

INTOSAI



## *Quality Control for SAIs*

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# INTOSAI



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## Introduction

The purpose of this document is to provide a framework for SAIs in relation to establishing and maintaining an appropriate system of quality control which covers all audit, assurance and other work performed by each SAI. This document is designed to help SAIs as they 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 the consistent delivery of high quality audits, other assurance services and other work performed by SAIs. The quality of work performed by SAIs around the world is directly related to the reputation and credibility of each SAI, and ultimately their ability to fulfil their respective mandates within each jurisdiction.

For a system of quality control to be effective, it needs to form a key 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 seen as an additional process once each report is produced.

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

It is considered that each SAI is best equipped to decide how best to implement this framework in the context of its own structure, its risks and the tasks it performs, with the common goal of having an effective system of quality control covering all of its work.

## Scope of ISSAI 40

ISSAI 40 is designed to interpret the key principles in IFAC's International Standard on Quality Control, ISQC 1<sup>1</sup>, in an SAI context. ISQC-1 includes some considerations specific to public sector audit organisations and while in many respects ISQC-1 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 those of a professional audit and assurance firm, and provides material 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. In addition to the policies and procedures suggested by ISQC-1, SAIs can also consider a range of other quality control measures that are relevant to the public sector environment.

Whilst the general purpose and key principles of ISSAI 40 are consistent with ISQC-1, the requirements of this ISSAI are adapted to ensure relevance in the SAI context and are therefore not identical to the requirements of ISQC-1. If an SAI wishes to assert that it is compliant with ISQC-1, it will need to consider the requirements of ISQC-1 in addition to the guidance within ISSAI 40.

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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.

ISQC-1 is included as an annex to this document.

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

Certain terms used in ISQC-1 need interpretation to be relevant to SAIs. These have been considered in the definitions section (refer to section 7 of this document).

By recognising and drawing on the key principles within ISQC-1, ISSAI 40 establishes an overall framework for quality control within SAIs. This framework is designed to apply to the system of quality control covering all the work carried out by SAIs, including financial audits, compliance audits and performance audits.

ISSAI 40 is focussed on the organisational aspects of audit quality operating across each SAI, and is designed to provide a framework which complements other INTOSAI guidance, including those developed in respect of 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 1220 and ISSAI 1620 provide guidance in respect of quality control for audits of financial statements].
- 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 provide guidance in respect of quality control for compliance audits].

## 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>.

This framework is intended to fulfil the same purpose in relation to each SAI’s mandate and circumstances.

## What is a system of quality control?

This document uses the elements of the quality control framework outlined in ISQC-1 and considers the issues of particular relevance in the public sector audit environment affecting an SAI’s system of quality control. ISQC-1 considers the elements 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.
- (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 quality control system contained in ISQC-1 are applicable to the range of tasks performed by SAIs (which may be wider than the ISQC-1 term ‘engagements’ ) and therefore, the key principles within ISQC-1 should be considered by SAIs when designing their system of quality control that responds to each SAI’s assessment of its risks to quality.

As an overriding principle, each SAI should consider the risks to the quality of its auditing and other work and establish a system of quality control that is designed to adequately respond to these risks. The risks to quality will be dependent on the mandate and functions of each SAI and the conditions and environment under which it operates. Quality risks may concern the professional judgements and performance of procedures in the conduct of auditing and other work, as well as the communication of the results and the appropriate understanding of these by intended users.

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

## Structure of ISSAI 40

Section 6 of ISSAI 40 has been presented in a common structure for each of the elements identified in ISQC-1 as follows:

- the high level principle in ISQC-1;
- the high level principle restated for the SAI context;
- further considerations for SAIs which are designed to provide SAIs with additional guidance to that contained in ISQC-1.

## Framework for an SAI's quality control system

### (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 in the SAI context

**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.**

#### Further considerations 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 operational responsibility for the SAI's system of quality control to a person or persons with sufficient and appropriate experience and the authority to assume that responsibility.

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

<sup>4</sup> Consistent with ISSAI 20, Principle 5.

- SAs should strive to achieve a culture that recognises and rewards high quality work throughout the SAI. This requires the SAI to have the right “tone at the top”<sup>5</sup> which emphasises the importance of quality in all of the work of the SAI, including work which is contracted out.
- The strategy of each SAI should recognise an overriding requirement for the SAI to achieve quality in all of its work so that political or economic considerations do not compromise the quality of work performed.

**(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 in the SAI context**

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

**Further considerations for SAs**

- The relevant ethical requirements will include matters set for the SAI and its employees by provisions contained in the legal framework governing the operations of the SAI.
- SAs’ ethical standards may include or draw on the INTOSAI code of ethics (ISSAI 30) and the IFAC ethical standards, as appropriate to its mandate and circumstances.
- SAs should ensure policies and procedures are in place which reinforce the fundamental principles of professional ethics as defined in ISSAI 30 of:
  - integrity;
  - independence, objectivity and impartiality;
  - professional secrecy;
  - competence;
 and, where relevant, the IFAC ethical standards.

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<sup>5</sup> Tone at the Top and Audit Quality – Transnational Auditors Committee, Forum of Firms, International Federation of Accountants (December 2007)

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

Such systems shall include policies and procedures designed 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 and timely action to resolve such matters.

- SAs should ensure appropriate policies and procedures are in place to maintain independence of the head of the SAI, all personnel and all parties contracted to conduct work for the SAI.

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

- SAs should ensure policies and procedures are in place which reinforce the importance of rotating key audit personnel on tasks to mitigate the risk of familiarity with the organisation being audited. SAs may also consider other measures to promote compliance with the spirit of the requirements for auditor rotation contained in ISQC-1.

### **(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>.**

#### **Key principle in the SAI context**

**An SAI should establish policies and procedures designed to provide the SAI with reasonable assurance that it will only undertake audit tasks and other work where the SAI:**

- (a) is competent to perform the audit task or other 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 which arises.**

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

**The policies and procedures should reflect the range of work carried out by each SAI. SAIs broadly carry out work in three categories:**

- **Tasks which are required of them by their mandate and statute and which they have no option but to carry out;**
- **Tasks which they can choose to carry out;**
- **Tasks which are required by their mandate, but where they have discretion as to the timing, scope or nature of each task.**

#### **Further considerations for SAIs**

- For all audit tasks and other work undertaken, SAIs shall establish systems to consider the risks to quality which arise from undertaking the task. These will vary, depending on the type of task being considered.
- SAIs normally operate within an environment where resources are limited. SAIs should consider their work programme and whether, at an organisational level they have the resources to deliver the range of tasks to the desired level of quality. To achieve this, SAIs should have a system to prioritise their tasks in a way that takes into account the need to maintain quality. Where resources are not sufficient and pose a risk to quality, the SAI should have procedures to ensure these are 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. The SAI should consider whether independence can be established and maintained, and whether any potential conflicts of interest exist that could jeopardise its independence. Where such a conflict is identified, the SAI would need to determine and document how it plans to address this conflict. If there is a material risk in accepting the engagement, a formal review and approval process should be in place and be adequately documented.
- Where engagements are discretionary, SAIs should consider procedures for acceptance and continuation. Where the SAI decides to perform the work, the SAI should ensure the risks involved are assessed and managed.
- For work where SAIs do not have discretion to undertake the task, or due to their role intentionally undertake a task 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, ethical issues which may arise and any integrity issues which might arise in the audited organisation.
- SAIs should ensure that their risk management procedures are adequate to manage the risks of undertaking the work. The response to the risks could include carefully scoping the work to be performed, assigning more senior/experienced staff than would ordinarily be the case, and a more indepth independent quality control review of the work.
- SAIs should consider including in their reports disclosure of any specific matters that would ordinarily have lead the SAI to not accepting the engagement.

**(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 in the SAI context**

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

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

**Further considerations for SAIs**

- 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 it is conducted in-house or contracted out.
- SAIs should ensure that personnel and, where relevant, parties contracted to conduct work for the SAI (e.g. from chartered accounting or consulting firms), have the collective competencies required to undertake the range of work of the SAI.
- SAIs should recognise that in certain circumstances personnel and, where relevant, parties contracted to conduct work for the SAI, may have personal obligations to comply with the requirements of professional bodies.
- SAIs should ensure that Human Resources policies and procedures give appropriate emphasis to quality. Such policies and procedures related to human resource issues are:
  - recruitment (and the qualifications of recruited staff);
  - performance evaluation;

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

- professional development;
  - capabilities (including sufficient time to perform assignments to the required quality standard);
  - competence (including technical competence);
  - career development;
  - promotion;
  - compensation; and
  - the estimation of personnel needs.
- SAIs should make a commitment to promoting learning and training for all staff to encourage their professional development and to help ensure that staff are trained in current developments in the profession.
  - SAIs should ensure that staff and all parties contracted to conduct work for the SAI have a good understanding of the public sector environment in which the SAI operates (e.g. a good understanding of the machinery of Government and the legislative framework within which public sector entities operate) and the work they are required to carry out.
  - SAIs should ensure that performance objectives and appraisals of staff and all parties contracted to conduct work for the SAI reflect that quality is a key driver of performance assessment.

**(e) Element 5: Engagement performance**

**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 in the SAI context**

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

**An SAI should establish policies and procedures designed to provide it with reasonable assurance that its tasks are performed 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;**
- c) review responsibilities.**

#### **Further considerations for SAIs**

- SAIs should ensure appropriate policies and procedures (e.g. audit methodologies) are in place for conducting the range of work that is the responsibility of the SAI, including work which is contracted out.
- SAIs should establish policies and procedures that will encourage actions leading to high quality and discourage or prevent actions that might impair quality. This includes creating an environment that is stimulating and that furthers quality improvements. All work performed should be subject to review as a means to contributing to quality and also to promote learning and staff development.
- SAIs should ensure that applicable standards are followed in all work performed, and that any deviations are appropriately documented.
- SAIs should ensure appropriate quality control policies and procedures are in place (e.g. engagement quality control reviews) in respect of each major product of the SAI/type of engagement (including for example financial audits, performance audits, compliance audits).
- SAIs should ensure that procedures for authorising the issuing of reports are in place. The tasks of SAIs may include tasks which, due to their high level of complexity and importance, are subject to intensive quality control before a report is issued.
- SAIs should ensure that where they are subject to specific procedures relating to rules of evidence (for example, SAIs with a judicial role), that such procedures are consistently followed.
- SAIs should aim for timely completion of audit tasks and all other work, recognising that the value obtained by stakeholders from the work of SAIs diminishes if the work is not timely.
- SAIs should ensure timely documentation of all work performed (e.g. audit work papers) following completion of each engagement.
- SAIs should ensure that all engagement documentation (e.g. audit work papers) is the property of the SAI, irrespective of whether the engagement has been conducted in house by SAI personnel or contracted out.

- SAls should ensure appropriate principles of natural justice<sup>10</sup> are followed in respect of finalising report findings to ensure those parties affected by the SAI's reports have an opportunity to comment prior to the report being finalised.
- SAls should ensure that in addition to any retention period for documentation outlined in professional standards and guidelines, that they meet any other specific requirements of them to retain documentation for longer periods.
- SAls should balance the confidentiality of documentation with the need for transparency and accountability. As a general principle, when the audited entity has a statutory obligation to gather and retain certain information, requests from outside parties for such information are normally referred to the audited entity to ensure appropriate principles of natural justice are followed.

**(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>.**

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<sup>10</sup> Also referred to as “the principle of contradiction” in ISSAI 4100, para 151

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

### **Key principle in the SAI context**

**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, adequate and operating effectively. The monitoring process should:**

- (a) include an ongoing consideration and evaluation of the SAI's system of quality control, including review of a sample of completed tasks across the range of work performed 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;**
- (c) require that those performing the review have not taken part in the task or any quality control review of the task.**

### **Further considerations for SAIs**

- For the quality control system implemented by an SAI, the SAI should ensure that monitoring is carried out across the range of controls at both the overall SAI and engagement levels (using personnel not involved in these engagements).
- SAIs should seek confirmation that where work is contracted out (e.g. to chartered accounting or consulting firms) that those firms have effective systems of quality control in place.
- SAIs should ensure the results of quality control reviews are reported to the head of the SAI in a timely manner and that appropriate action is taken.
- Where appropriate, SAIs should consider engaging another SAI to conduct an independent review of the overall system of quality control.
- Monitoring for SAIs may additionally include, but not be limited to:
  - independent academic review;
  - stakeholder surveys;
  - peer review;
  - follow-up reviews of recommendations;
  - citizen review;
  - feedback from audited organisations.
- SAIs need to consider if there are any legislative or other requirements to make monitoring reports public or to respond to public complaints or allegations related to the work performed by the SAI.

## Definitions

If an SAI wishes to assert that it is compliant with ISQC-1, it will need to consider the full requirements of ISQC-1. For the purpose of such assertions, 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 perform audits or other engagements, the 'firm' refers to the combination of the Head of the SAI, the person appointed to perform the work and, if applicable, the firm of which the person appointed is a partner, member or employee. |
| 'Engagement'         | The term 'engagement' refers to the tasks performed in exercising of 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 that leads the team, to perform audits or other engagements (such as financial audits) on behalf of the SAI.  |
| 'Client'             | The term 'client' refers to the public entity or entities subject to audit by the SAI (i.e. the audited organisation).  |

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