

INTOSAI



# *Quality Control for SAIs*

# INTOSAI



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*This ISSAI draws on the ISQC 1 developed by the International Auditing and Assurance Standards Board (IAASB) and published by the International Federation of Accountants (IFAC) in December 2008. It is used with the permission of IFAC.*

# 1 Introduction

The purpose of this document is to assist SAIs to establish and maintain an appropriate system of quality control which covers all of their work. This document should help SAIs design a system of quality control which is appropriate to their mandate and circumstances and which responds to their risks to quality.

A major challenge facing all SAIs is to consistently deliver high quality audits and other work. The quality of work performed by SAIs affects their reputation and credibility, and ultimately their ability to fulfil their mandate.

For a system of quality control to be effective, it needs to be part of each SAI's strategy, culture, and policies and procedures as outlined in this guidance. In this way, quality is built into the performance of the work of each SAI and the production of the SAI's reports, rather than being an additional process once a report is produced.

This document is an integral part of the International Standards of Supreme Audit Institutions (ISSAIs) framework. The guidance within this ISSAI is intended to be used in conjunction with other ISSAIs.

Each SAI is best equipped to decide how to implement this guidance given its own mandate and structure, its risks and the nature of work it performs.

## 2 Scope of ISSAI 40

ISSAI 40 is based on the key principles in the International Standard on Quality Control, ISQC 1<sup>1</sup>, adapted as necessary to apply to SAIs. Although ISQC-1 includes some matters specific to public sector audit organisations and in many respects is appropriate to SAIs, the key principles require some interpretation to enable them to be applied by SAIs. ISSAI 40 reflects the mandate of SAIs, which is often wider than that of a professional audit and assurance firm. ISSAI 40 provides guidance to assist SAIs in applying the key principles of ISQC-1 to the full range of their work, as appropriate to their mandate and circumstances. This document outlines quality control measures that are relevant to achieving high quality in the public sector environment.

Although the general purpose and key principles of ISSAI 40 are consistent with ISQC-1, the requirements of this ISSAI have been adapted to ensure they are relevant to SAIs. Therefore, the requirements are not identical to the requirements of ISQC-1

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<sup>1</sup> ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements, International Federation of Accountants (IFAC).

By recognising and drawing on the key principles in ISQC-1, ISSAI 40 establishes an overall framework for quality control in SAIs. This framework is designed to apply to the system of quality control for all the work carried out by SAIs, (i.e. financial audits, compliance audits, performance audits and any other work carried out by an SAI).

ISSAI 40 focuses on the organisational aspects of audit quality operating throughout SAIs. ISSAI 40 also provides a framework that complements other INTOSAI guidance, including those for quality control at an individual engagement level (e.g. an individual financial audit, compliance audit, performance audit or any other work carried out by an SAI).

Guidelines on quality control at an individual engagement level can be found in:

- ISSAI 1000 – 2999 (Financial Audit Guidelines);  
[ISSAI 1000, ISSAI 1220 and ISSAI 1620 provide guidance in respect of quality control for financial audits].
- ISSAI 3000 – 3999 (Performance Audit Guidelines);  
[ISSAI 3100, section 2.5 provides guidance in respect of quality control for performance audits].
- ISSAI 4000 – 4999 (Compliance Audit Guidelines).  
[ISSAI 4100, section 5.2 and ISSAI 4200, section 5.2 provides guidance in respect of quality control for compliance audits].

If an SAI wishes to assert that it is compliant with ISQC-1 (and with ISAs), it will need to consider the requirements of ISQC-1. The requirements for applying ISAs are described in the Financial Audit Guidelines.

ISQC-1 is available at:

[http://web.ifac.org/download/2009\\_Auditing\\_Handbook\\_A007\\_ISQC\\_1.pdf](http://web.ifac.org/download/2009_Auditing_Handbook_A007_ISQC_1.pdf)

Some terms used in ISQC-1 need interpreting for SAIs. These interpretations are set out in section 7 of this document.

### 3 Overview of ISQC-1

ISQC-1 deals with a firm's responsibilities in relation to its system of quality control for audits and reviews of financial statements and other assurance and related services engagements.

ISQC-1 sets out that *"the objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:*

- (a) *the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and*

(b) *reports issued by the firm or engagement partners, are appropriate in the circumstances*<sup>2</sup>.

The framework in ISSAI 40 is intended to fulfil the same purpose in relation to each SAI's mandate and circumstances.

## 4 What is a system of quality control?

ISSAI 40 uses the elements of the quality control framework outlined in ISQC-1. ISSAI 40 also considers the issues of particular relevance in the public sector audit environment affecting an SAI's system of quality control. ISQC-1 outlines the elements of a system of quality control to be:

- (a) Leadership responsibilities for quality within the firm;
- (b) Relevant ethical requirements;
- (c) Acceptance and continuance of client relationships and specific engagements;
- (d) Human resources;
- (e) Engagement performance; and
- (f) Monitoring.

In addition to the above elements, ISQC-1 notes the need to document the firm's quality control policies and procedures and communicate them to the firm's personnel.

The elements of a system of quality control contained in ISQC-1 are applicable to the range of work carried out by SAIs (which may be wider than the ISQC-1 term 'engagements'). Therefore, the key principles in ISQC-1 should be considered by SAIs when designing their system of quality control.

As an overriding objective, each SAI should consider the risks to the quality of its work and establish a system of quality control that is designed to adequately respond to these risks. The risks to quality will depend on the mandate and functions of each SAI, and the conditions and environment under which it operates. These risks may arise in many different aspects of an SAI's work. For example, risks to quality may arise in the application of professional judgement, the design and implementation of policies and procedures, or in the methods used by SAIs to communicate the results of their work.

Maintaining a system of quality control requires ongoing monitoring and a commitment to continuous improvement.

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<sup>2</sup> ISQC-1, para 11.

## 5 Structure of ISSAI 40

Section 6 of ISSAI 40 is presented in the same way for each element identified in ISQC-1 as follows:

- the key principle in ISQC-1;
- the key principle adapted for SAIs;
- application guidance for SAIs .

## 6 Framework for an SAI's system of quality control

### (a) Element 1: Leadership responsibilities for quality within the SAI

#### ISQC-1 Key Principle:

*"The firm shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements. Such policies and procedures shall require the firm's Chief Executive Officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control"*<sup>3</sup>.

#### Key principle adapted for SAIs

**An SAI should establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing all of its work. Such policies and procedures should be set by the Head of the SAI, who retains overall responsibility for the system of quality control.**

#### Application guidance for SAIs

- The Head of the SAI may be an individual or a group depending on the mandate and circumstances of the SAI.
- The Head of the SAI should take overall responsibility for the quality of all work performed by the SAI<sup>4</sup>.
- The Head of the SAI may delegate authority for managing the SAI's system of quality control to a person or persons with sufficient and appropriate experience to assume that role.
- SAIs should strive to achieve a culture that recognises and rewards high quality work throughout the SAI. To achieve that culture the Head of the SAI should set the right "tone at the top"<sup>5</sup> which emphasises the importance of quality in all of the work of the SAI, including

<sup>3</sup> ISQC-1, para 18.

<sup>4</sup> Consistent with ISSAI 20, Principles of transparency and accountability, Principle 5.

<sup>5</sup> Tone at the Top and Audit Quality – Transnational Auditors Committee, Forum of Firms, International Federation of Accountants (December 2007) – [www.ifac.org](http://www.ifac.org).

work which is contracted out. Such a culture also depends on clear, consistent and frequent actions from all levels of the SAI's management that emphasise the importance of quality.

- The strategy of each SAI should recognise an overriding requirement for the SAI to achieve quality in all of its work so that political, economic or other considerations do not compromise the quality of work performed.
- SAIs should ensure that quality control policies and procedures are clearly communicated to SAI personnel and to any parties contracted to carry out work for the SAI.
- SAIs should ensure that sufficient resources are available to maintain the system of quality control within the SAI.

**(b) Element 2: Relevant ethical requirements**

**ISQC- 1 Key Principle:**

*"The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements"<sup>6</sup>.*

**Key principle adapted for SAIs**

**An SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements.**

**Application guidance for SAIs**

- SAIs should emphasise the importance of meeting relevant ethical requirements in carrying out their work.
- All SAI personnel and any parties contracted to carry out work for the SAI should demonstrate appropriate ethical behaviour.
- The Head of the SAI and senior personnel within the SAI should serve as an example of appropriate ethical behaviour.
- The relevant ethical requirements should include any requirements set out in the legal and regulatory framework governing the operations of the SAI.
- Ethical requirements for SAIs may include or draw on the INTOSAI code of ethics (ISSAI 30) and the IFAC ethical requirements, as appropriate to its mandate and circumstances and to the circumstances of their professional staff.
- SAIs should ensure policies and procedures are in place that reinforce the fundamental principles of professional ethics as defined in ISSAI 30, i.e.:

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<sup>6</sup> ISQC-1, para 20.

- integrity;
  - independence, objectivity and impartiality;
  - professional secrecy; and
  - competence.
- SAIs should ensure that any parties contracted to carry out work for the SAI are subject to appropriate confidentiality agreements.
  - SAIs should consider the use of written declarations from personnel to confirm compliance with the SAI's ethical requirements.
  - SAIs should ensure policies and procedures are in place to notify the Head of the SAI in a timely manner of breaches of ethical requirements and enable the Head of the SAI to take appropriate action to resolve such matters.
  - SAIs should ensure appropriate policies and procedures are in place to maintain independence of the Head of the SAI, all personnel and any parties contracted to carry out work for the SAI.

(For more guidance on independence of SAIs, refer to *ISSAI 10 Mexico Declaration on SAI Independence* and *ISSAI 11 Guidelines and Good Practices Related to SAI Independence*).

- SAIs should ensure policies and procedures are in place that reinforce the importance of rotating key audit personnel, where relevant, to reduce the risk of familiarity with the organisation being audited. SAIs may also consider other measures to reduce the familiarity risk.

**(c) Element 3: Acceptance and continuance**

**ISQC-1 Key Principle:**

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

- (a) *is competent to perform the engagement and has the capabilities, including time and resources, to do so;*
- (b) *can comply with relevant ethical requirements; and*
- (c) *has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity”<sup>7</sup>.*

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<sup>7</sup> ISQC-1, para 26.



### **Key principle adapted for SAIs**

**An SAI should establish policies and procedures designed to provide the SAI with reasonable assurance that it will only carry out audits and other work where the SAI:**

- (a) is competent to perform the work and has the capabilities, including time and resources, to do so;**
- (b) can comply with relevant ethical requirements; and**
- (c) has considered the integrity of the organisation being audited and has considered how to treat the risk to quality that arises.**

**The policies and procedures should reflect the range of work carried out by each SAI. In many cases SAIs have little discretion about the work they carry out. SAIs carry out work in three broad categories:**

- Work that is required of them by their mandate and statute and which they have no option but to carry out;**
- Work that is required by their mandate, but where they have discretion as to the timing, scope and/or nature of work;**
- Work that they can choose to carry out.**

### **Application guidance for SAIs**

- For all audits and other work carried out, SAIs should establish systems to consider the risks to quality which arise from carrying out the work. These will vary, depending on the type of work being considered.
- SAIs normally operate with limited resources. SAIs should consider their work programme and whether they have the resources to deliver the range of work to the desired level of quality. To achieve this, SAIs should have a system to prioritise their work in a way that takes into account the need to maintain quality. If resources are not sufficient and pose a risk to quality, the SAI should have procedures to ensure that the lack of resource is brought to the attention of the Head of the SAI and, where appropriate, the legislature or budgetary authority.
- SAIs should assess if a material risk to their independence exists in accordance with ISSAI 10. Where such a risk is identified, the SAI should determine and document how it plans to address this risk and ensure an approval process is in place and is adequately documented.
- Where the integrity of the audited organisation is in doubt, the SAI should consider and address the risks arising from the capability of staff, the level of resources, and any ethical issues which might arise in the audited organisation.

- SAIs should consider procedures for acceptance and continuance of discretionary work, including work which is contracted out. If the SAI decides to carry out the work, the SAI should ensure the decision is approved at the appropriate level within the SAI, and that the risks involved are assessed and managed.
- SAIs should ensure that their risk management procedures are adequate to mitigate the risks of carrying out the work. The response to the risks may include:
  - carefully scoping the work to be performed;
  - assigning more senior/experienced staff than would ordinarily be the case; and
  - doing a more in depth engagement quality control review of the work before a report is issued.
- SAIs should consider disclosing in their reports any specific matters that would ordinarily have led the SAI to not accept the audit or other work.

**(d) Element 4: Human resources**

**ISQC-1 Key Principle:**

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

- (a) perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and*
- (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances”<sup>8</sup>.*

**Key principle adapted for SAIs**

**An SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources (personnel and, where relevant, any parties contracted to carry out work for the SAI) with the competence, capabilities and commitment to ethical principles necessary to:**

- (a) carry out its work in accordance with relevant standards and applicable legal and regulatory requirements; and**
- (b) enable the SAI to issue reports that are appropriate in the circumstances.**

Application guidance for SAIs

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<sup>8</sup> ISQC-1, para 29.

- SAIs may draw on a number of different sources to ensure they have the necessary skills and expertise to carry out the range of their work, whether carried out by SAI personnel or contracted out.
- SAIs should ensure that responsibility is clearly assigned for all work carried out by the SAI.
- SAIs should ensure that personnel, and parties contracted to carry out work for the SAI (e.g. from chartered accountancy or consulting firms), have the collective competencies required to carry out the work.
- SAIs should recognise that in certain circumstances personnel and, where relevant, any parties contracted to carry out work for the SAI, may have personal obligations to comply with the requirements of professional bodies in addition to the SAI's requirements.
- SAIs should ensure that Human Resources policies and procedures give appropriate emphasis to quality and commitment to the SAI's ethical principles. Such policies and procedures related to human resources include:
  - recruitment (and the qualifications of recruited staff);
  - performance evaluation;
  - professional development;
  - capabilities (including sufficient time to perform assignments to the required quality standard);
  - competence (including both ethical and technical competence);
  - career development;
  - promotion;
  - compensation; and
  - the estimation of personnel needs.
- SAIs should promote learning and training for all staff to encourage their professional development and to help ensure that personnel are trained in current developments in the profession.
- SAIs should ensure that personnel and any parties contracted to carry out work for the SAI have an appropriate understanding of the public sector environment in which the SAI operates, and a good understanding of the work they are required to carry out.
- SAIs should ensure that quality and the SAI's ethical principles are key drivers of performance assessment of personnel and any parties contracted to carry out work for the SAI.

**(e) Element 5: Performance of audits and other work**

## ISQC-1 Key Principle:

*“The firm shall establish 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 firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:*

- a) matters relevant to promoting consistency in the quality of engagement performance;*
- b) supervision responsibilities; and*
- c) review responsibilities<sup>9</sup>.*

### **Key principle adapted for SAIs**

**An SAI should establish policies and procedures designed to provide it with reasonable assurance that its audits and other work are carried out in accordance with relevant standards and applicable legal and regulatory requirements, and that the SAI issues reports that are appropriate in the circumstances. Such policies and procedures should include:**

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

### Application guidance for SAIs

- SAIs should ensure appropriate policies, procedures and tools, such as audit methodologies are in place for carrying out the range of work that is the responsibility of the SAI, including work that is contracted out<sup>10</sup>.
- SAIs should establish policies and procedures that encourage high quality and discourage or prevent low quality. This includes creating an environment that is stimulating, encourages proper use of professional judgement and promotes quality improvements. All work carried out should be subject to review as a means of contributing to quality and promoting learning and personnel development.
- Where difficult or contentious matters arise, SAIs should ensure that appropriate resources (such as technical experts) are used to deal with such matters.
- SAIs should ensure that applicable standards are followed in all work carried out, and if any requirement in a standard is not followed, SAIs should ensure the reasons are appropriately documented and approved.

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<sup>9</sup> ISQC-1, para 32.

<sup>10</sup> Consistent with ISSAI 20, Principle 3.

- SAls should ensure that any differences of opinion within the SAI are clearly documented and resolved before a report is issued by the SAI.
- SAls should ensure appropriate quality control policies and procedures are in place (such as supervision and review responsibilities and engagement quality control reviews) for all work carried out (including financial audits, performance audits, and compliance audits). SAls should recognise the importance of engagement quality control reviews for their work and, where an engagement quality control review is carried out, matters raised should be satisfactorily resolved before a report is issued by the SAI.
- SAls should ensure that procedures are in place for authorising reports to be issued. Some work of SAls may have a high level of complexity and importance that requires intensive quality control before a report is issued.
- If SAls are subject to specific procedures relating to rules of evidence (such as SAls with a judicial role), they should ensure that those procedures are consistently followed.
- SAls should aim for timely completion of audits and all other work, recognising that the value from the work of SAls diminishes if the work is not timely.
- SAls should ensure timely documentation (such as audit work papers) of all work performed.
- SAls should ensure that all documentation (such as audit work papers) is the property of the SAI, regardless of whether the work has been carried out by SAI personnel or contracted out.
- SAls should ensure appropriate procedures are followed for verifying findings to ensure those parties directly affected by the SAI's work have an opportunity to provide comments prior to the work being finalised, regardless of whether or not a report is made publicly available by the SAI.
- SAls should ensure that they retain all documentation for the periods specified in laws, regulations, professional standards and guidelines.
- SAls should balance the confidentiality of documentation with the need for transparency and accountability. SAls should establish transparent procedures for dealing with information requests that are consistent with legislation in their jurisdiction.

**(f) Element 6: Monitoring**

**ISQC-1 Key Principle:**

*“The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively This process shall:*

- (a) *include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;*

- (b) *require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and*
- (c) *require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements<sup>11</sup>.*

#### **Key principle adapted for SAIs**

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

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

#### Application guidance for SAIs

- SAIs should ensure that their quality control system includes independent monitoring of the range of controls within the SAI (using personnel not involved in carrying out the work).
- If work is contracted out, SAIs should seek confirmation that the contracted firms have effective systems of quality control in place.
- SAIs should ensure the results of the monitoring of the system of quality control are reported to the Head of the SAI in a timely manner, to enable the Head of the SAI to take appropriate action.
- Where appropriate, SAIs should consider engaging another SAI, or other suitable body, to carry out an independent review of the overall system of quality control (such as a peer review)<sup>12</sup>.
- Where appropriate, SAIs may consider other means of monitoring the quality of their work, which may include, but not be limited to:
  - independent academic review;

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<sup>11</sup> ISQC-1, para 48.

<sup>12</sup> Consistent with ISSAI 20, Principle 9.

- stakeholder surveys;
  - follow-up reviews of recommendations; or
  - feedback from audited organisations (e.g. client surveys).
- SAIs should have procedures for dealing with complaints or allegations about the quality of work performed by the SAI.
  - SAIs should consider whether there are any legislative or other requirements to make monitoring reports public or to respond to public complaints or allegations related to the work carried out by the SAI<sup>13</sup>.

## 7 Interpretation of terms

If an SAI wishes to assert that it is compliant with ISQC-1 (and with ISAs), it will need to consider the requirements of ISQC-1. ISQC-1 includes definitions of a number of different terms. In applying ISSAI 40, the following terms used in ISQC-1 may be understood as follows:

|                      |  |
|----------------------|--|
| ‘Firm’               | The term ‘firm’ refers to the SAI as a whole. Where the Head of the SAI appoints an employee, a chartered accountant or auditing partnership, or other suitably qualified person to carry out audits or other work, the ‘firm’ refers to the combination of the Head of the SAI, the person appointed to carry out the audits or other work and, if applicable, the firm of which the person appointed is a partner, member or employee. |
| ‘Engagement’         | The term ‘engagement’ refers to the work carried out in exercising the functions of the SAI (for example, a financial audit under the relevant jurisdiction of each SAI).  |
| ‘Engagement partner’ | The term ‘engagement partner’ refers to the employee, chartered accountant or other suitably qualified person who is responsible for the work, and for the report that is issued on behalf of the Head of the SAI, in accordance with the policies and procedures of the SAI.  |
| ‘Client’             | The term ‘client’ refers to the public entity or entities subject to audit or other work by the SAI (e.g. the audited organisation).   |

The guidance provided throughout this ISSAI is consistent with these terms.

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<sup>13</sup> Consistent with ISSAI 30, Code of Ethics, para 11.