused it to decline an assurance engagement if that information had been available earlier (ISQC-1 .28 A.22 and A.23)? | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>For Supreme Audit Institutions, we have no choice but to accept a mandate – our mandate is dictated by legislation. The financial attest and special examination assurance engagements are undertaken pursuant to the SAI’s legal mandate.</p> <p>We recommend that the SAI have a specific policy on the processes to be followed to evaluate the undertaking of such mandates. This policy should also cover how costs will be covered (recuperated from the audit entity or through funding received from Parliament).</p> | | |
| <p>Criteria:</p> <p>Although most SAIs are mandated to conduct audits of financial statements, the following factors should still be addressed and documented.</p> <p>i. In assessing the potential sources of risk, the SAI should:</p> <ul style="list-style-type: none"> • identify management of the entity, considering their integrity and business reputation by making enquiries with third parties and obtaining references (ISQC-1 .26 c) and A.19). • consider the attitude of these individuals and groups toward such matters as internal control environment and aggressive interpretation of accounting standards (ISQC-1 A.19). • consider the nature of the entity’s operations, including its business practices and legislative environment in which it operates (ISQC-1 A.19). • consider whether it is, or can become competent to undertake the engagement including consideration of the specific requirements of the engagement, relevant industry | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>experience, regulatory or reporting requirements, need for specialists, the need for an engagement quality review, existing staff profiles at all levels with regard to experience, availability, and appropriate level; and its ability to meet the reporting deadline. (ISQC-1 .26 and A.18).</p> <ul style="list-style-type: none"> consider whether independence can be established and maintained (ISQC-1 .26 b)). | | |
| <ul style="list-style-type: none"> consider whether the acceptance of an engagement may give rise to an actual or perceived conflict of interest. This should be documented whether a conflict exists or not (ISQC-1 .27 b)). | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>5. Human Resources – General</p> <p>The objectives for this section (in addition to section 6) are to ascertain that the SAI has established policies and procedures to provide it with reasonable assurance that it has sufficient personnel with the competencies and commitment to ethical principles necessary to perform its assurance engagements in accordance with the professional standards and applicable regulatory and legal requirements, and to enable the issuance of reports that are appropriate in the circumstances. This should include policies and procedures to deal with such matters as recruitment, performance evaluation, competencies, career development, promotion, compensation, professional development, including determination by the SAI of the skills needed by its personnel, the provision of appropriate training, the requirement for attendance at training courses and monitoring thereof, and the assessment of the effectiveness of the training programmes. Coaching is also encompassed within this section.</p> <p>Based on the results of the consider points noted below, has the SAI established policies and procedures designed to:</p> <ul style="list-style-type: none"> a) provide it with reasonable assurance that it has sufficient personnel with the competencies and commitment to ethical principles necessary to perform its assurance engagements in accordance with professional standards and regulatory and legal requirements, and to enable the issuance of reports that are appropriate in the circumstances (ISQC-1 .29)? b) identify the individual with overall responsibility who has the necessary competencies and time for each audit engagement, communicate the identity and role of the individual with overall responsibility, and assign an assurance team that collectively possesses the competencies to complete the engagement (ISQC-1.30)? | | |
| Criteria: | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>i. Policies and procedures should address the following:</p> <ul style="list-style-type: none"> • Recruitment (integrity and competence of potential hirers) (ISQC-1A.24). • Performance evaluation (ISQC-1 A.24). • Capabilities (ISQC-1 A.24) • Competencies for each level/group within the SAI (ISQC-1A.24). • Career development (ISQC-1 A.24). • Promotion (ISQC-1 A.24). • Compensation (ISQC-1 A.24). • Estimation of personnel needs (ISQC-1 A.24). • Need for continuing training for all levels of SAI personnel and the provision of training resources and assistance to develop and maintain required competencies (ISQC-1 A.25 and A.26). | | |
| <p>ii. The SAI communicates performance and ethical principles expectations to all personnel and defines their roles and responsibilities (ISQC-1.30 and .20).</p> | | |
| <p>iii. Periodic, timely evaluation, training and counseling of personnel on performance, progress, and career development are conducted (ISQC-1A.26).</p> | | |
| <p>iv. There are consequences for those who fail to provide performance evaluations on a timely basis, considering the extent to which their technical competence and success in delivering quality audit services are considered to be important factors in determining their evaluation and compensation.</p> | | |
| <p>v. There is personnel awareness that advancement to positions of greater responsibility depends, among other things, on performance quality and adherence to ethical principles and that failure to comply with the SAI's policies and procedures</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| may result in disciplinary action (ISQC-1A.28). | | |
| vi. Competencies include: (ISQC-1 A.31) <ul style="list-style-type: none"> • Understanding of and practical experience with assurance engagements. • Knowledge of technology. • Professional standards and regulatory and legal requirements. • Understanding of the SAI’s quality control policies and procedures. • Career development. • Coaching and mentoring. • Monitoring progress. | | |
| vii. Polices and procedures have been developed to (ISQC-1.30): <ul style="list-style-type: none"> • establish that the individual with overall responsibility for the audit engagement has the necessary competencies • clearly define the competencies and communicate them to the individual with overall responsibility • communicate the identity and role of the individual with overall responsibility to key management personnel and those charged with governance within the client • provide the individual with support throughout the engagement • monitor their workload and availability so as to enable these individuals to have sufficient time to discharge their responsibilities | | |
| viii. The assignment of an audit team collectively possesses the competencies to compete the engagement. Competency of the team is reviewed on a regular basis (ISQC-1 .31). | | |
| ix. Personnel files are maintained that record career | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| development, competencies, professional development courses taken, qualifications obtained, work experience (including industry expertise), and performance appraisals? | | |
| x. Personnel needs (of staff required) are estimated. Shortages of qualified personnel are considered to determine if this could compromise audit quality and, if so, what the SAI is doing to mitigate this risk. (ISQC-1 .31) | | |
| xi. The SAI has policies and procedures regarding the holding of regular employee surveys and the addressing the findings. | | |
| Consider whether: xii. the SAI has and maintains an audit work schedule and makes efforts to minimize extreme peaks in workload | | |
| xiii. the SAI identifies in advance situations requiring external assistance, specialist, or borrowed staff. | | |
| xiv. the SAI determines on the basis of a risk assessment process, the performance and compliance audit priorities | | |
| xv. the SAI has a process in place to monitor progress against the audit work schedule | | |
| 6. Human Resources – Professional Development, Education and Training Does the SAI have policies and procedures in place related to professional development, education, and training? | | |
| Criteria: i. The SAI provides coverage on a timely basis of all necessary skills for the performance of audits, including knowledge of ethical standards, industry expertise, current development in professional technical standards, updating of the SAI’s policies and procedures, the effective use of the SAI’s audit methodology and automated tools, soft skills, etc. | | |

| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| ii. The SAI has policies and procedures in place that ensure courses focus sufficiently on matters related to professionalism and the performance of high quality audit services. | | |
| iii. The SAI has policies and procedures to ensure the regular assessment of professional development needs and assigns personnel to courses accordingly. | | |
| iv. The SAI has procedures and a process to obtain evaluations of internal courses and instructors from participants. | | |
| v. Attendance records for all relevant courses are maintained. | | |
| vi. A professional development record for all personnel is maintained, including evaluations. | | |
| vii. There are consequences for personnel who do not attend the required training programmes. | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>7. Engagement Performance</p> <p>The objectives of this section (in addition to section 8 to 11) are to assess whether the SAI has established 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 SAI’s reports that are issued are appropriate in the circumstances. In particular, the SAI should have policies and procedures requiring that audits be adequately planned, properly supervised and appropriately reviewed.</p> <p>Based on the results of the review, considering points noted below, has the SAI established policies and procedures designed to</p> <p>a) provide it with reasonable assurance that audit engagements are performed in accordance with professional standards and regulatory and legal requirements, and that reports that are issued are appropriate in the circumstances? In particular, the SAI should establish policies and procedures requiring that engagements be adequately planned, properly supervised and appropriately reviewed (ISQC-1 .32)</p> | | |
| <p>Criteria:</p> <p>There are policies and procedures on the following:</p> <p>i. SAI methodology and guidance including up-to-date manuals, audit programmes / checklists and/or software tools to cover GAAP, GAAS, good practices, regulatory requirements, and foreign standards when applicable. The individual responsible for updating the above documents is identified. Consider the date these documents were last updated and if the use of these documents is mandatory for all audits (ISQC-1 A.32).</p> | | |
| <p>ii. Briefing of audit teams on the engagement to obtain an understanding of the objectives of</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| their work (ISQC-1 A.32). | | |
| iii. Supervision, staff training and coaching during the engagement (ISQC-1 A.32). | | |
| iv. Methods and levels of personnel responsible for reviewing the work performed, the significant judgments made and the form of report being issued (ISQC-1 A.32). | | |
| v. Appropriate documentation of the work performed and of the timing and extent of the review (ISQC-1 A.32). | | |
| vi. Requirement for audit teams to hold debriefing sessions at the end of each audit to identify what was done well and areas where efficiency could be improved. | | |
| vii. Processes for complying with applicable engagement standards (ISQC-1 A.32). | | |
| viii. Performance of work: <ul style="list-style-type: none"> • Significant items are identified and documented for further consideration and communicated during the engagement (ISQC-1 A.35). • Progress is tracked during the engagement (ISQC-1 A.34). • Work has been performed in accordance with professional and applicable legal and regulatory requirements (ISQC-1 A.53). • If the nature, timing, or extent of the work has been revised, this has been documented in a modified work plan (ISQC-1 A.35). • Work performed supports the conclusions reached and is appropriately documented (ISQC-1 A.35). • Evidence obtained is sufficient and appropriate to support the report | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>(ISQC-1 A.35).</p> <ul style="list-style-type: none"> • The objectives of the engagement have been achieved (ISQC-1 A.35). • Consider work performed by a joint auditor or other auditor for which reliance is to be placed. • Consider work performed by internal auditors for which reliance is to be placed. • Consider work performed by a specialist. | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| <p>8. Consultation</p> <p>Does the SAI have policies and procedures designed to</p> <p>a) provide it with reasonable assurance that appropriate consultation has taken place on difficult and contentious matters (ISQC-1 .34)?</p> <p>b) sufficient resources are available to enable appropriate consultation to take place (ISQC-1 .34)?</p> <p>c) the nature, scope of and conclusions resulting from such consultations are documented and agreed with the party consulted, (ISQC-1 .34)? and</p> <p>d) conclusions resulting from consultations are implemented (ISQC-1 .34)?</p> | | |
| <p>Criteria:</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. the SAI has a culture that is one in which consultation is recognized as a strength and personnel are encouraged to consult on difficult or contentious matters (ISQC-1 A.37).</p> | | |
| <p>ii. the SAI has considered, when and if consulting with an external provider, whether the provider is suitably qualified and the legal responsibilities of both parties have been established (ISQC-1 A.36).</p> | | |
| <p>iii. sufficient resources are available to enable appropriate consultation to take place.</p> | | |
| <p>iv. sufficiently detailed documentation of consultations with other professions is agreed to by both the individual seeking consultation and the individual consulted (this includes providing the relevant facts to enable them to provide informed advice on technical, ethical or other matters) (ISQC-1 A.39).</p> | | |
| <p>v. consultation includes written or oral communication, at the appropriate level, with</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| <p>individuals within or outside the SAI who have the necessary expertise, to resolve a difficult or contentious matter (ISQC-1 A.36 and A.37).</p> | | |
| <p>vi. consultations are detailed and sufficiently complete to enable an understanding of (ISQC-1 A.39):</p> <ol style="list-style-type: none"> a. the issue on which consultation was sought; b. the results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented. | | |
| <p>vii. conclusions resulting from consultations are implemented or if consultations result in a difference of opinion, and whether those involved follow the SAI's procedures for dealing with difference of opinions.</p> | | |
| <p>9. Differences of Opinion Does the SAI have policies and procedures:</p> <ol style="list-style-type: none"> a) for dealing with and resolving a difference of opinion within the audit team, with those consulted and, where applicable, between the practitioner and the engagement quality control reviewer? The practitioner's report not be issued until the difference of opinion is resolved (ISQC-1 .43)? | | |
| <p>Criteria:</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>Policies and procedures:</p> <ol style="list-style-type: none"> i. encourage identification of any differences of opinion at an early stage (ISQC-1 A.52). | | |
| <ol style="list-style-type: none"> ii. provide clear guidelines as to the steps to be taken thereafter (ISQC-1 A.52). | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| iii. require documentation regarding the resolution of the differences and the implementation of the conclusions reached (ISQC-1 A.52). | | |
| iv. procedures to resolve such differences may include consulting with another practitioner, SAI or a professional or regulatory body. (ISQC-1 A.53). | | |
| <p>10. Engagement Quality Control Review – General</p> <p>Does the SAI have policies and procedures:</p> <p>a) that require that an engagement quality review be completed before the issuance of the report for audit engagements which report on the financial statements? (ISQC-1 .36) and</p> <p>b) require that the practitioner resolves all issues raised by the engagement quality control reviewer to the satisfaction of the reviewer prior to issuance of the practitioner’s report following, if necessary, the procedures for resolving differences of opinion. (ISQC-1 .42)?</p> | | |
| <p>Criteria:</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. documentation exists to support the decision that the engagement is not subjected to an engagement quality review (criteria for engagements requiring a quality control review and required qualifications for the reviewers).</p> | | |
| ii. documentation exists to support that all issues raised by the engagement quality reviewer have been resolved prior to the issuance of the report. | | |
| <p>iii. criteria that an SAI may use to determine whether other audit engagements should be subjected to an engagement quality control review include the following (ISQC-1 A.41):</p> <ul style="list-style-type: none"> • the nature of the engagement, including the extent to which it | | |

| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| <ul style="list-style-type: none"> • involves a matter of public interest; the identification of unusual circumstances or risks in an engagement or class of engagements; and • whether laws or regulations require an engagement quality control review. | | |
| <p>iv. The use of such criteria would normally result in the performance of an engagement quality control review for audit engagements reporting on :</p> <ul style="list-style-type: none"> • Financial statements <ul style="list-style-type: none"> ▪ issued by large organisations; ▪ issued by organisations contemplating or issuing securities; ▪ prepared for filing with a superintendent of financial institutions, a rate regulator, or other similar or equivalent regulatory agency; and ▪ issued by organisations of broad interest to the public, such as governments, significant public sector entities, national or large not-for-profit organisations, major pension funds, and open-end investment funds. <p>Other subject matter relating to organisations that are important to specific communities, or that is of broad interest to the public.’</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| <p>11. Engagement Quality Control Review - Nature, Timing and Extent:</p> <p>Does the SAI have policies and procedures that:</p> <p>a) set out the nature, extent and timing of an engagement quality control review (ISQC-1 .36)?</p> <p>b) An engagement quality control review should include:</p> <ul style="list-style-type: none"> • discussion of significant matters with the engagement leader; • review of the financial statements or other subject matter information and the proposed report; • review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and • evaluation of the conclusions reached in formulating the report. (ISQC-1 .37)? | | |
| <p>Criteria:</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. conclusions have been reached regarding the independence of the SAI and the audit team members in relation to the specific engagement (ISQC-1 .38 and A.45).</p> | | |
| <p>ii. the planning process includes the analysis of the key components of engagement risk and adequacy of the planned responses to those risks, and the audit team’s assessment of and response to the risk of fraud (ISQC-1 A.45).</p> | | |
| <p>iii. key judgements made are appropriate particularly with respect to materiality and in high risk areas (ISQC-1 A.45).</p> | | |
| <p>iv. significant findings and issues have been clearly documented.</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| v. appropriate documentation exist where consultation has taken place on difficult or contentious issues (ISQC-1 .38 b)). | | |
| vi. the significance of any misstatements management has declined to correct has been documented. | | |
| vii. the significance of any disagreements between management and the audit team relating to matters discussed in the report has been documented. | | |
| viii. the content of planned communications to management and those charged with governance is appropriate (ISQC-1 A.45). | | |
| ix. the report is appropriate (ISQC-1 .37 d)). | | |
| x. documentation reviewed and discussions held support the conclusions reached and the content of the report. | | |
| 12. Engagement Quality Control Review – Reviewer and Documentation | | |
| <p>Does the SAI:</p> <p>a) set out criteria for the eligibility of persons who may perform an engagement quality control review (ISQC-1 .39)?</p> <p>b) establish policies and procedures that require that the scope and conclusions of the engagement quality control (EQC) review be documented appropriately (ISQC-1 .42)?</p> <p>c) the EQC review should include documentation that:</p> <ul style="list-style-type: none"> • the procedures required by the SAI’s policies on EQC review have been performed; • the review was completed before the | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| <ul style="list-style-type: none"> report was issued; and the reviewer was not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the audit team made and the conclusions they reached were not appropriate (ISQC-1 .42)? | | |
| <p>Criteria</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. an EQC review is performed by one or more individuals who are objective and have sufficient experience and authority and the individuals have not been directly or indirectly involved in reviewing his/her own work in any capacity (ISQC-1 .40 and A.48 and A.49).</p> | | |
| <p>ii. the EQC reviewer has not been selected by the individual responsible for the audit. (ISQC-1 A.49)</p> | | |
| <p>iii. the EQC reviewer is not a member of the audit team (ISQC-1 A.49)).</p> | | |
| <p>iv. the SAI's policies provide for the replacement of the EQC reviewer where the ability to perform an objective review may be impaired (ISQC-1 A.48).</p> | | |
| <p>v. if the SAI has chosen to engage a suitably qualified external person to perform the review or another SAI to facilitate the review, the terms and conditions of such arrangements are in writing.</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| <p>15. Engagement Documentation and Retention</p> <p>Does the SAI have policies and procedures</p> <p>a) designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation (ISQC-1 .46) and A.56 to A.59?</p> <p>b) requiring the retention of engagement documentation (electronic form or other media) for a period sufficient to meet the needs of the SAI or as required by law or regulation? (ISQC-1 .47 and A.60 to A.62)?</p> | | |
| <p>Criteria:</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. it can be determined when and by whom engagement documentation was created, changed, and reviewed (ISQC-1 A.57).</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| ii. integrity of the information at all stages of the engagement is preserved when information is shared with the audit team or transmitted to other parties via the internet (ISQC-1 A.57). | | |
| iii. unauthorized changes to the documentation are prevented (ISQC-1 A.57). | | |
| iv. access to documentation is allowed to members of the audit team and other authorized parties (ISQC-1 A.57). | | |
| v. Controls include: (ISQC-1 A.58) <ul style="list-style-type: none"> • Use of passwords. • Appropriate back-up procedures. • Procedures for distributing engagement documentation to team members, processing it, and collating it at the end of the examination. • Procedures for restricting access to, and enabling proper distribution and confidential storage of hard copy engagement documentation. • Procedures for scanned documents. | | |
| vi. normally engagement documentation is retained for at least 5 years from the date of the engagement report (or at a minimum the number of years prescribed by the legislation) (ISQC-1 A.61). | | |
| vii. documentation can be retrieved and accessed during the retention period particularly in the in the case of electronic documentation (ISQC-1 A.62). | | |
| viii. record of changes made to the documentation after the engagement file has been completed is available (ISQC-1 A.62). | | |
| ix. engagement documentation made available to clients does not undermine the validity of the work performed or the independence of the SAI or its personnel (ISQC-1 A.63). | | |
| <p>14. Monitoring</p> <p>The objectives for this area are to assess whether the SAI has established policies and procedures designed to</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| <p>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.</p> <p>Based on the results of the consider points noted below, does the SAI</p> <p>a) have 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? Such policies and procedures should include an ongoing consideration and evaluation of the SAI’s system of quality control, including a periodic inspection of a selection of completed audit engagements. (ISQC-1 .48)?</p> <p>b) entrust responsibility for the monitoring process to a person or persons with sufficient and appropriate experience in the SAI to assume that responsibility? (ISQC-1 .48)?</p> <p>c) evaluate the effect of deficiencies noted as a result of the monitoring process and should determine whether they are either:</p> <ul style="list-style-type: none"> • instances that do not necessarily indicate that the SAI’s system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and regulatory requirements, and that reports issued by the SAI are appropriate in the circumstances or • systematic, repetitive or other significant deficiencies that require prompt corrective action (ISQC-1 .49)? <p>e) communicate to relevant engagement leaders and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action (ISQC-1 .50)?</p> | | |

| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| <p>f) when evaluating of each type of deficiency, the SAI evaluation should result in recommendations for one or more of the following:</p> <ul style="list-style-type: none"> • taking appropriate remedial action in relation to an audit engagement or an individual? • the communication of the findings to those responsible for training and professional development? • changes to the quality control policies and procedures; and • disciplinary action against those who fail to comply with the policies and procedures of the SAI, especially those who do so repeatedly? (ISQC .51)? <p>g) 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 engagement, the SAI should determine what further action is appropriate to comply with professional standards and regulatory and legal requirements. It should also consider obtaining legal advice (ISQC-1 .52).</p> <p>h) at least annually, communicate the results of the monitoring of its quality control system to practitioners and other appropriate individuals within the SAI, including the Head of the SAI or, if appropriate, its executive committee, or equivalent. 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:</p> <ul style="list-style-type: none"> • a description of the monitoring procedures performed; • the conclusions drawn from the monitoring procedures; and • where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. (ISQC-1 .53) | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| 16. Monitoring | | |
| <p>Criteria</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. monitoring of the SAI’s quality control is performed by an individual with sufficient and appropriate experience and authority in the SA to assume that responsibility (ISQC-1 .48 b)).</p> | | |
| <p>ii. monitoring covers both the appropriateness of the design and the effectiveness of the operation of the system of quality control (ISQC-1 .48 and A.64).</p> | | |
| <p>iii. those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. (ISQC-1 .48 c)).</p> | | |
| <p>iv. there is ongoing consideration and analysis of the following (ISQC-1 A.65):</p> <ul style="list-style-type: none"> • new developments in professional standards and regulatory and legal requirements and how they are reflected in the SAI’s policies and procedures; • written confirmation of compliance with policies and procedures on independence; • continuing professional development including training; • decisions to accept/continue client relationships and decisions related re: resolving differences of opinion. | | |
| <p>v. the SAI has policies and procedures requiring that corrective actions are taken and improvements are made in the system, including the provision of feedback into the SAI’s policies and procedures relating to education and training (ISQC-1 A.65).</p> | | |
| <p>vi. weaknesses identified in the system are communicated to appropriate SAI personnel</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
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| (ISQC-1 A.65). | | |
| vii. there is follow-up by appropriate personnel so that necessary modifications are promptly made to the quality control policies and procedures (ISQC-1 A.65). | | |
| viii. inspection of a selection of completed audit engagements is performed on a cyclical basis and includes at least one engagement for each engagement leader over an inspection cycle, which ordinarily would span no more than 3 years (ISQC-1 A.66). | | |
| ix. reporting of deficiencies other than to the relevant engagement leader does not include an identification of the specific engagement concerned, unless such identification is necessary for the proper discharge of the responsibilities of the individuals other than the engagement leader in charge of the audit engagement (ISQC-1 A.69). | | |
| vii. appropriate documentation relating to monitoring includes (ISQC-1 .57): <ul style="list-style-type: none"> ▪ procedures for monitoring including selecting completed audit engagements to be inspected; ▪ evaluation of the adherence to professional standards and regulatory and legal requirements ▪ evaluation of whether the quality control system has been appropriately designed and effectively implemented; ▪ evaluation of whether the SAI's quality control policies and procedures have been appropriately applied so that reports that are issued by the SAI or practitioner are appropriate in the circumstances; ▪ identification of the deficiencies noted, evaluation of their effect and setting out the basis for | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| determining whether and what further action is necessary. | | |
| viii. performance measures have been established with clearly identified targets. | | |
| ix. there are procedures in place to ensure monitoring of performance against targets. | | |
| x. feedback is obtained to continuously improve the planning process. | | |
| xi. the SAI has a policy regarding communications with audited entities. | | |
| xii. the SAI has procedures to guide the collection of feedback from audited entities regarding the quality of work done. | | |
| xiii. the SAI designates responsibility for co-ordinating, compiling, and interpreting the information received on quality of work done. | | |
| xiv. the SAI has procedures to integrate this information into the SAI's planning process (strategic, human resources, and/or professional development). | | |

| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| <p>15. Complaints and Allegations</p> <p>Does the SAI have</p> <p>a) policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:</p> <ul style="list-style-type: none"> • complaints and allegations that the work performed by the SAI fails to comply with professional standards and regulatory and legal requirements, and • allegations of non-compliance with the SAI's system of quality control (ISQC-1 .55)? | | |
| <p>Criteria:</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. there are clearly defined channels for SAI personnel to raise any concerns in a manner that enables them to come forward without fear of reprisal (ISQC-1 .55).</p> <p>ii. the SAI investigates such complaints and allegations in accordance with established policies and procedures which are supervised by an engagement leader with sufficient and appropriate experience and authority within the SAI but who is not otherwise involved in the audit engagement. Legal counsel is involved as necessary (ISQC-1 A.71).</p> <p>iii. the complaints, allegations, and the responses to them are documented (ISQC-1 – QC .59).</p> <p>iv. where results of the investigation indicated deficiencies in the design or operation of the SAI's quality control policies and procedures, or non-</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| <p>compliance with the SAI's system of quality control by an individual(s) the SAI (ISQC-1 .56):</p> <ul style="list-style-type: none"> ▪ takes appropriate remedial action; ▪ communicates the findings to those responsible for training and professional development; ▪ makes changes to the quality control policies and procedures; ▪ takes disciplinary action against the individual(s). | | |
| <p>16. Documentation of the Quality Control System</p> <p>Does the SAI have</p> <p>a) policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control (ISQC-1 .57)?</p> | | |
| <p>Criteria</p> <p>Based on a review of the policies and procedures, as a result of discussions and/or observed practices, consider whether:</p> <p>i. the SAI maintains appropriate systems to document its evidence such as: electronic databases, central repositories, manual notes, checklists or forms (ISQC-1 – QC .118).</p> | | |
| <p>ii. documentation is retained for a period of time sufficient to permit an evaluation of the extent of the SAI's compliance with its system of quality control or as required by applicable law or regulation (ISQC-1 .58).</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|--|--|---------------------|
| iii. there exist documentation responsibilities in technical departments for required and voluntary consultations (entity's authorization required before disclosure to others). | | |
| iv. there is documentation of policies, methodologies, and SAI communications (newsletters, general communications to professional staff, managers, principals, and executives). | | |
| v. policies address a threat of litigation or regulatory or disciplinary action, or when files are subpoenaed. | | |
| vi. confidentiality of an audited entity's information is maintained (fax, e-mail, discussions). | | |
| vii. there are contracts with external specialists, which include an appropriate confidentiality of information clause. | | |
| viii. consideration is given to the application of Freedom of Access to Information and Protection of Privacy legislation. | | |
| <p>17. OTHER ELEMENTS NOT DIRECTLY RELATED TO AUDIT ENGAGEMENTS:</p> <p>Strategic planning:</p> <p>i. There is a defined strategic planning process which includes planning, co-ordinating, executing the planning effort and evaluation and outlines the importance of quality.</p> | | |
| <p>ii. There is a requirement that priorities are consistent with the authorities and scope specified in the Auditor General's Act or equivalent with a focus on quality.</p> | | |
| <p>iii. Short and long-term directional priorities are set with defined action plans, timeframes, and resources and a</p> | | |



| MANAGEMENT PRACTICE | Policy, Tool or Action Developed Yes/No | COMMENTS /REFERENCE |
|---|--|---------------------|
| focus on quality. | | |
| iv. Strategic plans are documented and communicated to all staff. | | |



APPENDIX 3.3.F

Review Checklist at the Financial Audit Level

CAROSAI

FINANCIAL AUDIT LEVEL REVIEW CHECKLIST

ENTITY:

YEAR END:

PERSONS IN CHARGE OF THE
AUDIT:

REVIEWERS:

INSTRUCTIONS TO REVIEWERS

1. This checklist is intended to assist in carrying out and documenting a post-audit issuance review of financial audit files in order to express an opinion on whether the assurance work complies with the International Standards of Auditing issued by the International Auditing and Assurance Standards Board and Fundamental Auditing Principles and, if issued, auditing guidelines issued by the Financial Auditing Guidelines subcommittee of the Professional Standards Committee of INTOSAI.
2. The reviewer is encouraged to refer to the 2009 Quality Assurance Handbook of Financial Audit developed by CAROSAI before undertaking the review work.
3. The general standards in government auditing and standards with ethical requirements (ISSAI 200) issued by INTOSAI require that “the Auditor and the SAI must possess the required competence” and “the Auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.”

The field standards (ISSAI 300) applicable to all types of audit are :

- (a) The Auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.
- (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by a senior member of the audit staff.
- (c) The Auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control.
- (d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The Auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The Auditor also should

be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results thereof

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the Auditor to extend procedures to confirm or dispel such suspicions.

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the SAI is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge".

- (e) Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, programme, activity or function under audit.
 - (f) In regularity (financial) audit, and in other types of audit when applicable, Auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.
4. With a view to ensuring efficiency, the quality assurance review should be sufficient to reach a well-informed opinion of the audit by focusing on key decisions. Review guides are a means and not an end. They leave room for judgement.
 5. In addition to the information in the files the reviewer may need to rely on discussions with the staff whose work is being reviewed to confirm compliance with certain ISAs or ISSAIs. This is particularly the case for certain elements of the guide pertaining to the general standard or to efficiency.
 6. As part of an on-going effort to improve professional practice, questions pertaining to efficiency have also been added to the review checklist. In the course of the review, the reviewer should be attentive to

opportunities for improving the audit policies, procedures and methodology as well as the quality assurance process.

7. This review checklist does not cover standards that are specific to individual Supreme Audit Institutions (SAI). Each SAI is therefore encouraged to customize this checklist to consider compliance with internal policies.
8. Furthermore, this review checklist only covers compliance with authorities that can reasonably be expected to result in a material misstatement in the financial statements. If required, it is recommended that SAIs adapt the checklist for other compliance with authorities issues.
9. Explanations with reference to the financial audit file are required for any negative responses to the review guide questions. Explanations are also recommended for the “N/A” responses.

TABLE OF CONTENTS

| A. PRE-PLANNING AND GENERAL STANDARD | Page |
|---|-------------|
| A. 1 Independence, conflict of interest, competence and due care (ISSAI 200 para. 2.1) and ethical requirements (IFAC Code of Conduct and INTOSAI Code of Ethics) | |
| A. 2 Acceptance and continuance of the engagement | |
| A. 3 Technical training and proficiency | |
| A. 4 Responsibility of management | |
| B. PLANNING AND CONDUCTING | |
| B. 1 Planning | |
| B. 2 Supervision, Management and Control | |
| B. 3 Internal control (on which the Auditor plans to rely) | |
| B. 4 Conduct of the audit | |
| B. 4.1 General | |
| B. 4.2 Specific tests and procedures | |
| B. 4.3 Documentation and working papers | |
| C. REPORTING | |
| C. 1 Auditor's Report | |
| C. 2 Financial Statements | |
| C. 3 Communication to management and audit committees or its equivalent | |
| D. ENGAGEMENT QUALITY REVIEW (Prior to issuance of Auditor's report) | |
| E. CONCLUSION OF THE REVIEW | |
| F. EFFICIENCY | |
| G. OTHER PRACTICE IMPROVEMENTS | |
| H. SUMMARY OF THE GOOD PRACTICES OBSERVED | |
| | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
|--|------------------|----------------------|
| A. PRE-PLANNING AND GENERAL STANDARD | | |
| A.1 Independence, conflict of interest, competence and due care (ISSAI 200 para. 2.1) and ethical requirements (IFAC Code of Conduct and INTOSAI Code of Ethics) | | |
| <p>1. Based upon your review as a whole, is there sufficient evidence to suggest that the audit was conducted with an objective state of mind, due care and the audit team complied with ethical requirements of:</p> <ul style="list-style-type: none"> • Integrity; • Objectivity; • Professional competence and due care; • Confidentiality; and • Professional behaviour? | | |
| <p>2. Is there sufficient evidence that controls are in place to ensure the independence of the audit staff, with respect to the audit entity? Consider the following:</p> <ul style="list-style-type: none"> • Threats to independence were assessed; • Identified breaches were evaluated; • Appropriate actions were undertaken to address identified breaches to reduce them to an acceptable level; and • Conclusions regarding independence were documented. (ISQC-1 paras. 20 to 25 and ISA 220 paras. 9 -11) | | |
| <p>3. Are there indications that points at issue with the entity have been dealt with objectively, free from undue influence on the part of</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
|--|------------------|----------------------|
| management? (ISA 220.11) | | |
| 4. Where required, are matters relating to the Auditor's independence communicated to those charged with governance? (ISA 260.17) | | |
| A.2 Acceptance and Continuance of the Engagement (ISQC-1 paras. 26-28 and ISA 220 paras. 12-13) | | |
| <p>1. Are appropriate procedures performed, all issues identified satisfactorily resolved, and conclusions reached regarding the acceptance or continuance of the engagement documented? Is there evidence that:</p> <ul style="list-style-type: none"> • the potential sources of risk associated with the audit engagement were identified? • the reputation and integrity of the entity, including management and those charged with governance, were evaluated? • the competence of the SAI to perform the engagement and availability of resources for the engagement was assessed? • independence requirements were assessed (see A.1 step 2 above)? (ISA 220 paras. 12-13, A.8-A.9 and ISA 300 paras 6 and A.5-A.7) <p>2. Is there evidence that the terms of the engagement and the responsibilities of the audit entity and the audit team were discussed with, and agreed to, by audit entity's management and those charged with governance? If appropriate, is there an engagement letter in the file? (ISA 210 paras. 2, 10, 17)</p> <p>3. If this was a first audit engagement, was the predecessor Auditor contacted in compliance with relevant professional standards and ethical requirements and carried out other necessary procedures to obtain sufficient appropriate audit evidence about whether</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
|---|------------------|----------------------|
| opening balances contain misstatements that materially affect the current period? (ISA 510.6) | | |
| A.3 Technical Training and Proficiency | | |
| 1. Does the audit team, including specialists, have adequate resources, time, proficiency and collective knowledge of the subject matter to perform the engagement in accordance with professional standards and regulatory and legal requirements, and to issue an Auditor's report that is appropriate in the circumstances, considering the size, nature and scope of the audit? (ISQC-1 paras.30-31 and ISA 220 para. 14) | | |
| 2. Where external specialists are engaged for the audit (lawyers, EDP Auditors, Actuaries, and other consultants) are the following conditions met? (ISA 620): | | |
| <ul style="list-style-type: none"> Reasonable assurance is obtained concerning the specialist's competence, capabilities and objectivity; the relevance of the specialist's expertise to the objective of the assurance engagement; and the specialist's objectivity and appropriate degree of independence in relation to the SAI's requirements. (ISA 620.9 and .10) | | |
| <ul style="list-style-type: none"> When the Auditor engages the specialist, written agreement has been obtained concerning nature and scope of work, roles and responsibilities, timing and nature of work confidentiality of information (ISA 620.11) | | |
| <ul style="list-style-type: none"> Evaluation of the adequacy of the specialist's work including reasonableness and relevance of specialist's work and findings; consider and conclude on the reasonableness of the source data used by the specialist; the specialist's assumptions and methods (ISA 620.12) | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| 3. Are all relevant new or recent accounting and auditing standards taken into account? | | |
| A.4 Responsibility of Management | | |
| <p>1. Does the Auditor have appropriate written representations from management? Consider the following:</p> <ul style="list-style-type: none"> • Management’s acknowledgement of responsibility for preparation of the financial statements in accordance with the applicable financial reporting framework; (e.g. via engagement letter and/or letter of representation) (ISA 580.10) • Written representation from management, and where applicable, those charged with governance, concerning their responsibility for the prevention and detection of fraud and error, and disclosure of all facts related to illegal or possibly illegal acts, or a confirmation that management is not aware of any illegal or possibly illegal acts; and acknowledges responsibility for the design and implementation of internal control to prevent and detect error. (ISA 240.39) • Disclosure of the identity of all related parties and related party relationships and transactions and they have accounted for and disclosed such relationships and transactions in accordance with the reporting framework (usually GAAP); (ISA 550.26) • Uncorrected misstatements (ISA 450.14) • Reasonableness of significant assumptions regarding fair value measurement and disclosure. (ISA 540.22) • Disclosure of all known actual or possible litigation and claims whose effects should be considered when preparing the financial | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| statements to the Auditor and accounted for and disclosed in accordance with the applicable financial reporting framework (usually GAAP). (ISA 501.12) | | |
| B. FIELD STANDARDS | | |
| B.1 Planning (ISSAI 200 and ISA 300) | | |
| <p>1. Is a planning document establishing the overall audit strategy for the audit prepared? (ISA 300.12)</p> <p>Is a detailed audit plan to address the various matters identified in the overall audit strategy developed to reduce the audit risk to an acceptably low level? (ISA 300.09)</p> | | |
| <p>2. Is the planning document reviewed and approved at the appropriate level?</p> <p>Are significant changes made to the planning document during the audit documented, reviewed and approved at the appropriate level? (ISSAI 300 2.3©)</p> | | |
| <p>3. Does the planning document show sufficient understanding of the entity and its environment, including its internal control, in identifying and assessing risks of material misstatements at the financial statement level and at the assertion level for all the key components of the financial statements as the basis to design and perform further audit procedures? (ISA 300.07 to.11; ISA 315.11 to .29)</p> <p>Consider the following:</p> <ul style="list-style-type: none"> • An understanding of the entity and its environment relevant to the audit, including: <ul style="list-style-type: none"> <input type="checkbox"/> Industry legislative and regulatory environment and other external factors; <input type="checkbox"/> Nature of the entity (governance, structure and operations); | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| <ul style="list-style-type: none"> <input type="checkbox"/> Accounting policy selection and application; <input type="checkbox"/> Objectives and strategies and related business risks; and <input type="checkbox"/> Measurement and review of financial performance. • An understanding of each of the internal control components relevant to the audit, about their design (whether they are capable of preventing, or detecting, or correcting, material misstatements), and implementation (whether they exist and are operating): <ul style="list-style-type: none"> ○ The control environment ○ The process of identifying business risks relevant to financial reporting, the actions taken to address those risks, and the results thereof ○ Information systems relevant to financial reporting, communication of financial reporting roles and responsibilities ○ Control activities in preventing, detecting, and correcting material misstatements at the assertion level and responding to the risks arising from information systems ○ The monitoring of the effectiveness of internal control performance • Does the Auditor determine which of the risks at the assertion level identified in the risk assessment process are significant risks requiring special audit consideration? (ISA 315 A.1 to A.134 and ISA 315 Appendix 1) • Analytical procedures, including procedures related to revenue accounts, are used to assist in identifying risks of material misstatements due to fraud or error, and in | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| designing the nature, timing, and extent of audit procedures; (ISA 315.06 (b) and A.7 to A.10) | | |
| 4. Has an appropriately determined performance materiality been used in audit planning for the purposes of assessing the risks of material misstatements and determining the nature, timing and extent of further audit procedures? (ISA 320.11) | | |
| <p>5. Is there evidence that the risk of material misstatements in the financial statements resulting from fraud has been adequately considered? (ISA 240.16)</p> <p>Consider the following:</p> <ul style="list-style-type: none"> • Discussion among members of the audit team on the susceptibility of the audit entity's financial statements to material misstatements due to fraud (ISA 240.15); • Discussion with management on their assessment of risks related to fraud, the process of identifying and responding to these risks, and reporting of the process to the audit committee or equivalent; also, whether they have knowledge of any actual, suspected or alleged fraud affecting the entity (ISA 240.17 to ISA 240.19); • The Auditor has obtained an understanding of how those charged with governance exercise oversight of management's process for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks and whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (ISA 240.20 and .21) • Consideration of the presence of fraud risk factors that indicate the possibility of either fraudulent financial reporting or misappropriation of assets (ISA 240.22 and | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| .23); | | |
| <p>6. In response to the risks related to management override of controls has the Auditor:</p> <ul style="list-style-type: none"> • reviewed journal entries and other adjusting entries? ; • reviewed accounting entries for bias? ; • evaluated the rationale for transactions outside the normal course of business or appear to be otherwise unusual?; and • determined whether it is necessary to perform additional procedures in response to the risk of management override of controls?. (ISA 240.32 and .33) | | |
| <p>7. If the practitioner plans to use the work of internal audit, has the Auditor assessed the internal audit function? (ISA 610.08 to .10)</p> <p>When using the specific work of internal audit has the Auditor evaluated and performed audit procedures on that work and evaluated the conduct of the work by internal audit? (ISA 610.11 and .12)</p> | | |
| <p>8. Does the audit plan provide sufficient direction with respect to sampling methods and sample sizes?</p> | | |
| <p>9. Has the Auditor gained an understanding of the entity and its environment to determine the laws and regulatory framework applicable to the entity and how the entity complies with the framework? (ISA 250.12)</p> <p>Has the Auditor obtained sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements? (ISA 250.13)</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| 10. Are significant problem areas or components of the financial statements requiring extra attention identified (i.e. staff experience, specialists)? | | |
| 11. Is a timetable established and is an evaluation made of the time needed to carry out the engagement? | | |
| 12. Where applicable, is the usefulness of the work of the Internal Auditor examined? (ISA 610.10) | | |
| 13. Are the points requiring follow-up from the previous year considered? | | |
| 14. When the Auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, has the Auditor documented the reasons supporting his or her conclusion? (ISA 240.26 and .47) | | |
| B.2 Supervision, Management and Control (ISA 300; ISA 220) | | |
| 1. Is the planning discussed with the audit team? (ISA 300.5) | | |
| 2. Is there evidence of appropriate review of the working papers prior to the issuance of the Auditor's report? Consider if: <ul style="list-style-type: none"> • critical sections of the file are reviewed by the most senior person directly involved in the audit (i.e. engagement leader); (ISA 220.16 and 17) • the file is promptly reviewed. • differences of opinion have arisen within the team, with those consulted, or with the engagement quality control reviewer. Have these been resolved following the SAI's policies and procedures? (ISA 220.34) • Are audit team members aware of: | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| <ul style="list-style-type: none"> - their responsibilities; - the nature of the entity's business; - risk related issues; - problems that may arise; and - the detailed approach to the performance of the audit (ISA 220.21) | | |
| 3. Is a comparison made between actual and budgeted hours and costs with discrepancies explained? | | |
| B.3 Internal Control (on which the Auditor plans to rely) | | |
| 1. Are policies and procedures well documented and identified in the audit files? | | |
| 2. Is the documentation updated during the audit? | | |
| 3. If the Auditor plans to place reliance on those controls identified in the risk assessment as suitably designed to prevent, or detect, or correct, material misstatements in an assertion and has an expectation that these controls are operating effectively or if substantive procedures alone are insufficient to reduce the risk of detecting material misstatements, does the Auditor perform tests of controls through enquiry in combination with other audit procedures to determine whether such controls are in fact operating effectively over the entire period of reliance? (ISA 330.8) | | |
| 4. If the Auditor obtains audit evidence about the operating effectiveness of controls during an interim period, has the Auditor obtained evidence about significant changes in controls subsequent to the interim period and determined what additional audit evidence should be obtained for the remaining period. (ISA 330.12) | | |
| 5. If the Auditor plans to use audit evidence about | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| <p>the operating effectiveness of controls obtained in prior audits, has the Auditor obtained audit evidence that no changes in those specific controls have occurred subsequent to the prior audit?. To establish continue reliance of the audit evidence for those controls that have not changed since they were last tested in prior periods, has a test of the operating effectiveness of such controls been done at least once in every third audit? (ISA 330.14)</p> | | |
| <p>6. For those controls that have changed since they were last tested, and which the Auditor plans to rely, on is the operating effectiveness of these controls tested in the current period? (ISA 330.14)</p> | | |
| <p>7. As part of the risk assessment, has the Auditor evaluated the design and determined the implementation of the entity's controls, including relevant control activities, over those risks for which, in the Auditor's judgment, it is not possible or practicable to reduce the risks of material misstatements at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures. (ISA 315.30)</p> | | |
| <p>8. If the Auditor plans to rely on the operating effectiveness of control to mitigate a significant risk, does the Auditor obtain audit evidence about the operating effectiveness of that control in the current period? (ISA 330.15)</p> <p>In addition, are substantive procedures that are specifically responsive to the significant risk performed?</p> | | |
| <p>9. If the approach to significant risks consists only of substantive procedures, do these procedures consist of tests of details, or a combination of tests of details and substantive analytical procedures? Substantive analytical procedures by themselves are not considered sufficient</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| appropriate audit evidence. (ISA 330.21) | | |
| <p>10. If deviations from controls the Auditor intends to rely on are detected, does the Auditor make specific inquiries to understand the matter and the potential consequences and determine: (ISA 330.17)</p> <ul style="list-style-type: none"> • If the test of controls performed provide an appropriate basis for reliance; • If additional tests are necessary; or • If the potential risk of misstatement must be addressed through procedures? | | |
| <p>11. If certain controls are applied only at the service organisation, does the Auditor obtain an understanding of how the entity uses the services of a service organisation sufficient to meet the requirements of ISA 315, and if the Auditor is unable to meet those requirements based on this review has the Auditor obtained a type 1 or type 2 report on a service organisation? (ISA 402.9 to .14) If the entity uses a service organisation has the Auditor obtained sufficient appropriate audit evidence from the audited entity or at the service organisation? (ISA 402.15)</p> | | |
| B.4 Conduct of the Audit | | |
| B.4.1 General | | |
| <p>1. Is the Professional Practice Branch, its equivalent or specialists consulted concerning complex questions or disputed issues? Are the consultations documented? Have the conclusions from the consultations been agreed to with the party consulted and implemented? (ISA 220.18)</p> | | |
| <p>2. Are the appropriate procedures followed by the assurance team for dealing with and resolving a difference of opinion arising within the assurance team, with those consulted, or with the quality control reviewer? Was the Auditor's</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| report issued after the difference of opinion was resolved? (ISA 220.22) | | |
| 3. Are the review notes and notes requiring follow-up from the previous year cleared? | | |
| 4. Where applicable, are notes requiring follow-up for the next year prepared? | | |
| 5. Is the decision to rely on, or not to rely on, the work of the Internal Auditor sufficiently supported and the findings corroborated? (ISA 610.13) | | |
| <p>6. Has the Auditor determined whether uncorrected misstatements are material, individually or in aggregate? (ISA 450.10) Consider the following:</p> <ul style="list-style-type: none"> • The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and • The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. | | |
| 7. Are the uncorrected misstatements, both individually and in the aggregate, within acceptable materiality? (ISA 450.6, .10 and .11) | | |
| <p>9. Is there evidence that the uncorrected misstatements were discussed with management and a copy of such misstatements provided? (ISA 330.8)</p> <p>Is written representation obtained from management that they believe the effect of uncorrected misstatements, both individually and in the aggregate, are immaterial to the financial statements taken as a whole? (ISA</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE | | |
|---|------------------|----------------------|--|--|
| 450.14) | | | | |
| 10. If un-corrected misstatements are not within acceptable levels, is a reservation made in the Auditor's report or are the reasons for not including a reservation explained in the working papers? (ISA 700.17) | | | | |
| 11. If the auditor concludes that it is not possible to continue performing the audit as a result of a misstatement resulting from fraud or suspected fraud, has he considered the professional and legal responsibilities applicable in the circumstances and the possibility of withdrawing from the engagement? (ISA 240.38) | | | | |
| 12. Is the audit evidence up to the date of the report taken into account? (ISA 700.41) | | | | |
| 13. Has the Auditor carried out procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the Auditor's report that require adjustment of, or disclosure in, the financial statements have been identified? Where applicable, has the Auditor responded to facts or events known after the date of the Auditor's report that may affect the financial statements? (ISA 560.6, .10 and .14) | | | | |
| B.4.2 Specific tests and procedures | | | | |
| 1. Are the audit programmes consistent with the identified risks? | | | | |
| 2. Has the Auditor designed and performed further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level? (ISA 330.6) | | | | |
| 3. Are further audit procedures designed specifically to address the risks of material | | | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| <p>misstatement at the assertion level performed? (ISA 330.7)</p> <p>Is the nature (tests of controls or substantive procedures, inspection, confirmation, etc), timing and extent of these procedures appropriate for the identified risks? Is more persuasive evidence obtained as the Auditor's assessment of risk is higher?</p> | | |
| <p>4. Are the audit procedures carried out in accordance with the programmes with discrepancies explained?</p> | | |
| <p>5. Do the nature, extent and timing of auditing procedures reflect the assessment of internal control?</p> | | |
| <p>6. Are the programmes signed and dated by the persons who completed them?</p> | | |
| <p>7. Are the conclusions of the programmes consistent with the work carried out?</p> | | |
| <p>8. Are the procedures stipulated in the programmes referenced to the appropriate working papers?</p> | | |
| <p>9. Are substantive procedures performed for each material class of transactions, account balance and disclosure, irrespective of the assessed risk of material misstatement? (ISA 330.18)</p> | | |
| <p>10. When substantive procedures are performed at an interim date, are further substantive procedures, or substantive procedures combined with tests of controls, performed to cover the remaining period? (ISA 330.22)</p> | | |
| <p>11. When using analytical review as a substantive procedure, does the Auditor determine the suitability of substantive analytical procedures for given assertions, evaluate the reliability of data, develop an expectation of recorded amounts or ratios to be used to evaluate</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| results? (ISA 520.5) | | |
| 12. If the results of the analytical review produce significant fluctuations or unexplained variances, does the Auditor investigate, obtain adequate explanations and appropriate audit and perform other procedures as necessary? (ISA 520.7) | | |
| 13. Are analytical review procedures performed at or near the end of the audit used to appraise the overall presentation of the financial statements, to form a conclusion as to whether the financial statements taken as a whole are consistent with the Auditor's understanding of the entity and its environment? (ISA 520.6) | | |
| 14. Are substantive procedures performed on financial statement closing process by: <ul style="list-style-type: none"> • agreeing or reconciling the financial statements with the underlying accounting records to ensure the completeness of the amounts audited, and • examining material journal entries and other adjustments made during the course of preparing the financial statements? (ISA 330.20 and .30) | | |
| 15. Are the misstatements found carried over to the error assessment? | | |
| 16. Is there evidence that the Auditor controls the confirmation process, in particular that the recipient addresses their answers directly to the Auditor? (ISA 505.7) | | |
| 17. Are the auditing procedures pertaining to the reasonableness of accounting estimates sufficient? (CICA 5305.08) | | |
| 18. Has the Auditor obtained sufficient appropriate audit evidence that estimates--including fair value accounting estimates--are reasonable and | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| that related disclosures in the financial statements are adequate in accordance with reporting framework (GAAP in most instances)? (ISA 540.6) | | |
| <p>19. When the audit entity uses the services of a service organisation, has the Auditor:</p> <p>(a) obtained an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity’s internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and</p> <p>(b) designed and performed audit procedures that respond to those risks? (ISA 402.7)</p> | | |
| <p>20. Regarding transactions between related parties, is there evidence of the following?</p> <ul style="list-style-type: none"> • An understanding of related party relations and transactions sufficient to recognize fraud risk factors; • Audit evidence to conclude that the financial statements are presented in a manner that achieve fair presentation or are not misleading (depending on the reporting framework used; • Where applicable, audit evidence to conclude that related party transactions have been identified, accounted for and disclosed in the financial statements. (ISA 550.9) • Those charged with governance are notified of significant matters arising during the audit in connection with related parties. (ISA 540.27) | | |
| <p>21. Are the auditing procedures for inventories appropriate? (ISA 501 .4 to .8)</p> | | |
| <p>22. Are auditing procedures performed to identify events subsequent to the balance sheet date?</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| (ISA 560.6 and .7) | | |
| 23. Where events subsequent to balance sheet date are identified, are they correctly reflected in the financial statements? (ISA 560.8 and .10 and .11) | | |
| 24. If the Auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, does the Auditor, in addition to the procedures required by other ISAs, seek direct communication with the entity's external legal counsel? Does the Auditor do so through a letter of inquiry, prepared by management and sent by the Auditor, requesting the entity's external legal counsel to communicate directly with the Auditor? (ISA 501.10) | | |
| 25. Are appropriate measures taken when relying on the work of a component Auditor? Consider: <ul style="list-style-type: none"> • Has responsibility for the direction, supervision and performance of the group audit been given to an engagement partner or leader? (ISA 600.11). • Have the terms of the engagement been agreed to by the engagement partner or leader? (ISA 600.14). • Has an overall group audit plan and strategy been reviewed and approved by the engagement partner or leader? (ISA 600.15 and .16) • Is there evidence that the group engagement team has ensured that component Auditors can comply with relevant ethical and independence requirements? (ISA 600.19 and .20) • Is there evidence that other requirements to carry out a group audit engagement have been met? (ISA 600) | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
|---|------------------|----------------------|
| 26. Are the changes in the accounting principles or in their application evaluated by the Auditor to determine whether they are appropriate and the related disclosure is in accordance with GAAP? (ISA 510.8) | | |
| 27. Has the Auditor reviewed documents containing audited financial statements (paper and electronic version) to ensure (ISA 720.6 and .14): the other information found in the documents is not materially inconsistent with the financial statements or with the knowledge obtained by him/her during his/her audit or is a misstatement of fact? | | |
| 28. When fraud risks were identified, did the Auditor: <ul style="list-style-type: none"> • determine overall responses to address the assessed risks at the financial statement level, and design and perform further audit procedures responsive to the assessed risks at the assertion level? (ISA 240.30) • design and perform audit procedures responsive to risk of management override of controls (test appropriateness of journal entries, review accounting estimates for biases, review unusual significant transactions)? (ISA 240.31 to .33) | | |
| B.4.3 Documentation and working papers | | |
| 1. Are the documents and working papers organized in logical order and indexed or filed correctly? Are audit documents clearly linked to significant findings and presented in a manner that allows an experienced Auditor who is not familiar with the file to understand the nature, extent and timing of audit procedures, the results, and significant matters arising from the audit? (ISA 230.8 to .11) | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| 2. Do the audit files clearly describe the audited entity, the year audited and their content? | | |
| 3. Are the working papers clearly identified, dated and initialled by the person or persons who prepared them, and who reviewed the audit work performed? (ISA 230.9) | | |
| 4. Are the auditing checkmarks clearly explained? | | |
| 5. Are the information sources appearing on the working papers identified? | | |
| 6. Is knowledge of the entity's business properly documented in a continuous and cumulative manner? | | |
| 7. Do the audit files contain documentation on the understanding of the entity and its environment, including its internal control, required to identify and assess the risk of material misstatement of the financial statements due to fraud or error, for designing and performing the audit approach used? (ISA 315.25 to .28) | | |
| <p>8. Has the Auditor prepared audit documentation that provides the support for the representations in the Auditor's report? Audit documentation should:</p> <ul style="list-style-type: none"> • demonstrate that the engagement complied with the ISAs; • support the basis for the Auditor's conclusions concerning every relevant financial statement assertion; and • demonstrate that the underlying accounting records agreed or reconciled with the financial statements. <p>Has the Auditor documented the procedures performed, evidence obtained and conclusions reached with respect to relevant financial statement assertions? Audit documentation</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| should clearly demonstrate that the work was in fact performed. (ISA 230) | | |
| 9. Is there documentation on significant findings or issues arising from the audit, discussion with management and those charged with governance on such matters, actions taken to address them and the conclusions reached? Are all such significant findings or issues documented in an engagement completion document? (ISA 230.10) | | |
| 10. Are the dates of Auditor's report and the audit report release identified? Is the file documentation completion date identified and is not more than 45 days after the audit report release date? (ISA 230.14 to .16) | | |
| 11. If the Auditor finds it necessary to make additions to audit documentation after the report release date, is there documentation of who made the changes, when the changes were made, the reason for the changes, and the effect of the changes on the Auditor's conclusions? (ISA 230.13 and .16) | | |
| 12. If the Auditor identified information that is inconsistent with the Auditor's final conclusion regarding a significant matter, the Auditor shall document how the inconsistency was addressed. (ISA 230.) | | |
| 13. Are the identifying characteristics (e.g. scope of testing, specific cheque numbers selected, etc.) of the specific items tested clearly documented? (ISA 230.9) | | |
| C. REPORTING STANDARDS | | |
| C.1 Auditor's Report | | |
| <ul style="list-style-type: none"> Does a person with experience, who has not taken part in the engagement, review the Auditor's report and the financial statements? | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| <ul style="list-style-type: none"> • Is the report correctly addressed? (ISA 700.22) <ul style="list-style-type: none"> • The date of the Auditor’s report correctly established? (ISA 700.41) • Correctly identify the name of the audited entity? (ISA 700.23) • The place of issuance of the report mentioned? (ISA 700.42) | | |
| <ul style="list-style-type: none"> • Does the report identify all of the financial statements and the additional information covered by the report? (ISA 700.23 and .38 and .39) | | |
| <ul style="list-style-type: none"> • Is the opinion appropriate in light of the following? : <ul style="list-style-type: none"> • The adequacy and the relevance of the audit evidence found in the file. • The information included in the financial statements. • The evaluation of the misstatements. | | |
| <ul style="list-style-type: none"> • Does the presentation of the Auditor’s report comply with ISA requirements, including when there is a modification to the Auditor’s report? (ISA 700 and ISA 705) | | |
| <p>C.2 Financial Statements</p> | | |
| <p>1. Is there a final copy of the financial statements in the file referenced to the working papers?</p> | | |
| <p>2. Are the financial statements approved by representatives of the entity prior to the release of the Auditor’s report?</p> | | |
| <p>C.3 Communication to management and audit committees or its equivalent</p> | | |
| <p>1. Are all matters of interest identified during the financial statements audit communicated to appropriate level of management? Consider the following:</p> | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
|---|------------------|----------------------|
| <ul style="list-style-type: none"> • Identification of significant deficiencies in internal control; (ISA 265.7 to .11) • Non-compliance with laws and regulations (ISA 250.22 to .24) • When communicating matters, is there indication that during financial statement audit consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; (ISA 265.11) • Are significant deficiencies in internal control identified during the audit communicated in writing in a timely manner? (ISA 265.10) | | |
| <p>2. Prior to the completion of the audit does the Auditor inform the Audit Committee or its equivalent of the following? (ISA 260):</p> <ul style="list-style-type: none"> • The responsibility of the Auditor in relation to the financial statement audit; (ISA 260.14) and • An overview of the planned scope and timing of the audit. (ISA 260.15) | | |
| <p>3. Are significant findings arising from the financial statement audit communicated to those charged with governance? Consider the following:</p> <ul style="list-style-type: none"> • The Auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures; (ISA 260.16) • Significant difficulties, if any, encountered during the audit; (ISA 260.16) | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
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| <ul style="list-style-type: none"> • Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; (ISA 265.10 and ISA 260.16) • Written representations the Auditor is requesting; (ISA 260.16) • Other matters, if any, arising from the audit that, in the Auditor’s professional judgment, are significant to the oversight of the financial reporting process; (ISA 260.16) • matters related to fraud; (ISA 240.41 and .42) • Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the Auditor’s report. The Auditor’s communication identifies material uncorrected misstatements individually. The Auditor requests that uncorrected misstatements be corrected; (ISA 450.12 and 13) • Non-compliance with laws and regulations (ISA 250.22 to .24); • Significant deficiencies in internal control; (ISA 265.9) • Significant matters arising from the audit of the entity’s related parties; (ISA 550.27) | | |
| 4. Where required matters related to Auditor independence are communicated to those charged with governance. (ISA 260.17) | | |
| D. ENGAGEMENT QUALITY REVIEW (Prior to issuance of auditor’s report) | | |
| 1. If this audit is subject to engagement quality | | |



| Audit Practices | YES NO N/A | COMMENTS / REFERENCE |
|---|------------------|----------------------|
| <p>review based on criteria set by the Office:</p> <ul style="list-style-type: none"> ▪ Has the engagement quality review been performed, and matters raised resolved, prior to issuance of the audit report? (ISA 220.19) ▪ Is there evidence that the review was an objective evaluation of: (ISA 220.20) <ul style="list-style-type: none"> o Significant judgements made by the audit team; o Conclusions reached in formulating the audit report; and o Included a review of significant matters with the engagement leader, review of financial statements and Auditor’s report, review of selected audit documentation and evaluation of conclusions reached and appropriateness of the Auditor’s report? ▪ Is the review performed by one, or more, persons who are objective and have sufficient experience and authority? (ISQC-1 39 and 40) | | |



E. CONCLUSION OF THE REVIEW

In your opinion as a reviewer, was the audit carried out in accordance with the International Standards of Auditing?

NO

YES

Comments:

Reviewers:

Date:



| AUDIT PRACTICE | YES NO N/A | COMMENTS |
|--|------------------|----------|
| F. EFFICIENCY | | |
| 1. Are continuity of the audit team and the knowledge of the entity’s business taken into account when assigning audit staff to an audit project? | | |
| 2. Do the audit approach and the procedures used appear to be cost-effective and efficient ,and is adequate consideration given to efficiency when making the following choices: | | |
| <ul style="list-style-type: none"> • Realistic assessment of risk, with planning and work focused on those specific risks; • Deciding whether or not to rely on internal controls, where it is possible to do so; • Deciding to proceed by sampling where other procedures are possible, and the choice of sampling techniques; • Deciding whether or not to use analytical review procedures where possible, and the extent of analysis done; • Deciding whether or not to use computerized audit techniques, where possible | | |
| 3. Are the audit programmes co-ordinated to avoid duplication? | | |
| 4. Is superfluous information eliminated from the files? | | |
| 5. Is there evidence that maximum use is made of the entity for the preparation of working papers and if the entity does not co-operate, has the Audit Committee or its equivalent been formally notified of this situation? | | |
| 6. Does the Auditor limit the audit work to the minimum procedures required to issue an opinion? (extent of work reflects materiality or | | |



| AUDIT PRACTICE | YES NO N/A | COMMENTS |
|--|------------------|----------|
| focusing procedures on key controls when using a combined approach, for example), | | |
| 7. Does the Auditor take into account other audit work? (independent value-for-money audits or work done by the Internal Auditor for example) | | |
| 8. Are hours or costs related to accounting services compiled separately and formally communicated to the entity? | | |
| 9. Is a list prepared of opportunities to improve the audit efficiency? (COLA) | | |
| G. OTHER PRACTICE IMPROVEMENTS | | |
| 1. Where applicable, please identify and recommend improvements ⁴ : | | |
| <ul style="list-style-type: none"> • To policies, procedures of the legislative Auditor, whether it be by including good practices or by improving methodology; | | |
| <ul style="list-style-type: none"> • To the training of the Auditor through the identification of needs; | | |
| H. SUMMARY OF THE GOOD PRACTICES OBSERVED | | |
| 1. Have we observed, while examining the quality assurance, good practices of the following elements: | | |
| <ul style="list-style-type: none"> • Management of the mandate; | | |
| <ul style="list-style-type: none"> • Audit planning; | | |
| <ul style="list-style-type: none"> • File content; | | |

⁴ Recommendation for improvements to training should be validated by person /s responsible for training.

Recommendations for improvement to this financial audit review checklist or to the quality assurance process should be conveyed to the person responsible for quality assurance in the SAI.

- Information should include :
- A description of the problem;
- The improvements recommended;
- The reference documents, if any;
- The causes, if they are identifiable.



| AUDIT PRACTICE | YES NO N/A | COMMENTS |
|---|------------------|----------|
| <ul style="list-style-type: none">Issue of the Auditor's report | | |



Appendix 3.3.G

Quality Assurance Review Recording Form (QARRF)

INSTITUTION LEVEL

- 1. LEADERSHIP**
- 2. RELEVANT ETHICAL REQUIREMENTS**
- 3. ACCEPTANCE AND CONTINUANCE**
- 4. HUMAN RESOURCES**
- 5. ENGAGEMENT PERFORMANCE**
- 6. MONITORING**
- 7. GENERAL**

A. Positive findings

Summary of the Key Positive Aspects from the Review

B. Weaknesses

| Checklist reference | Finding | Causal Factors | Effects | Recommendations | SAI Management's Comments |
|--|---|--|---|--|---|
| (The reference should be clearly linked to the evidence in the QA file that provides support for the finding on the design and effective | (Ensure the description of the finding clearly describes (a) the expectation with reference to the specific requirement of the SAI's policies and procedures/or the relevant quality control framework adopted by the SAI; and (b) clearly describes what the reviewer observed when conducting | (Explanation of the reasons for the weakness – for example, weaknesses in design of the policy (e.g. does not meet the requirements of ISQC-1 or the SAI's legal requirements), inadequate guidance to staff on how to implement the policy, insufficient review and oversight – to the extent that the reviewer can | (Consequences or potential consequences of the finding) | (The recommendations should be clear, specific and concrete and address the underlying causes of the finding. The QA team may follow-up on implementation at a later date. The recommendation should be clear enough that an experienced reviewer unfamiliar with the review can judge if it | (The SAI senior manager responsible for the area should indicate if he or she agrees with the draft observations, conclusions and recommendations. If the senior management disagrees, reviewer should seek further evidence from the |



| | | | | | |
|--|---|--|--|--------------------------------|---|
| operation of the quality control element) | the QAR. The gap between the expectation and what the reviewer observed should be clear.) | determine the underlying causes. The reviewer can identify underlying causes through analysis (e.g. gap analysis with ISQC-1 or other relevant standards or laws), discussions with SAI staff at all levels or through direct observation) | | was subsequently implemented.) | responsible senior manager or the reason for the disagreement should be noted). |
|--|---|--|--|--------------------------------|---|

Prepared by Date

FINANCIAL AUDIT LEVEL

1. PRE-PLANNING
2. PLANNING
3. CONDUCTING PHASE
4. REPORTING PHASE
5. GENERAL

A. Positive findings

Summary of the Key Positive Aspects from the Review

B. Weaknesses

| Checklist reference | Finding | Causal Factors | Effects | Recommendations | SAI Management's Comments |
|----------------------------------|---|---|---|--|---|
| (The reference should be clearly | (Ensure the description of the finding clearly describes (a) the expectation with | (Explanation of the reasons for the weakness – for example weaknesses in methodology, | (Consequences or potential consequences of the finding) | (The recommendations should be clear, specific and | (The responsible manager should indicate if he or she agrees with the |



| Checklist reference | Finding | Causal Factors | Effects | Recommendations | SAI Management's Comments |
|--|--|---|---------|--|--|
| linked to the evidence in the QA file and to appropriate working papers in the audit file) | reference to the specific requirement of the SAI's methodology and/or the relevant professional standard; and (b) clearly describes what the reviewer observed when conducting the QAR. The gap between the expectation and what the reviewer observed should be clear. The audit file is expected to be a stand-alone document and all evidence and results of the audit should be included in the audit file.) | inadequate review or supervision or staff without the necessary skills and experience – to the extent that the reviewer can determine the underlying causes. In addition to information gathered from review of the audit files, the reviewer can identify underlying causes through discussions with the audit team or others or by observation) | | concrete and address the underlying causes of the finding. The QA team may follow-up on implementation at a later date. The recommendation should be clear enough that an experienced reviewer unfamiliar with the review can judge if it was subsequently implemented. ISQC-1 paragraph 51 suggests potential remedial action. If a weakness observed suggests that the audit report that was issued is not appropriate, suitable action in accordance with the SAI's policy should be recommended. {ISQC-1 para 52}} | draft findings, conclusions, and recommendations. If the reviewer has identified gaps or weaknesses in the SAI's overall policies and procedures, the reviewer should also seek the views of the senior manager responsible for overall system of quality control. If the manager(s) agrees with the draft findings, conclusions and recommendations, the response should give a brief overview of the proposed actions or, if available, the response can be the detailed action plan. If the manager(s) disagree (s), the reasons should be provided and the reviewer should seek further evidence). |

Prepared by

Date



Appendix 3.3.H

EXAMPLE OF A COMPLETED QARRF FOR ONE OBSERVATION (INSTITUTIONAL LEVEL)

**THE AUDIT DEPARTMENT OF A CAROSAI SAI
REVIEW AT THE INSTITUTIONAL LEVEL
RELEVANT ETHICAL REQUIRMENTS
QUALITY ASSURANCE REVIEW RECORDING FORM (QARRF)**

POSITIVE FINDINGS

| POSITIVE FINDINGS | CAUSAL FACTORS | EFFECTS | RECOMMENDATIONS |
|---|--------------------------|--------------------------|--------------------------|
| <p>There are formal established policies and procedures designed to provide the SAI with reasonable assurance that its personnel and where applicable, others subject to ethical requirements (including specialists contracted by the SAI) comply with independence and other ethical requirements.</p> <p>The policies cover the following ethical requirements:</p> <ul style="list-style-type: none"> • Integrity • Independence • Objectivity • Professional competence and due care • Confidentiality; and • Professional Conduct <p>The SAI’s policies encourage officers to produce audits which are guided by ethical requirements. The following policies exist:</p> <ul style="list-style-type: none"> • The Public Service Act: Code of Ethics (Government Code of Ethics) | N/A – meets requirements | N/A – meets requirements | N/A – meets Requirements |



| POSITIVE FINDINGS | CAUSAL FACTORS | EFFECTS | RECOMMENDATIONS |
|--|----------------|---------|-----------------|
| <ul style="list-style-type: none"> The Audit Manual which contains ethical requirements The SAI has adopted the INTOSAI Code of Ethics | | | |

NEGATIVE FINDINGS – MEETS REQUIREMENTS BUT CAN BE IMPROVED.

| NEGATIVE FINDINGS | CAUSAL FACTORS | EFFECTS | RECOMMENDATIONS |
|--|---|---|--|
| <p>There are policies and procedures that require personnel to notify the SAI in a timely manner of circumstances and relationships that create a threat to independence. However, our survey showed a lack of awareness of the requirements of the SAI's policies and procedures. Our survey showed that 9/24 employees have conducted audits with entities where they have had relationships with staff and did not disclose this information.</p> | <p>Insufficient encouragement and time was given to staff to become aware of relevant ethical requirements.</p> | <p>Staff members are not fully aware of the ethical requirements and departmental policies. Instances were noted in our review where threats to independence were not appropriately considered.</p> | <p>Senior management should stress the importance of ethics, particularly independence in communications to all staff. Staff should be provided with time to read and become familiar with the SAI's policies and procedures in this area.</p> |

NEGATIVE FINDINGS – DOES MEET REQUIREMENTS

| NEGATIVE FINDINGS | CAUSAL FACTORS | EFFECTS | RECOMMENDATIONS |
|---|--|---|---|
| <p>There was no requirement to obtain written confirmation of compliance with the Department's policies and procedures on ethical requirements/ independence from members of staff as required by ISQC 1.24</p> | <p>This was not a requirement of the Audit Manual/Code of Conduct. Senior management informed the review team that they assumed that the existence of Code of Ethics was sufficient to ensure adherence to the policy.</p> | <p>The SAI does not have assurance from its staff that they are aware of and have complied with the Code of Ethics.</p> | <p>The Department should introduce the requirement for annual confirmation/declaration of independence attesting to adherence to the Code of Conduct. Signed declaration should also be given that members of staff have read the Code of Ethics as outlined in the manual.</p> |

Appendix 3.3.I

Sample Format - Institutional Level Review Report

TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

Review objective

Review scope

Overall Criteria

Risk Assessment

APPROACH AND METHODOLOGY

Main data gathering techniques used

Deviations from the approved review plan (if any)

Limitations

FINDINGS

Meets requirements

Heading

Specific criteria or expectation

Finding

Meets requirements but can be improved

Heading

Specific criteria or expectation

Finding



Cause

Effect

Recommendation

Does not meet requirements (long term plan needed)

Heading

Specific criteria or expectation

Finding

Cause

Effect

Recommendation

Does not meet requirements (immediate action needed)

Heading

Specific criteria or expectation

Finding

Cause

Effect

Recommendation

Overall conclusion

Response from Head of SAI or delegate

Signature.....

Date.....

Appendix 3.3.J

Example of an Institutional Level Report for One Element

Quality Assurance Review Report
of
Auditor General's Department – A CAROSAI SAI
Institutional Level Report – Relevant Ethical Requirements

Table of Contents

| | |
|--------------------------|----|
| Executive Summary | 2 |
| Introduction | 3 |
| Approach and Methodology | 3 |
| Observations | 4 |
| Overall Conclusion | 9 |
| Management's Response | 10 |

Executive Summary

Introduction

The Quality Assurance Review Team of SAI CAROSAI carried out a review of the design of the SAI's policies and procedures designed to provide the Head of the SAI with reasonable assurance that the SAI and its personnel comply with relevant ethical requirements.

Observations and Conclusions

The review team found that the SAI has established documented policies and procedures that provide this assurance except in the areas of Notification of threats to independence, Written Confirmation of independence, Frequency of Communication, Monitoring Procedures and Appointment of Accountable Officer.

Key Recommendations and Management's response

In addition to making recommendations to address areas that did not meet requirements, recommendations were made to improve policies and procedures in other areas that generally meet the requirements of ISQC-1.

The review team has made recommendations to implement policies and procedures in each of these areas designed to ensure that the SAI meets the requirements of ISQC-1.

The Head of the SAI has indicated that he/she has accepted our observations and conclusions and is committed to taking action to implement our recommendations.

Introduction

The quality assurance review team carried out a review of the Department's policies and procedures related to the relevant ethical requirements element of ISQC-1. The review covered the period from January 1, 2009 to June 30, 2009 and was conducted between October 5 and 15, 2009.

Review Objective

To provide reasonable assurance that the design of the Department's policies and existing procedures in the area of ethics satisfies the requirements of ISQC-1 and the general regulatory framework for the government as set out in the policies of the Services Commission. The review objective was not designed to provide assurance that these policies and procedures were operating effectively.

Review Scope

The scope included a review of departmental policies and procedures as set out in the Audit Manual and Staff Orders in the area of ethics. These policies and procedures were compared to the expectations set out in ISQC-1 paragraphs 20 to 25 and the related application guidance in paragraphs A7-A17. Because the review objective was focused on the design of the policies and procedures the scope was limited to an analysis of existing policies and procedures and did not include tests of their operating effectiveness. There were no limitations placed on the review scope as designed.

Overall Criteria

The SAI shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (ISQC-1, paragraph 20)

Approach and Methodology

Methodology

The following techniques were applied in the information gathering process:

- Interviews were conducted with managers and other members of staff to determine current informal practices.

- The design of the Department's ethical policies and procedures were reviewed using the Audit Manual and Staff Orders.
- Current practices were assessed and compared against INTOSAI standards and ISQC1section 20 -25 A 7-17.
- CAROSAI Quality Assurance Review checklist was also used.
- Draft findings were discussed with the Auditor General to clarify observations and other issues.

Sampling Strategy

Ten (10%) percent of the staff population were interviewed; targeting new to long serving members ..

One hundred percent (100%) of documents relating to policies and procedures on relative ethical requirements were examined.

OBSERVATIONS

1. MEETS REQUIREMENTS

Documentation of the SAI's policies and procedures

Criteria - The SAI shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (ISQC-1, paragraph 20)

Observation - There were formal methods and procedures documented in the Audit Manual and Staff Orders outlining the ethical requirements of the Department, which include the following: Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. (ISQC-1 A.7)

Observation - All members of staff are subject to the Government's Public Service Code of Ethics outlined in the Staff Orders. The SAI has formally adopted the INTOSAI Code of Ethics and the Audit Manual reflects relevant ethical requirements...

2. MEETS REQUIREMENTS BUT CAN BE IMPROVED

Breaches of Ethical Requirements

Criteria - The SAI shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:

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

(b) The SAI to promptly communicate identified breaches of these policies and procedures to:

(i) the engagement leader who, with the SAI, needs to address the breach; and

(ii) other relevant personnel in the SAI and those subject to the independence requirements who need to take appropriate action; and

(c) Prompt communication to the SAI, if necessary, by the engagement leader and the other individuals referred to in subparagraph 23(b) (ii) of the actions taken to resolve the matter, so that the SAI can determine whether it should take further action. (ISQC-1 para 23, A.10)

Observation - A formal documented process is in place to deal with any breaches that may occur; however, the process to resolve breaches can be very lengthy.

Cause – The process has been in existence for many years and has not been reviewed since its introduction.

Effect – Breaches or possible breaches of ethical issues remain unresolved for lengthy periods.

Recommendation – The Department should consider streamlining the process for addressing breaches of ethical requirements in order to address such issues on a timely basis.

Promoting Ethical Conduct

Criteria - The SAI shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the SAI to:

(a) communicate its independence requirements to its personnel and, where applicable, others subject to them; and

(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 safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation. (ISQC-1 para. 21 and A.10)

Observation - Methods and processes were in place for establishing and promoting ethical conduct among members of staff with reference to integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. However, no process has been established to monitor compliance with these requirements.

Cause – The Department has relied on the integrity of individual officers and the diligence of supervisors to ensure that there is ethical behaviour.

Effect – The SAI does not have a systematic, documented process to assure itself that staff comply with ethical requirements.

Recommendation – The Department should establish a process to regularly monitor and report on the compliance with ethical requirements.

Familiarity Threat

Criteria -The SAI shall establish policies and procedures: (Section 25, Ref: Para. A10)

Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time

AND

Document that in order to reduce a familiarity threat, senior personnel assigned to an engagement are rotated periodically. (ISQC 1. 25 and A.13).

Observation - Although it is the SAI's practice to periodically rotate staff to address familiarity threat, the policy was not documented in the Audit Manual/Policies and Procedures. This needed improvement in the short term and should be included in the Department's policies and procedures.

Cause – The SAI has not considered the need to document this policy.

Effect – The familiarity threat may not be addressed and officers may be assigned to audited entities for long periods of time.

Recommendation – The SAI should document its rotation policy and implement a procedure to document implementation of the policy.

Awareness of Ethical Requirements

Criteria – The SAI shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the SAI

(a) Communicate its independence requirements ... (ISQC-1 Para. 21 and A.10)

Observation - There are policies and procedures that require personnel to notify the SAI in a timely manner of circumstances and relationships that create a threat to independence. However, our survey showed a lack of awareness of the requirements of the SAI's policies and procedures. Our survey showed that 9/24 employees have conducted audits with entities where they have had relationships with staff and did not disclose this. Although the Audit Manual was made available to every member of staff so that they can maintain awareness, our review found that it was not regularly read.

Cause – Insufficient encouragement and time was given to staff to become aware of relevant ethical requirements.

Effect – Staff members are not fully aware of the ethical requirements and departmental policies. Instances were noted in our review where threats to independence were not appropriately considered.

Recommendation – Senior management should stress the importance of ethics, particularly independence in communications to all staff. Staff should be provided with time to read and become familiar with the SAI's policies and procedures in this area.

3. DOES NOT MEET REQUIREMENTS

Notification of threats to independence

Criteria - Such policies and procedures shall require:

(a) Engagement leaders to provide the SAI with relevant information

about engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;

(b) Personnel to promptly notify the SAI of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and

(c) The accumulation and communication of relevant information to appropriate personnel so that:

- (i) the SAI and its personnel can readily determine whether they satisfy independence requirements;
- (ii) the SAI can maintain and update its records relating to independence; and
- (iii) the SAI can take appropriate action regarding identified threats to independence that are not at an acceptable level. (ISQC-1 para.22 and A.10)

Observation - The policies and procedures did not require members of staff to notify the Department of circumstances and relationships that posed a threat to independence so that appropriate action could have been taken as required by ISQC-1 .23.

Cause - This was not a requirement of the Audit Manual/Code of Conduct.

Effect – In the absence of a stipulated policy, breaches and threats may go undetected thereby compromising the objectivity of audits.

Recommendation - The Department’s policies and procedures should require members of staff to notify the SAI of circumstances and relationships that create a threat to ethical requirements.

Written Confirmation of independence

Criteria - At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Sect. 24, Ref: Para. A10-A11).

Observation - There was no requirement to obtain written confirmation of compliance with the Department’s policies and procedures on ethical requirements/independence from members of staff as required by ISQC- 1.24

Cause - This was not a requirement of the Audit Manual/Code of Conduct. Senior management informed the review team that they assumed that the existence of Code of Ethics was sufficient to ensure adherence to the policy.

Effect – The SAI does not have assurance from its staff that that they are aware of and have complied with the Code of Ethics.

Recommendations - The Department should introduce the requirement for annual confirmation/declaration of independence attesting to adherence to the Code of Conduct. Signed declaration should also be given that members of staff have read the Code of Ethics as outlined in the manual.

Frequency of Communication

Criteria - Policies and procedures should exist that require the frequency of communication of the SAI's independence requirements to members of staff. (ISQC-1. 21 a)

Observation – There is limited communication of the SAI's independence policies to staff required to be independent under the SAI's policies.

Cause – Senior management informed the review team that they assumed that members of staff were kept abreast by reading the Audit Manual and Staff Orders.

Effect - Members of staff may not keep up to date or understand the importance of the SAI's independence requirements...

Recommendations - To heighten the frequency of communication:

- a. Section officers/Team leaders should give constant reminders on ethical requirements.
- b. Also the quarterly audit magazine should include issues relating to ethical requirements.
- c. The agenda of the monthly senior staff meetings should include at least one area of ethical requirements for discussions.

Monitoring Procedures

Criteria - The firm shall establish a monitoring process designed to address how ethical requirements are monitored. (ISQC -1, A8 – A9).

Observation - The policies and procedures did not address how the ethical requirements would be monitored. Consequently there was no formal system of monitoring such and it was left to the staff or a whistle blower to inform management of a likely threat or breach.

Cause – Senior management informed the review team that it assumed that the supervisors would monitor compliance with the ethical requirements.

Effect - In the absence of a formal monitoring system breaches could occur without management’s knowledge.

Recommendation - It is recommended that a formal system be included in the policies and procedures to address how the monitoring of the ethical requirement would be carried out.

Appointment of Accountable Officer

Criteria - The policies and procedures should define who is responsible for independence matters (ISQC 1 and best practice).

Observation - The policies and procedures did not indicate the responsible officer(s) who was/were in charge of independence matters.

Cause – Management informed the review team that it assumed that it was everybody’s responsibility to ensure that ethical requirements were followed.

Effect - Ambiguity may arise in the interpretation of the ethical requirements.

Recommendations - It is recommended that a senior officer be assigned the responsibility for the ethical requirements of the Department. This officer should have the appropriate expertise, experience, authority and support to be effective.

Overall Conclusion

During the period examined, there is evidence that the SAI had policies and procedures designed to provide it with reasonable assurance that its personnel complied with relevant ethical requirements except in the areas of Notification of threats to independence, Written confirmation of independence, Frequency of communication, Monitoring procedures and appointment of Accountable Officer. In addition, the review team noted that although the SAI had met the requirements of ISQC-1, there were opportunities to improve policies and procedures in the areas of Breaches of Ethical Requirements, Promoting Ethical Conduct, Familiarity Threat and Awareness of Ethical Requirements

Management's Response

The findings were discussed with me and I agree that observations raised in the report accurately reflect the circumstances within the SAI. Effective November, 20XX the content of the report will be addressed by me at the Senior Officers meeting to heighten awareness and improve compliance with ISQC-1 with a view to developing an action plan.

Signed: Auditor General

Date:

Prepared by: Reviewer 1

Date : October 22, 20XX

Reviewer 2

Date: October 22, 20XX

Appendix 3.3.K

Sample Format of Financial Audit Level Report-

INTRODUCTION

APPROACH AND METHODOLOGY

OBSERVATIONS

1. Pre-planning

Positive findings

Criteria or expectation

Description/analysis of findings leading to positive conclusion

Weaknesses

Criteria:

Findings:

Causal factors:

Effects: (Consequences or potential consequences of the findings)



Recommendations:

2. Planning

Positive findings

Criteria or expectation

Description/analysis of findings leading to positive conclusion

Weaknesses

Criteria or expectation:

Findings:

Causal factors:

Effects:

Recommendations:

3. Conducting

Positive findings

Criteria or expectation

Description/analysis of findings leading to positive conclusion

Weaknesses



Criteria or expectation:

Findings:

Causal factors:

Effects:

Recommendations:

4. Reporting

Positive observation

Criteria or expectation

Description/analysis of findings leading to positive conclusion

Weaknesses

Criteria or expectation:

Findings:

Causal factors:

Effects:

Recommendations:

5. General

Positive findings

Criteria or expectation

Description/analysis of findings leading to positive conclusion

Weaknesses



Criteria or expectation:

Findings:

Causal factors:

Effects:

Recommendations:

OVERALL CONCLUSION

MANAGEMENT RESPONSE

Appendix 3.3.L

Extract from a Sample Financial Audit Report

Quality Assurance Review Report of the financial audit of the Ministry of X – 2007-08 Auditor General’s Department – A CAROSAI SAI

Table of Contents

| | |
|---------------------------------|-----------|
| Executive Summary | 2 |
| Introduction | 3 |
| Approach and Methodology | 3 |
| Observations | 4 |
| Overall Conclusion | 9 |
| Management’s Response | 10 |

Executive Summary

Introduction

A quality assurance review was undertaken on the audit of the financial statements of the Ministry of X as at and for the year ended 31 March 2008.

Observation and Conclusions

The review team concluded that the audit was conducted in accordance with the SAI's policies and procedures which comply with the international standards of auditing. The review found that the audit team was strong on the conducting aspect of the audit. However, in the areas of preplanning and documentation improvements are required. Finally, the review team concluded that there was sufficient relevant evidence to conclude that the report issued was appropriate in the circumstances.

Key Recommendations

Recommendations were made to improve policies and procedures in the area of independence and to implement policies and procedures to improve documentation in audit working papers. Each of these areas designed to ensure that the SAI meets the standards.

Management's Response

The Head of the SAI has indicated that she has accepted our observations and conclusions and is committed to taking action to implement the recommendations contained in the report.

Introduction

The Ministry X has responsibility for maintenance of roads. The audit of the Ministry for the period April 1, 2007 to March 31, 2008 was conducted during the period June 9, 2008 to July 18, 2008.

Review Objective

The review objective was to provide reasonable assurance that the audit was conducted in accordance with departmental policies and procedures which are consistent with the international standards of auditing and that the audit report issued was appropriate under the circumstances.

Review Scope

The scope included a review of relevant permanent files and working papers for the Ministry. The review team also interviewed senior members of the audit team to clarify observations and gather additional information. There were no limitations placed on the review scope as designed.

Overall Criteria

The departmental Audit Manual and the relevant standards as it pertains to the audit process were used to determine whether the review objective was met.

Approach and Methodology

Methodology

The following techniques were applied in the information gathering process:

- Interviews were conducted with the audit team to determine approach and practices employed.
- The audit approach and practices were assessed and compared against INTOSAI standards and relevant ISAs.
- CAROSAI Quality Assurance Review checklist was also used.
- Draft findings were discussed with the Assistant Auditor General responsible for the audit and the Auditor General to clarify observations and other issues.

OBSERVATIONS

Pre-Planning

1. Positive Observations

Assignment of Engagement Team

Criteria - (ISA 220 para 14)

The engagement partner shall be satisfied that the engagement team, and any auditors or experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:

- (a) perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
- (b) enable an auditor's report that is appropriate in the circumstances to be issued.(Ref. Para. A10-A12)

Observation - Experienced auditors were assigned to the audit .

2. Weaknesses

Documentation of the Team's understanding of the entity – Acceptance and Continuance

Criteria – The engagement partner shall be satisfied that appropriate procedures regarding acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (ISA 220 para 12 and A.8 and A.9)

AND

... In the public sector environment, additional planning considerations may include: obtaining an understanding of the legal and regulatory framework applicable to the entity due to the broader objectives of the audit. ..(ISSAI 1300 paragraph P4)
Paragraph 12 of ISA 300 requires the Auditor to document the overall audit strategy and audit plan, as well as significant changes to those documents made during the audit and the reasons for such changes. In the public sector, any documentation may be subject to third party access. As a result, public sector auditors must familiarize themselves with

relevant legislation and determine the implications on their audit documentation. (ISSAI 1300 paragraph. P9)

Observation - The audit team did not document how knowledge of the Ministry as set out in the acceptance and continuance element of ISQC-1 was acquired.

Cause – The audit team leader stated that it was assumed that knowledge acquired from several years of auditing was widely known and thus it was unnecessary to complete all required documentation.

Effect – All relevant issues may not be considered, thereby increasing the risk that appropriately qualified staff were not assigned to the audit or that audit procedures were not designed to respond to areas of high risk, therefore increasing the risk that an audit opinion may not be appropriate in the circumstances.

Recommendation – The SAI’s methodology group should develop guidelines for planning that includes a checklist for documenting how knowledge of the entity is to be acquired and updated.

Overall Conclusion

There is reasonable assurance that the audit was conducted in accordance with departmental policies and procedures which were consistent with the international standards of auditing except that the documentation of the audit team’s knowledge of the audited entity did not fully meet the requirements of the SAI’s policies and procedures. There is reasonable assurance that the audit report issued was appropriate under the circumstances.

Management’s Response

The findings were discussed with me and I agree that observations raised in the report accurately reflect the circumstances within the SAI. Effective November, 20XX the content of the report will be addressed by me.

Signed: Auditor General

Date:

Prepared by: Reviewer 1

Date: October 22, 20XX

Reviewer 2

Date: October 22, 20XX

Appendix 3.3.M

Follow-up

Shortly after receiving the Quality Assurance Review Report, a SAI should prepare an action plan to implement the recommendations provided in the report.

Quality Assurance Review Report Follow-up Action Plan

All deficiencies and recommendations pointed out in the QAR report should be communicated to the respective officials, or units for taking appropriate measures and remedial actions. In response, the SAI may organize a brain storming session involving people from all levels of the management to review the deficiencies and recommendations provided by the Review Team. The session could focus on, at least, the following areas;

- a) those needing improvement/recommendations;
- b) priorities;
- c) proposed action;
- d) responsible official / unit / division / department to implement the action; and/or
- e) deadlines for implementation.

If there are shortcomings and recommendations related to the policy decisions or requiring amendment to the existing policies or introduction of new policies, it may be appropriate to consult with the head of the SAI or have the head of the SAI chair the session. The final action plan should, however, be approved by the head of the SAI. Although action plans are normally prepared after receiving the Quality Assurance Review Report, they can also be prepared before finalization of the review and incorporated into the final QAR Report.

Depending on the level of the QAR, the recommendations or the areas needing improvement may be prioritised by their importance. The QAR team may rate the significance of each of the findings and observations as high, medium and low. The SAI management may also prioritize

the findings and observations. Management can consider the following factors in prioritizing its actions in response to the findings and recommendations in the QAR report:

- a) the expected impact on the SAI and the individual audit that will include both the positive impact from implementing the recommendation, and negative impact from not implementing the recommendation or not taking action;
- b) seriousness of the deficiency and the need for immediate remedial action;
- c) the applicability in relation to the SAI mandate, overall government policy and the country's development stage; e.g. one cannot expect the SAI to use the latest auditing software when there is hardly any IT development in the country itself; and
- d) availability of resources, such as time and money.

A good action plan has the following elements:

- Description of the specific detailed actions, described in clear concrete terms, that management intends to take;
- Deadlines for implementation of those actions; and
- Assignment of responsibility for implementation of the action plan.

Follow-up actions

Follow-up can be undertaken by the QAR function to see whether the actions have been implemented within the given time-frame. The follow-up should consider:

- If the proposed actions have been implemented; and
- If the actions taken correct the underlying deficiency that led to the original finding or observation.

If actions have not been implemented as planned, the QAR team looks for reasons action has not been taken, and suggests alternative options wherever possible. It could be possible that

although the SAI has the will and desire to implement the actions, constraining factors such as time, resources etc. limit the SAI's ability to implement the action plan.

The follow-up action report should be submitted to the head of the SAI for taking further actions. This may include, but not restricted to, the following:

- a) seeking additional explanations from those responsible for implementing the actions;
- b) cautioning those who are lagging behind the scheduled deadlines;
- c) looking into the alternative options and making relevant persons or units study the options for their applicability and practicality; or
- d) re-prioritising and dropping certain proposed plans of action, which cannot be implemented.

