Quality in the Audit Process

Volume I

Report

to

Supreme Audit Institutions of Central and Eastern European Countries, Cyprus, Malta, Turkey and the European Court of Auditors

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EXECUTIVE SUMMARY

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

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

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

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

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

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

Building quality into the audit process:

- Ensure effective direction, supervision and review during all three phases of the audit process: planning, execution and reporting.
- Specify clearly the roles and responsibilities of each of the participants in each phase.

There are two Background Papers to supplement this Report (Volume I). Volume II contains the questionnaire replies submitted by 16 Participant SAIs and case studies on audit quality systems of a number of SAIs of EU Member States and other countries. Volume III contains relevant extracts from different Auditing Standards and Guides used in the work to prepare this report.
• Identify and document the quality control criteria applicable to each phase and the sources from which those criteria were drawn.

• Clearly establish the quality control procedures to be followed during each phase and document both the implementation of those procedures and the results.

Obtaining Post-Audit Quality Assurance Reviews.

• The purpose of such reviews is not to criticise the particular audit being examined, but rather to ascertain whether or not the quality control procedures established by an SAI are consistently, effectively and properly used, and to identify ways in which the controls can be improved.

• One form of such a review is carried out internally by experienced auditors within the SAI who are independent of the audit under review. These reviews should be performed on a selected sample of audits annually.

• The second form is an external review performed by experts from professional organisations or from SAIs in other countries.

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

• Seek excellence in the recruitment process, while also recruiting to meet the anticipated future needs of the SAI, rather than just replicating the skills of the existing staff.

• Deliver effective training of three types:
  - Introductory training to help new personnel adapt to the organisation,
  - Technical training, to increase the skills of staff members, and
  - Managerial training to prepare staff for greater responsibilities.

• Encourage staff development through:
  - Formal performance appraisal systems to identify strengths and weaknesses, and
  - Individual development plans to build on strengths and overcome weaknesses.

• Focus attention on managing external relations that are vital to the overall effectiveness of the SAI in improving accountability, economy, efficiency and effectiveness in government entities. Of special importance, in addition to working with parliament, which was discussed in a prior report, are:
  - Ministry of Finance,
  - Line ministries and state agencies,
  - The media,
  - Private sector auditors and professional organisations, and
  - The academic community.

The overall message of this report is that while all the participant SAIs have undoubtedly made conscientious efforts to assure high quality in their audit work, considerably more attention is needed to this issue. The report suggests some ways to go about that task.
CHAPTER 1 - INTRODUCTION

Background

The Presidents of the Supreme Audit Institutions (SAIs) of Central and Eastern European Countries, Cyprus, Malta, Turkey and the European Court of Auditors (ECA) met in Limassol, Cyprus in November, 2001. At this meeting, it was agreed that quality control in auditing would be one of the studies that the Liaison Officers of the Participant SAIs were to carry out for the Presidents of these SAIs as part of their efforts to develop their institutions in the context of EU integration.

The Liaison Officers of Hungary, Malta and Poland were appointed rapporteurs (expert group) for this study. SIGMA\(^2\) were requested to provide technical support as required by the expert group who were to conduct this study. The results of this study were to be presented to the subsequent Presidents’ Meeting to be held in Bucharest (Romania) in December 2002. The main recommendations were to form part of the Resolution of the Presidents, in line with current practice of these Presidents’ Meetings.

This study “Quality in the Audit Process” focuses primarily on quality practices in the actual audit processes of planning, execution and reporting/completion of audits (cf. INTOSAI Auditing Standards - ‘Field standards’). The actions taken during audit procedures are called Quality Control. There is, however, a need also to include the more systematic follow-up system to assess how the designed quality control system is actually applied and functions. The actions taken after all audit procedures have been completed are called Quality Assurance. Together these two can be considered to form a Quality Management system. An even broader concept would be what is called Total Quality Management including all the major activities and systems of an organisation to ensure the consistent high quality of its services and products. This broader concept of an SAI’s quality is discussed briefly in Chapter 4 and often applied in so-called Peer Reviews.

“Quality Management” may be defined as a process (involving the SAI as an organisation, its people and the actual audit processes) to provide the SAI with reasonable assurance that its audits, including the audit reports, are carried out economically, efficiently and effectively and that this process is continuously improved upon over time.

Quality Management Benefits

“A high-quality job greatly increases the probability that audit results will be relied on and recommended improvements will be seriously considered and implemented. The organisation’s reputation for consistent high-quality work helps ensure that decision-makers will more readily and more assuredly accept findings and implement recommendations”\(^3\).

Quality Management, in any type of work carried out, is today considered essential in order to ensure a good product or service. In the European Union, for instance, strict rules and regulations for controls exist

\(^2\) SIGMA is a joint initiative of the Organization for Economic Cooperation and Development and the European Commission, principally financed by the European Commission.

to ensure that all EU-related resources, activities and programmes (and related financing of such activities) are carried out regularly and as effectively, efficiently and economically as possible. One way this is done is through the establishment of appropriate quality control structures and related processes.

Some of the benefits of quality management for a Supreme Audit Institution are a general improvement of the following aspects, for example:

- High quality and timely audit work
- Defensible and reliable audit reports and results
- Auditee, stakeholders and public confidence in audit results
- Reputation of the SAI
- Lesser risks for legal actions caused by audit mistakes
- Effectiveness, efficiency and economy in the audit process
- Continuous learning and improvement of the audit work and process
- Clearly defined, communicated and documented audit work
- Accountability for auditors on all levels and a higher job satisfaction for everybody.

The assessment of the individual auditor who is carrying out a specific audit task is always important, in addition to any policies, manuals, procedures, guidelines and practices that he/she may follow. Such judgement is obtained through his/her professional training and experience, and through being able to identify solutions for handling unique situations during his/her audit work that may not fit neatly into the audits and related SAI practices he/she is used to.

However, whatever judgement or deviation from standard procedures he/she may decide upon, it is important that quality control procedures are adhered to in order to render his/her work defensible. Any deviations from standards, practice and procedures that are deemed necessary must be adequately explained and documented.

**Scope and Objectives**

The SAIs of Albania, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Malta, Latvia, Lithuania, Poland, Romania, the Slovak Republic, Slovenia, Turkey and the ECA (hereinafter referred to as ‘Participant SAIs’) have contributed to this study and replied to the questionnaire, Appendix 1 (cf. Volume II, ‘Questionnaire Replies and Country Papers’).

The terms of reference of this study were to:

- Identify the principles and requisites required in an auditing institution to ensure that it is adequately organised in order to assure effective audit work and reports (Chapter 2);
- Analyse the situation of Participant SAIs vis-à-vis their quality control practices and procedures relating to the planning, execution and reporting of audit processes (Chapter 3);
• Identify guidelines to encourage good practices in an SAI to ensure quality control in the audit processes, including post audit quality assurance reviews (Chapter 4).

This study primarily focuses on the quality control of the audit processes of planning, execution and reporting. However, quality assurance and total quality management issues are also referred to.

Methodology

The first step in the assignment was to determine the specific objectives that were deemed most suitable and useful for Participant SAIs. These are identified under “Scope and Objectives“ above. It was felt useful to obtain information about the state of quality control in the audit process in the different participant countries. In view of certain similarities in systems, one could compare what different or similar systems of quality control were in place. Sharing of experiences could help one identify one’s own strengths and weaknesses.

In order to embark upon this analysis, a draft questionnaire was prepared between January and April 2002. This questionnaire was discussed during the Liaison Officers Meeting in Malta that was held towards the end of April 2002. Following the comments received during and immediately following the Meeting, the format of the draft questionnaire was revised. The revised questionnaire (see Appendix1) was submitted to participant SAIs in May 2002. Replies to the questionnaire were received from all 16 Participants by October 2002.

Structure of the Report

The structure of the report was discussed between the rapporteurs of this theme during the first quarter of 2002. The structure was also presented and discussed during the Liaison Officers’ Meeting that was held in Malta in April 2002. Following the Malta Meeting, the structure was eventually further refined, though not substantially.

The report starts with this Introduction to provide a background for the report. Chapter 2 then sets forth certain Principles and Requisites that may be deemed necessary to ensure quality management in an audit institution. Chapter 3 reviews the situation in Participant SAIs, based on an analysis of the replies to the questionnaire. Chapter 4 identifies Good Practices for the actual audit processes of planning, execution and reporting. Also covered are post-audit quality assurance reviews and institutional management in support of high quality.

There is also two Background Papers to supplement this report and give further information and guidance. The Volume II contains the questionnaire replies submitted by 16 Participant SAIs and case studies on audit quality systems of a number of SAIs of EU Member States and other countries. Volume III contains relevant extracts from different Auditing Standards and Guides used in the work to prepare this report. For practical purposes it has been decided to present them as separate documents.

Other Sources of Information

During the period January to September 2002, the rapporteurs sought several sources of information for this assignment, apart from the questionnaire replies. The purpose was to identify the Principles and Requisites for a good quality control system in an audit institution, and to provide guidelines for Good Practices for quality control in the audit process, including post-audit assurance of audit tasks carried out.
Preparation of the Draft Report

The draft report was largely prepared during the period August to September 2002, following the study of relevant material and questionnaire replies. The rapporteurs then met in Warsaw (Poland) on 26 and 27 September to discuss and revise the draft report. Also present at this meeting were Nick Treen and Bo Sandberg from SIGMA, who provided technical advice to the rapporteurs.

The progress of the report was discussed during the Liaison Officers’ Meeting in Luxembourg that was held on 3 and 4 October 2002.

Workshop on Quality Assurance

The Working Group on Audit Manuals, co-chaired by Colin Maynard from the European Court of Auditors and Nick Treen from SIGMA, held one of its Workshops in Gdansk (Poland) on 22-24 October hosted by the Supreme Chamber of Control. This Workshop was entitled “Quality Assurance”. Presentations were made by:

- Ned Fennessy (ECA) on “European Court of Auditors’ Quality Assurance System”;
- Dieter Boeckem (ECA) on “Quality Assurance and Control in the INTOSAI standards, EU Implementing Guidelines and the IFAC (International Federation of Accounts) standards”;
- Mark Babington (NAO – UK) on “Audit Quality Assurance and Control systems for financial audit”;
- Marcus Popplewell (NAO – UK) on “Audit Quality Assurance and Control systems for performance audit”;
- Jacek Mazur (SCC – Poland) on Polish Supreme Chamber of Control “Quality Control system”;
- Zdenka Vidovic on the “Quality Control system” in the Court of Audit of Slovenia;
- Remi Frentz on the “Quality Control system” in the French Cour des Comptes;
- Rimantas Bruzgulis on the “Audit Quality Assurance system” in the National Audit Office of Lithuania;
- Joop Vrolijk and Rolf Elm Larson also presented short country papers on Quality Control in the Audit Process of the Netherlands Court of Audit, and Quality Assurance in the Audit Process. A Danish Experience.

Jacek Mazur, Brian Vella and Janos Revesz also made a presentation on the report on “Quality in the Audit Process”, providing an outline of the contents and discussing progress of the report to that date.

Completion of the Report and Presentation to the SAI Presidents

The report was further revised in October and November 2002. Observations made during the Liaison Officers Meeting held in October in Luxembourg, as well as the presentations of various SAI technical officials made during the Workshop on “Quality Assurance” in Gdansk (Poland) were noted and studied in order to upgrade the report. SIGMA experts were also actively involved in the preparation and redrafting of the report.
The draft report was finalised in the second week of November, following a working meeting of rapporteurs in Malta (14 and 15 November) with participation of Nick Treen, Bo Sandberg and Harry Havens (on behalf of SIGMA). The final draft report was then presented to the Liaison Officers for their SAI’s comments and amendments. The report was further revised in the last week of November, taking into account any further comments and observations made.

The final report is being presented to the Presidents of Participant SAIs in Bucharest (Romania) on 12 and 13 December 2002.

Acknowledgements

We wish to thank the colleagues from the SAIs of Albania, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, Slovenia, Turkey and the European Court of Auditors for their collaboration in completing the questionnaire and for submitting their views on the draft version of the report. We would like to express our gratitude to the member state SAIs of Austria, Denmark, Finland, Germany, the Netherlands, Sweden and the United Kingdom; and to Canada and the USA who have provided further Background Papers to supplement this report.

We also greatly appreciate the assistance that was afforded to us by Nick Treen, Bo Sandberg and Harry Havens on behalf of SIGMA in providing advice and in improving and finalising the report.

We hope that this report may act as a stimulus for audit institutions to review their quality management principles, structures and procedures to identify what improvements may be required and implemented.

President’s Network Expert Group on Quality in the Audit Process

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CHAPTER 2 – PRINCIPLES AND REQUISITES

Basic Concepts

From an SAI’s point of view, an audit report is the end product of an audit process in reviewing a Government-related entity or activity. Quality control in the audit process provides reasonable assurance that the audit has examined significant matters and that the results of the audit, as contained in the audit report, are an accurate reflection, in all material respects, of the true conditions of the matters under consideration.

The fundamentals\(^4\) of quality management systems may be described as follows:

- \textit{quality} is the degree to which a set of inherent characteristics fulfils requirements;

- \textit{quality policy} is the overall intention and direction related to quality that is formally expressed by the top management of an SAI;

- \textit{quality objective} is a certain issue aimed for, related to quality and determined by the top management;

- \textit{quality management system} is a set of coordinated activities to direct and control an SAI with regard to quality and consists of four parts:
  - quality planning is a process in the course of which an SAI focuses on setting quality objectives and specifying related procedures;
  - quality control is a process in the course of which an SAI intends to fulfil quality requirements;
  - quality assurance is a supervision aiming at the future development of the quality of audit and at the elimination of shortcomings;
  - quality improvement is a development activity that makes an SAI capable to carry out work in a higher quality.

\(^4\) These correspond to the concepts of Total Quality Management and the ISO 9000:2001 family of Standards.
Principles

The Basic concepts just referred to may be considered as postulates for the basis of principles on quality relating to an audit institution in general, and more specifically to the audit process.

Prague Recommendation on Quality Management

Recommendation 7 of the ‘Recommendations concerning the Functioning of Supreme Audit Institutions in the Context of European Integration’ (hereinafter referred to as the Prague Recommendations) provides some strong principles in this respect. This Recommendation states that: “Supreme Audit Institutions should ensure that their human and financial resources are used in the most efficient way to secure the effective exercise of their mandate. To this end, SAI management will need to develop and institute appropriate policies and measures to help guarantee that the SAI is competently organised to deliver high-quality and effective audit work and reports”.

Adoption and Adherence to International Auditing Standards

An audit organisation should ensure that state audit legislation is in line with the Lima Declaration of Auditing Precepts and INTOSAI Auditing Standards. If inconsistencies exist, Parliament should be encouraged to undertake the necessary legislative amendments;

Professional Standards, based on the INTOSAI Auditing Standards, the European Implementing Guidelines for INTOSAI Auditing Standards and IFAC International Standards on Auditing, should be adopted by an SAI and promulgated to all its audit staff;

An SAI should ensure that it only carries out audits that it has the authority to perform.

Code of Professional Ethics

An SAI should ensure that state audit legislation is in line with the Lima Declaration of Auditing Precepts and INTOSAI Auditing Standards. If inconsistencies exist, Parliament should be encouraged to undertake the necessary legislative amendments.

An SAI should develop and promulgate to its staff a Code of Professional Ethics that is applicable to the institution itself and to its employees. This Code would help instil in the organisation a culture of professionalism in audit work that is conducive to quality in the audit product. Matters commonly discussed in an SAI Code of Ethics relate to Trust, Confidentiality, Credibility; Integrity; Independence, Objectivity, Impartiality, Political Neutrality; Conflicts of Interest; Professional Secrecy; Competence; and Professional Development (reference INTOSAI Code of Ethics).

The Ethics and other Codes of Conduct within the SAI could be given further impact by having all SAI employees sign a declaration that would commit them to respect the Code of Ethics of the SAI and adhere to SAI directives.

Requisites

The objective of an SAI is not simply to carry out audits in terms of its legislation, but to provide audit work and audit results that are of a consistently high quality. In order to achieve this purpose, an SAI needs
to develop, clearly explain to the concerned staff and effectively implement a whole range of structures, processes and procedures that ensure that audit reports and other outputs of whatever kind, are of good quality; have identified the major risks; are effective; have been efficiently and economically prepared; are seen to be useful; and that reports have produced value added results through their comments and recommendations.

**Quality Management Policies**

Setting up and implementing Quality Management Policies are the primary responsibility of the top management. Such policies and systems will vary significantly depending on the type and organisation of the SAI and the type of audits that it carries out (practical aspects of Quality Management of Financial Audit and VFM/Performance may differ).

The Policies affect (i) the SAI as an organisation; (ii) the staff who works in the SAI, especially those who are directly involved in audits or who provide essential support to audits, and (iii) the audit process itself.

*The following policies*, if adopted and implemented by an SAI, help ensure that proper practices and procedures are in place that facilitate audit tasks and results to be carried out competently and effectively:

**Manuals and Guidance**

- A framework of policies and standards that define how tasks should be planned, carried out and reported upon should be established;

- Manuals and other written guidance and instructions concerning the conduct of audits should be developed by the SAI and should be promulgated to and followed by all audit staff.

**Capable Staffing**

- Persons with suitable qualifications, skills, competence and aptitude for audit work should be recruited. Professional recruitment procedures would ensure that the right staff is engaged by an SAI;

- SAI employees should be trained (both formal and on-the-job training) and have their skills developed to enable them to perform their duties effectively and to develop professionally throughout their careers. They should be able to advance within the audit organisation, in line with standing SAI procedures;

- An SAI should ensure that a sufficient number of people, with the appropriate skills and competence, are assigned to an audit;

- An SAI should identify gaps in skills and competence in order to plan for specific audits, including possible use of external experts.

**Measures and guidance related to Quality Management Policies**

- Proper delegation, direction, supervision and review of work should be carried out in such a manner that provides reasonable assurance that audit planning, execution and reporting have been performed competently;
• Proper communication processes should apply throughout the organisation to ensure that audit tasks and other requirements are clearly understood and followed by all concerned. Feedback should always be encouraged at all levels of the organisation;

• An SAI should adopt approved work programmes and plans that clearly set out the audit objectives, auditing methods to be used, responsibilities, budgets, expertise required, timetables and staff allocations;

• Procedures should be applied during the execution of audit tasks to ensure that the policies, standards and methodologies are adhered to and, where applicable, tools, such as software packages are provided to assist auditors to follow these procedures;

• Appropriate clear and concise documentation should be in force to support audit evidence;

• Ethics and protocols/established procedures with auditees and other stakeholders should be applied to regulate such relations;

• Reporting Format and Procedures should be in accordance with SAI Legislation and its own Policy;

• Proper security, access and file retention procedures should exist to ensure confidentiality and proper maintenance of such files;

• A respectful workplace should be developed where auditors have proper working conditions and an appropriate environment to work in. This would help the development of skilled, motivated and productive staff who would be more amenable to fulfilling the mission of the SAI.

Continuous Learning and Improvement

• In line with the Lima Declaration on Auditing Precepts, audit methods (in particular for financial audit) should always be adapted to the progress of the sciences and techniques relating to financial management. In a similar way, for VFM audit, audit methods should be adapted to developments in data gathering and information analysis techniques;

• Audit staff should be encouraged to further their professional qualifications and knowledge. In some countries, private and/or public audit organisations require their employees to undergo annually a certain number of hours of courses, seminars and other forms of education;

• Efficiency and effectiveness of internal standards and procedures should be periodically reviewed to rectify shortcomings and effect improvements. Such a continuous improvement process would help ensure that the quality system of the SAI continues to evolve in the right direction;

• An SAI should establish benchmarks and other performance measures to monitor its work over time and to allow comparison with the performance of other similar institutions;

• Interaction and frequent communication and contacts between an SAI and other local and international professional bodies in audit or related fields would help ensure that the SAI keeps itself abreast of modern developments in auditing. An SAI should also contribute itself in the development of the profession, through its active participation in events organised, for instance, by INTOSAI and its Regional Groups and Committees.

Role of Supporting Functions
• The organisation structure of an SAI should have adequate support functions, such as IT, Training, Methodology, Finance and Administration, Human Resources and International Affairs – depending upon its size, legislation, social, economic and other relevant circumstances - that ensure that the SAI functions effectively, in accordance with its mission;

• The suitable technological and other infrastructures should be in place to support the audit tools and techniques used by the audit staff.

Conclusions

Policies for an effective quality management system may therefore be said to rely on the SAI’s quality audit processes and structures as an institution, and on the development of the full potential of auditors as professionals, including their adherence to the SAI’s Code of Ethics.

A quality attitude thus needs to be fostered and supported by systematic quality systems and adequate policies, procedures, records, technologies, financial and human resources and structures.

(Sources: Annex 7 “Main Areas for Quality control Policies” of Prague Recommendation No. 7; IFAC Auditing Standards for an Audit Firm, including the Appendix, under “Quality control for Audit Work”; Section 2.1.2 of the “General Standards in Government Auditing” of the INTOSAI Auditing Standards’ Module B.12 of “Quality control and Quality Assurance” of the ECA Audit Manual; Chapter 8 of Annual Audit Manual – Quality Management System OAG/CESD-June 1999)
CHAPTER 3 – SITUATION in PARTICIPANT SAIs

Introduction and Summary

This chapter seeks to describe the status of quality control in the audit process in the participant SAIs. The information is drawn from the replies to the questionnaire supplied by the participants between May and November, 2002. Examples taken from these responses are presented in box format.

The extent, level and sophistication of quality control processes appear to vary widely among the participant SAIs. Some have relatively extensive procedures that seek to assure high quality throughout the planning, execution and reporting phases of the audit. Others are at a much more basic stage of developing their quality processes. These participants, in particular, will need to place much greater emphasis on these matters if they wish to satisfy fully the INTOSAI Standards and conform to good practices in EU Member States.

From the SAI responses, one particular element of quality management needs to be introduced where it is not presently used (which appears to be in the case of most of the participants) and to be applied rigorously where it is in place. This is the post-assignment quality review by experienced auditors who are independent of the audit being reviewed. These reviews should be performed, after the fact, on an appropriate portion of an SAI’s audits each year. The purpose is not to criticise the selected audits but, rather, to determine:

- Whether or not existing quality control procedures are being applied consistently and effectively, and
- How the SAIs quality control systems can be improved and strengthened.

Whilst this matter is not within the original scope of this study of ensuring quality in the audit process, it is nonetheless important and is therefore briefly discussed in Chapter 4.

General Issues

Most participant SAIs have taken steps to establish at least the basic elements of systems to control the quality of audit proceedings. To gain the appropriate level of commitment to quality, it is vital that the emphasis on this matter starts from the Head of the SAI.

In Cyprus Audit Guidelines and Office Orders issued by the Auditor General govern the direction, execution and reporting, as well as the planning of audit work, and the internal office procedures of the Audit Office.

In the Czech Republic a Directive of the State Audit Office (SAO) President, on the preparation and execution of audits, was issued in May 1999, to regulate work procedures in preparing the SAO’s audits and in managing and performing audits according to the Supreme Audit Office Act. It lays down the main (and binding) principles and procedures that
should guarantee the quality of the audit process in its individual phases (planning, execution and reporting).

In many cases, quality control measures are not distinctly separate from the actual audit processes but are part thereof. It is important to emphasise that the absence of a separate quality control system does not necessarily imply the absence of any quality control. SAIs can exercise quality control in different ways throughout the audit without actually calling it quality control. Therefore, the problem of developing quality can be considered at two levels:

- Ensuring better functioning of existing elements of quality control;
- Coordinating existing elements, adding others, as needed, and ensuring a coherent approach to quality control within the audit process.

In some SAIs audit quality control mechanisms are currently being transformed and expanded, as in Lithuania, Poland, Romania, the Slovak Republic and the ECA, for instance:

In the Slovak Republic, according to (recent amendments in) the SAO Act, the Supreme Audit Office must apply international auditing standards and adapt them to the conditions in the Slovak Republic for the purposes of quality and professional competence. Therefore the standards and guidelines of the SAO will be carefully reviewed; the situation in the area of audit approach and methodology will be regularly monitored and updated as necessary.

In Lithuania the State Control Act of 2001 provides that one of the main goals of the State Control shall be “to ensure that government auditing conforms to the international standards accepted by the INTOSAI”.

The ECA is currently in the process of implementing an automated audit system (ASSYST) that provides for the computer automation of all aspects of an audit from planning through to reporting, including management of resources. One of the objectives of this system is to further improve the quality control over the audit process through a strictly defined set of authorisation and approval criteria, and by ensuring that standard documents and checklists are used and completed in all cases.

Basic factors in ensuring quality control are the establishment and practical application of auditing standards and methodological guidelines, which highlight the obligation to carry out audits in accordance with a certain audit procedure and methodology. Until recently the relevant regulations adopted in some participant SAIs used to cover mainly audit procedures, and only partly audit methodology. Yet, new, and broader regulations have come into effect in recent years. According to the SIGMA survey, in June 2002,
of the thirteen responding SAIs, nine have in place their own auditing standards while the remaining four are in the process of preparing them.

Occasionally, as in Bulgaria and Lithuania, a new State Audit Act clearly provides that the SAI is to issue auditing standards or other regulations of this kind. Some new State Audit Acts – Estonia and Lithuania – contain references to commonly adopted auditing standards. Alternatively, an SAI, in its own internal regulations, may direct compliance with specific international standards, as in Croatia, Hungary and Poland.

In order to provide quality control and assurance, the criteria of assessment of the audit work need to be defined by an SAI. Such quality criteria then need to be followed by auditors and management. For example, criteria should include:

- Appropriate use of national and international auditing standards;
- Appropriate use of guidelines and manuals;
- Carrying out the audits in accordance with annual audit plan and with detailed audit programmes.

In the majority of participant SAIs quality control related issues ensue from auditing standards or regulations that define the different auditing processes. In some SAIs there are separate and more specific guidelines in this respect.

In Slovenia the Court of Audit issued, in December 2001, a Guideline on Quality control in the Audit Process. The Guideline defines the roles of each member of the audit team and audit management in terms of their responsibility for maintaining the quality of the audit. It is connected with the audit manual and other guidelines of the Court of Audit.

Quality control measures differ substantially between SAIs. Even with the same SAI, the measures may differ depending on the type of audit (regulatory or performance) or its complexity. For example, an audit involving multiple audit teams in numerous locations, such as the Polish “coordinated audits” (which cover between a few and one hundred auditees and are carried out in accordance with a uniform programme by up to twenty audit units) requires more complex management and quality control measures than the more typical arrangement of one audit team in one location.

Quality Control in Audit Planning

Audit planning has two distinct phases. The first is the process by which the SAI determines which audits to perform. The second phase is the process by which the SAI determines how to go about carrying out the audits it has decided to perform. It is necessary to assure high quality decisions in both phases.

For the ECA, quality control in the planning phase is ensured through a number of means:
Use of standard layout and structure of documents, following the requirements of International Auditing Standards (INTOSAI and IFAC);
Completion and approval of a planning checklist;
Supervision, review and approval of team leader and Head of Division;
Approval by the Member responsible for the audit department concerned; and
Review and approval by the Audit Group.

Selecting Entities and Activities for Audit

Quality control in this phase of planning seeks to assure that audit resources are used in the most efficient way possible and are applied to the highest priority audit objectives.

In the majority of the participant SAIs, audits are planned for the following year. The annual plan serves as the basis for preparing detailed programmes for particular audits. In addition, in some SAIs, priority audit directions for longer periods are specified, typically for three years (e.g., in Poland). These mid-term plans or strategies identify problem areas of particular importance from the viewpoint of the state and economy (e.g., economy restructuring, corruption risk, etc.). General priority setting makes it possible to include in the plan a variety of topics, at the same time setting up a barrier to limit other suggestions.

In some cases there is a practice of “rolling planning” (e.g., in Hungary). This means that annual plans are prepared upon up-dating the 3-year mid-term plans. Another approach is the adoption of audit plans for a multi-year period.

In the Maltese National Audit Office (NAO) a three year audit plan for the period 2002-2004 has been prepared covering all major government departments within the three year cycle and detailing the time frame and resources required to carry out the financial and compliance tasks.

In the audit planning process priority must be given to those tasks which are required by law (e.g., auditing the execution of the state budget). These mandatory audits may absorb up to 60 percent – or even more – of the available audit resources. The process of deciding how best to deploy the remaining audit resources varies widely among the participant SAIs. It may be left to the initiative of individual audit units or the proposals may originate at more senior levels of the SAI. In any case, it is essential that this part of the audit plan be approved by the Head of the SAI to assure that it conforms to the SAI’s overall priorities.

In many SAIs the audit units regularly create and update permanent data files on potential auditees in the area under its jurisdiction, which can be very helpful in setting audit priorities, as well as in developing the audit programme for individual engagements.

In the State Audit Office (SAO) of the Czech Republic these files chiefly include the following:
Work on designing particular audit topics is carried out mainly in SAI audit units. Most often, proposals (with justifications) are presented by high ranking staff members. The Director of the respective unit checks their correctness (among others, for compliance with priorities, formal feasibility of a given audit task, etc.) and assesses the purposefulness of taking up a given audit task, taking into account guidelines presented by SAI top management. Also audit topics submitted by the Parliamentary Committees and other public bodies are taken into account.

In the Maltese NAO a number of criteria are used in selecting VFM audit studies. In particular, the NAO selects audit topics that:

- Further NAO policy and strategy
- Address priority/high growth areas or new initiatives in Government
- Focus on modernising government
- Deal with people and not processes
- Are of interest to the Public Accounts Committee and to the media.

In the Turkish Court of Accounts the planning of performance audit begins with the general survey by which relevant information is obtained on the audit field. After obtaining sufficient information the team prepares a study proposal, which in general contains information pertaining to background information, objectives of the auditee/programme, subject of audit and fundamental questions, risk to VFM, methodology, expected results, parliamentary and/or public interest, other risks and difficulties, timetable and budget. The study proposal is reviewed by the Chief of the Performance Audit Group and submitted to the Court’s top management.

Some SAIs – for example the SAO of the Czech Republic – use a “proposal box”. After analysing the collected information the audit unit creates specific proposals for audits. The unit director places them in the unit’s proposal box and regularly presents them to the senior director. After assessing them the senior director decides which proposals will be placed in the recommendations register of the SAI.
As a rule, for the draft proposals supported by the audit units (or other internal bodies, e.g., senior directors or SAI members), clear assumptions are developed before passing them to the SAI top management. Those specify, among others, audit objectives, the period to be audited, justification for taking up this or another audit task, possible results, basic audit topic, risk areas (areas of potential irregularities), audit timetable, and estimation of resources necessary to take up the audit task in question (audit description).

Descriptions are compared and ranked using audit selection criteria that are decided in the SAI audit strategy. Typically, a planning department or similar support unit does this. Next, the draft annual audit plan is submitted to the relevant SAI decision body (senior director, SAI head or council).

Typically all unit directors, advisors to the SAI head and SAI top management review the draft. Finally, the SAI head or council (or another relevant SAI body) approves the annual audit plan.

In the Audit Office of Cyprus audits are planned in advance in terms of time and cost through work programmes prepared by each section for a twelve-month period from 1 July to 30 June of the following year. These annual work programmes are approved by the Auditor General and Deputy Auditor General, and quarterly work programmes are approved by senior staff.

In the State Audit Office (SAO) of Estonia all performance audit proposals are read and commented on by an opposition team – the Methodology, Planning and Reporting Service (MPRS), the public relations officer and the Head of the SAI. There is a specific format for the opposition’s opinion that stresses the main risk points in preparing the audit. There are special meetings in the audit planning process where comments are discussed with the opposition team, MPRS and the Head of the SAI.

In the Turkish Court of Accounts, proposals for the annual financial audit plan, coming from audit groups, are reviewed by the Audit Planning and Report Drafting Group that acts as an advisory council of the Presidency and are then submitted to the General Assembly of the TCA (with 58 members). The annual plan is put into effect by the decision of the General Assembly. After the approval of the plan the Presidency assigns account(s) to the individual auditor.

**Planning Particular Audits**

The second phase of audit planning consists in developing, agreeing and adopting the document which specifies the course of a given audit task, referred to as “the audit programme”. The main elements of quality control are the obligation that the audit programme provide for collecting the information specified
in internal SAI rules and the participation of many SAI units and decision bodies, who review, discuss and accept the draft audit programme.

In the Supreme State Audit of Albania, in the planning phase, if a preparatory discussion with the audit entity is envisaged, complete information on the subject under audit should be gathered and analysed. Similarly, the legislation which regulates the activity of this entity is reviewed. After that, the audit team leader, along with the auditors, compiles the audit programme. The audit programme is reviewed and discussed with the chief of the audit sector of the Department. The audit programme is analysed by all audit groups, by the Head of the Audit Department and after reflecting those observations, the Head of Department approves the audit programme. After the approval of the Head, the relevant audit programme passes to the SAI top management for adoption: the Secretary General and, finally, the Chairman. At this level a meeting is held to discuss this programme between the Director, Secretary General and Chairman. After presentation of the observations, the audit programme is approved by the SAI Chairman.

In the Polish Supreme Chamber of Control (SCC), in the case of co-ordinated audits, work on the draft programme is usually run by the future audit co-ordinator, who works with the legal advisor, the Vice-Director in charge and the Director of the audit unit. In developing its audit programmes the SCC takes account of a wide range of issues, including Parliamentary concerns and matters raised in the media. SCC internal regulations specify a list of issues to be covered in the audit programme. Usually a preparatory audit is carried out in a body typical of the population to be studied later. During planning, considerable effort is made in ensuring co-ordination of approach and methods for the audits being co-ordinated.
In the Bulgarian National Audit Office (NAO), the main procedures at the planning phase are:

- determining the legal framework, which regulates the activity of the audit entity;
- preliminary investigative audit of special issues connected with the activity of the audit entity;
- determining objectives and scope of the audit;
- study of information on the activity of other controlling institutions;
- determining the concrete activities and functions to be audited;
- follow-up of recommendations made to previous related audits;
- collecting information about the organisational structure, finance and accounting of the audit entity;
- preliminary study and assessment of internal control system and key controls of the audit entity;
- determining the appropriate analytical procedures;
- determining the sampling methods;
- assessment of inherent and control risks levels;
- determining the materiality criteria and threshold;
- determining the degree of confidence;
- assessment and specifying the requirements for auditors’ qualification and skills included in the audit team and assessment of the changes needed;
- determining the necessity of appropriate external experts /consultants;
- preparation of audit schedule and planning the responsibilities among the auditors.

The creation of a current audit file in compliance with the Working Papers Standard also helps establish quality control at the audit planning phase.
In the Hungarian State Audit Office in the internal checking and review of audit plans, special emphasis is put on:

- whether procedures selected for the audit objectives are appropriate; and whether these procedures are suitable for obtaining competent, relevant and reasonable audit evidence;
- whether problems appearing in the preliminary study and/or in the audit programme can be revealed by using reasonably allocated tools and resources;
- whether responsibilities are explained clearly for each individual, from the auditor carrying out the audit up to the persons charged with supervising and managing the audit in the hierarchy.

In some SAIs (Malta, for example), an important element of the preparation of certain Regularity and all VFM audit programmes is the so called “pre-audit”. Pre-audit work is carried out to establish whether there is sufficient basis for carrying out a full audit and whether a full audit is feasible.

**Quality Control in Audit Execution**

In this phase, the team leader and other auditors carry out the audit fieldwork. It is essential that, before beginning the actual fieldwork, all members of the team have a clear understanding of the audit tasks and how they are to be performed.

In the Polish SCC the audit programme is passed to auditors to become individually prepared for the audit task. Before beginning the audit, a pre-audit meeting is held to discuss issues which are to be audited and ways to study them. Familiarity with the subject studied and methods used to carry out audit procedures is tested by the audit co-ordinator who discusses them in the course of meetings held with audit teams in particular audited units.

In the State Audit Office of the Czech Republic the audit programme contains detailed instructions on how to proceed during the audit. It also contains other essential information for auditors. The head of the co-ordination group convenes an audit instruction meeting for the participating auditors to explain the audit programme, discuss the issue and pass on any other essential materials and data on the methodology, organisation and timing of the audit. A record is taken of the results of the meeting. The director of the audit division ensures that the participating auditors are acquainted with the instruction materials and that comments and questions on the programme are delivered to the head of the co-ordination group.
In all SAIs there is quality control of audit execution at various levels. This begins with the basic rule that each team member is personally responsible for the quality of his or her work.

In addition, the team leader must direct, supervise and review the work of the team on a day-to-day basis, ensuring that the work is carried out in accordance with the SAI’s general rules and the audit programme. Also, depending on the duties specified in SAI internal rules, more senior managers may need to be in contact with the audit team, review the audit work step by step, and when necessary with regard to important issues, report regularly to the SAI top management.

In the Maltese NAO the principal auditor prepares a report at the end of each stage of an audit on all findings discovered in the course of his/her audit work. This report is reviewed by the manager to ensure that:

- All evaluations and conclusions are soundly based and are supported by relevant audit evidence and working papers;
- All errors, deficiencies and shortcomings have been properly identified and documented;
- Changes and improvements necessary to conduct future audits are identified.

At the end of the execution phase of the audit, the audit manager ensures that all audit steps have been completed.

In the Bulgarian NAO the main procedures and practices, which guarantee the quality at the execution phase, are – among others:

- follow-up by the head of the audit team of the accomplishment of separate phases and activities of the audit in compliance with the approved audit programme and in the specified terms;
- requirement for justified explanations by the head of the audit team when there is non-fulfilment at a given phase of the audit programme;
- approval by the Head of Department or the Regional Office Director after co-ordination with the NAO President of changes to the audit programme which modify significantly the planned aims and scope of the audit task and require additional resources for its fulfilment;
- follow-up by the head of the audit of the observance of the audit procedures in accordance with the aims and scope of the audit;
- supervision of the work of external consultants and experts;
- checking the quality of the working papers at the execution phase of the audit by the Head of Department or the Director of the Regional Office before preparing the final audit report or statement.
In the State Audit Office of Croatia supervision of team members’ work is carried out continuously, through all phases of audit work and in all cases, with the aim of quality assurance. It is directed to the audit content and a method used, and is carried out by the team leaders as the most experienced and most expert members. Supervision connotes observing on:

- how and how much do the team members understand the audit plan;
- has audit work been carried out in compliance with auditing standards and institutional practice;
- has the audit plan been strictly followed in all phases,
- is audit documentation completed and does it contain all relevant facts to confirm conclusions in findings, and
- does each auditor reach established goals.

Besides that, the Auditor General, together with his or her assistants, continuously monitor (observe) work of all auditors through their audits. In a case he notices shortcomings in an auditor's work, the Auditor General may change the audit team or even suspend an auditor from a certain task.

In the Polish Supreme Chamber of Control, in coordinated audits, auditors (audit teams) from different SCC units participate. Assuring proper quality of audit proceedings is the responsibility of:

- in-line managers, especially Directors of units and other staff members, who directly supervise auditor’s work (audit team’s work);
- audit co-ordinator, a staff member nominated to run the course of a coordinated audit, though he or she might not be an in-line manager of auditors participating in the audit in question.

In the Court of Audit of Romania the director of the audit structure:

- Checks the way the audit evidence is collected in line with the planned techniques and procedures;
- Assesses the competence, the relevance and the reasonability of the data selected to formulate an opinion;
- Reviews the accuracy in drafting the conclusions resulting from the audit activity;
- Analyses the conclusions resulting from the audit activity and approves any amendments to the control plan that may be needed as a result of the fieldwork.
An important element of quality control is the proper documentation of the audit work.

In the fieldwork stage of the audit at the ECA, the quality of the work is assured through a number of means:

- The use of audit programmes and questionnaires setting out the work to be performed and the evidence to be obtained;
- Preparation of audit files setting out and recording the work done, and the results obtained;
- The use of pre-prepared worksheets such as for the audit of systems and controls;
- Close supervision by the team leader and Head of Division;
- Review of work by the team leader and then by the Head of Division, with documentation of these reviews;
- Completion, review and approval of audit checklist to ensure all elements of the audit work have been carried out.

In the Audit Office of Cyprus the review of the audit file is carried out by the section leader, principal auditor and on key areas by the director of audit. It is ensured that working papers are properly documented, cross-referenced and signed off. Also permanent files are regularly updated.

The Internal control systems of the auditee are properly documented and observation, compliance and substantive testing are carried out as appropriate.

Another important element of quality control in audit execution is the obligation to collect information specified in SAI internal rules and the participation of many persons, who review, discuss and – in some SAIs – accept the draft audit protocol or proposed audit findings before they are incorporated in a draft report or are discussed with the auditee.

In several SAIs there is a system for monitoring the time and budget spent for conducting particular audit undertakings.

In the Audit Office of Cyprus the work is monitored through monthly job reports, comparing budgeted against actual time spent for each job, based on monthly job sheets filled in by each auditor. Audit costs are ascertained for each job based on actual time spent and daily rates according to the level of each auditor involved.
In the Polish Supreme Chamber of Control plan implementation is monitored during the year by following the “operations plan”, an expanded version of the annual audit plan that includes a schedule of work for each audit, number of auditee units involved and estimated labour intensity of a given audit task.

In the State Audit Office of Estonia, all audits have a deadline and a limit of working hours. The time reporting system compares actual audit work with the approved time limit and deadline. Each head of an audit department makes a monthly progress report to the Head of the SAI about all audit projects and the main questions raised in audit projects.

In the Polish Supreme Chamber of Control plan implementation is monitored during the year by following the “operations plan”, an expanded version of the annual audit plan that includes a schedule of work for each audit, number of auditee units involved and estimated labour intensity of a given audit task.

In the State Audit Office of Estonia, all audits have a deadline and a limit of working hours. The time reporting system compares actual audit work with the approved time limit and deadline. Each head of audit department makes a monthly progress report to the Head of SAI about all audit projects and the main questions raised in audit projects.

Quality Control in Audit Reporting

Audit reporting is carried out according to the SAI Act, auditing standards (own SAI standards or accepted international auditing standards), other internal regulations and Audit Manual (if applicable).

The first objective of quality control at this stage of the audit should be to assure that all statements, assertions, findings and conclusions are fully supported by evidence gathered during the audit process. The second objective should be to assure that the resulting report is complete, accurate, objective, convincing, and as clear and concise as the subject permits.

Preparing Draft Reports

Preparing the initial draft of an audit report is typically the responsibility of the leader of the audit team, often with the assistance of other members of the team. Quality is enhanced at this stage if these individuals have a clear understanding of how the report should be prepared and what it should contain.
In the State Audit Office of Croatia, detailed guidelines for making reports are given in the Audit Manual. The guidelines were written to standardise procedures and the writing of reports. They itemize procedures for describing facts. Special attention has to be given to the structure of the report, as well as to requiring reports to be short, clear, precise, simple and objective. The manual also gives several examples of audit report content.

According to the Reporting Standards of the State Audit Office of Latvia, at the end of each audit the auditor should prepare a written opinion, setting out the findings; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and should be independent, objective, fair and constructive.

**Internal Review of Draft Reports**

In most SAIs, the initial draft of an audit report is then reviewed by one or more superiors in the organisation.

Quality control procedures include review of the working papers and related draft report by the head of the section carrying out the audit/investigation, the relevant principal auditor and, on key areas, by one or more higher level officials. The review ensures, among other things, that working papers provide sufficient information, are properly cross referenced and that all audit findings have been evaluated as to their materiality and legality and are based on factual reliable audit evidence. Working papers contain evidence as to who prepared them and who has carried out a review thereon. Also great care is taken to ensure that the language used is easily understood and that findings/recommendations stated in the reports are supported by sufficient, relevant and reliable information.

In the State Audit Office of the Czech Republic there is an internal contradictory procedure: the member of the Office passes on the draft audit conclusion for internal comments. The parties assigned to make comments are designated. The member of the Office compiles the received comments and, after appraising them, decides which comments to incorporate into the draft audit conclusion. The most serious rejected comments are mentioned when the draft audit conclusion is submitted to the approving body.
In the Maltese NAO the unit manager and team members agree the major headings of the final audit report. The report headings are then reviewed and approved by the Assistant Head of the SAI. The final audit report is prepared by the principal auditors and reviewed by the unit manager. In particular, the audit manager ensures that the final audit report covers all areas included within the audit scope and that only material audit findings have been included. The audit manager also reviews the form and content of the report to ensure that the results and recommendations are clearly communicated and can be easily understood by the auditees and other users of the report. The final audit report is reviewed by the Assistant head of the SAI, who assesses whether the report is comprehensive and adequately supports the final audit option.

In the Court of Accounts of Romania quality control during the reporting stage is performed both by the Director of the audit structure and the Counsellor of Accounts, Head of the Division, who review the way the following activities are carried out:

- Drafting and analysis of the conclusions, opinions and recommendations;
- Documentary support of the conclusions and opinions;
- Assessment of the audit team performance;
- Follow up of the impact of the audit report on the auditee.

In the Court of Audit of Slovenia a team leader has a role in preparing the audit report and ensuring that it is in line with the findings made by the audit team. The Head of Department reviews and amends the audit report. The report is then submitted to the Deputy President for agreement or approval. The Deputy President’s advisers review the report and make a recommendation for agreement or approval to the Deputy President. This review is to ensure that the report is in line with the quality criteria. In some cases a checklist is used. The audit reports are also reviewed by an Editorial Board to ensure that the style and format of the reports are consistent.

Quality control in reporting can be enhanced by the participation of many persons, who review, discuss and accept the draft audit report.
In the State Audit Office of Hungary, there is a multilevel internal quality assurance system to guarantee the reliability of audit opinions and the sound foundation of audit findings and recommendations. Draft reports are reviewed and discussed by the Audit Group Directors and the audit staff, and occasionally by a 2 or 3 person professional College. All drafts of reports are subject to a twofold legal and professional audit review. According to the internal rules, reports of the State Audit Office can only be signed by the President after the presentation of a certificate issued by the Quality Assurance Department, which is under the direct leadership of the President and is independent from audit directorates. Those reports which imply personal responsibility of the audited bodies can be forwarded only after making the modifications deemed necessary by the independent Quality Assurance Department.

Reports of auditors selected by sampling are also subject to review by teams set up by audit directorates, consisting of auditors not involved in the given audit.

In the State Audit Office of Estonia the main messages of performance and risk audit reports are discussed in meetings involving the audit team, head of the audit department (HAD), the Methodology, Planning and Reporting Service (MPRS), the public relations officer and the Auditor General. The same procedure goes with the more important financial audit reports. HAD is responsible for assuring that the audit report is in line with the audit proposal, factually correct and includes reasonable conclusions and suggestions. The MPRS sometimes checks these aspects of reports.

### External Review of Draft Reports

Typically, draft reports are discussed with the auditee and the auditee’s views (perhaps in a summarised form) are - in many SAIs - included in the final report. This can be a vital element of quality control because the auditee is a well-informed party who has an incentive to challenge adverse findings if they appear to be insufficiently supported by the audit evidence. At the same time, it must be recognised that the auditee is an interested party who may wish to minimise the credibility or significance of adverse audit findings. Thus, while the auditee’s views must be given fair consideration, it is incumbent upon the SAI to examine those views carefully and determine for itself the weight they should be given.
In the Polish Supreme Chamber of Control, the Audit Protocol, a document designed to register audit findings at the conclusion of audit proceedings with a given auditee, should contain components enumerated in the SCC Act and SCC internal regulations. The contents of the protocol should correspond to the audit topic as stated in the audit programme, while the findings related to particular issues should be described in subsequent items with cross-references to audit documentation, where the evidence to support that finding is collected. Technical review of the protocol is done in the first place by the auditee, who is entitled to present objections to facts described there. They are adjudicated following the procedures set forth in the SCC Act. The contents of the protocol will be finalised only after a number of reviews carried out by the auditor and SCC Appeals Committees. On the basis of the Audit Protocol the Post-audit Statement is developed.

Assessments, comments and conclusions by the SCC, which have been questioned by the auditee, are reviewed at a number of levels in the course of the appeals procedure. Objections are analysed by the auditor, audit coordinator, and, when necessary, by the legal advisor. Subsequently the Appeals Committee, incorporating senior staff members of a given SCC unit, adjudicates the objections. Adjudication of objections is an open process with the possible presence of representatives of the auditee. The Committee’s decision requires approval by the SCC President.

In the Turkish Court of Accounts the auditor inquires, with the responsible official(s), about the transaction(s) that he/she considers to be against the law. The auditor then writes the audit report by including the responsible officials’ defence statement and his/her final opinion.

Other Matters

In many SAIs – for example in the Audit Office of Cyprus – any events relevant to the audit which occur between the date the report is prepared and the date it is issued are considered and, if material, are included in the final report. Failure to do this can undermine the credibility of the report.

Another normal useful practice is the publication of audit reports, in paper or electronic version. This can enhance audit quality in two ways. First, such reports are likely to be read by experts in the subject addressed in the report, who may offer useful suggestions for future audits in that area. Second, auditors’ awareness of the wide dissemination of reports may cause them to be even more careful in their audit work.

Finally, a self-examination of a completed audit, by the audit team, can help the members of that team learn what they might have done differently or more efficiently. This can be a useful learning experience for the team members and can lead to improved quality in future audits. The State Audit Office of Estonia, among others, uses this technique.
Internal Post-Audit Quality Review

An effective Quality Management System must include procedures to determine whether or not the quality control measures that are intended to be used are, in fact, being properly and consistently implemented, and for identifying ways to strengthen the existing quality controls. Experience has shown that this can be best accomplished by an independent, detailed, after-the-fact review of a sample of completed audits.

The ECA has a Quality Assurance function which has the *ex post* role of evaluating if and how well quality control procedures have been implemented. This is done in part by examining a selection of completed audits in detail. The lessons learned from this process are then fed back into the audit process to contribute to the process of continuous improvement.

This matter was not specifically addressed in the original Questionnaire, but a further query, concerning information on 'Cold' Review in Participant SAIs, was distributed to participants in Gdansk workshop in October 2002. The Estonian SAI responded that it has had an internal quality review process in place for about a year. Albania and Bulgaria reported that they also have processes in place, but Albania noted that its effectiveness is limited by the lack of audit manuals required to establish the criteria for quality. Hungary, Lithuania, Malta and Poland reported that they are in the process of initiating quality review systems.

Quality assurance reviews are a vital element in a Quality Management System. The needed components are described in Chapter 4 of this report.

Peer Review

Many participants have requested a Peer Review coordinated by SIGMA to help support their efforts to strengthen and improve the quality of their institutions. While this matter was not formally discussed in the questionnaire, discussions among colleagues made it clear that it was a very useful process for the SAIs in reviewing their legislative, organisational, methodological and other key functions.

SAI remarks on operating their Quality control procedures

A number of SAIs mentioned issues related to their own experiences. These are presented in the replies to the questionnaire that are found in Volume II.
CHAPTER 4 – GOOD PRACTICES

Introduction

Quality control procedures applicable to the audit process itself are a vital element in seeking to assure high quality in the work of the SAI. Effective quality control procedures – based on international standards and the experience of other countries – are described in the first part of this chapter. Establishing such procedures is the first step. In addition, an SAI must assure that the procedures are operating effectively. The best means of doing so is the use of post-audit quality reviews. This is addressed next in this chapter. However, other SAIs have learned from long experience that effective quality control procedures – vital though they are – are only part of an overall strategy for building a fully effective SAI, producing high quality audits and having an appropriate influence on the accountability and effectiveness of state entities. This part of the overall strategy can be described as “managing the institution for quality”. Good practices in this broader area are discussed in the latter part of this chapter.

Quality Management in the Audit Process

The nature and extent of an audit organisation’s internal quality control system depends upon factors such as type of the Supreme Audit Institution (Court of Audit/Accounts or National Audit Office), size, degree of delegation of decision power, nature of work, type of audit carried out, organisational structure, appropriate cost/benefit considerations, level of staff, legislation, etc.

Levels of Quality Management

There are three levels of quality management. On the first level, the SAI should adopt and implement policies and procedures designed to ensure that audit tasks in all phases of an audit are carried out to an acceptably high level. These quality control procedures centre on the management of the audit process, that include the elements of direction, supervision and review. This would aim to confirm, on a ‘real time’ basis (called hot reviews, i.e. during the actual conduct of an audit), that integral quality monitoring processes of ongoing audits have operated satisfactorily, quality of audit reports is ensured, and repetition of weaknesses is avoided.

On the second level, the SAI should carry out higher level quality assurance reviews by SAI staff or independent experts who have not been directly involved in the audits. Although this level of quality control is after the fact (called cold reviews), it is closely associated with the first level of control as it aims to ensure that ‘real-time’ controls are actually being applied and are effective. This second level of control also helps ensure that ‘real-time’ controls are not relaxed by management or by the auditors directly involved in the audits. Quality controls are therefore continuously kept in force and improved upon.

On the third level, the SAI should from time to time provide for an external review of their operations by senior auditors from other SAIs (or equivalent), a so called Peer Review (cf. the SIGMA Peer Reviews). This is a big undertaking for both parties and a recommended time interval might be five years. This...
element of quality management is not discussed in detail in this report. It is, however, highly recommended that SAIs arrange for and carry out such reviews.

(Sources: No 51 “Quality Assurance” of the European Implementing Guidelines for the INTOSAI Auditing Standards; No. 2.1.27 and 2.1.28 of the INTOSAI Auditing Standards; Module B. 12 “Quality Control and Quality Assurance” of the ECA Manual; IFAC International Standard on Auditing on “Quality Control for Audit Work”)

**Phases of Audit - Planning, Execution, Reporting**

Planning, Execution and Reporting are the three phases of an audit. An audit quality control system should be in force during all three stages. Some SAIs separately include a further phase, called the “Follow-up”, in which a follow-up of the audit findings and recommendations is conducted in a stipulated manner and within a specified time-frame. Other SAIs include the follow-up in the Planning stage of subsequent audits. For the purposes of this report, follow-up is not treated as a separate phase of the audit.

All persons involved in an audit have a personal responsibility to understand their duties and to ensure that their work is carried out up to standard. This involves all phases of an audit. It is also important that quality control takes place in an atmosphere of openness and trust - an interactive process where subordinates also are allowed to give feedback to superiors on the way the audit is managed and present ideas of possible improvements.

All levels of staff should be assessed on a periodic basis to determine any skills, qualifications and aptitude gaps of the staff. During this assessment process one may also find out whether things have gone wrong (and why) during the audit and what corrective action may be taken to rectify these shortcomings in future audits.

**Managing the Audit Process - Direction, Supervision, Review**

Heads of SAIs and their managers should ensure that they have appropriately high levels of management skills and knowledge to ensure, ‘inter alia’ that effective Direction, Supervision and Review are present during all three stages of an audit.

**Direction**

This involves the appropriate direction of staff to whom work is delegated. Auditors are informed of their responsibilities and the objectives of the procedures they are to perform. They are informed of the nature of the entity’s business and possible accounting or auditing problems that may affect the nature, timing and extent of an audit procedure in which they are involved. Direction to audit staff is provided through meetings, informal oral communications, audit manuals and checklists, audit programmes and annual audit plan. Audit staff should be encouraged to raise any questions they may have with more experienced team members.

**Supervision**

This involves monitoring the progress of the audit to consider whether auditors have the necessary skills and competence to carry out assigned tasks; whether they understand the audit directions; and whether work is being carried out in accordance with the annual plan and audit programme. Other supervisory
duties include becoming informed of, and addressing, significant accounting, data collection and auditing questions raised during the audit, assessing their significance and modifying the annual audit plan and audit programme as appropriate. Also supervised are other elements of the audit process, depending upon the type of audit and resolving differences of professional judgement between personnel.

Review

This is performed by more senior staff of appropriate experience to consider whether work has been performed in accordance with the audit programme; work performed and results obtained have been adequately documented; any significant audit matters have been considered; appropriate consultations have taken place; the objectives of the audit procedures have been achieved; and that conclusions expressed are consistent with the results of the audit and support the audit opinion.

Also reviewed on an appropriate basis will be the audit plans and audit programmes; assessments of inherent, detection and control risks; the documentation obtained from substantive procedures and conclusions drawn thereon, the draft reporting and other elements of the audit process, depending upon the type of audit.

It is also important that audit work files carry evidence of all reviews (involving at least two levels in the hierarchy) that have taken place.

(Source: Annex 6 “Purpose and Scope of Audit Management” of the Prague Recommendations; UK Auditing Practices Board – revised SAS 240 “Quality Control for Audit Work”)

Top management should ensure that Direction, Supervision and Review are done in such manner as to provide reasonable assurance that work has been performed competently.

Responsibility for quality control starts with the individual auditor in the Audit Team and then passes up through the hierarchy: the Audit Team Leader, Audit Director and the Senior SAI Management. The Head of SAI performs the final review and approval of the Audit Plan and Audit Reports, prior to their submission to Parliament.

In an SAI that is organised in a collegiate system (such as Courts of Audit), decisions involving the different processes in audit work, particularly the reporting stage, are often carried out on a collegiate basis.

Modern IT Audit Systems

Modern audit systems that make extensive use of computers to render the audits largely paperless, including the related working papers and documentation, contain many in-built controls and safeguards. In such systems all stages of the audit could be in an electronic format.

An automated quality control system may incorporate a strictly defined set of authorization and approval criteria, as well as features that ensure that standard documents and checklists (which may be electronically readily available to all audit team members) are used and completed in all cases. With such systems some

5 The organizational structure and titles of positions vary widely among SAIs. For convenience in this chapter, Team Leader is intended to denote the senior member of the audit team and the person who directs the day-to-day work of the team, Audit Director denotes the supervisory level immediately above the Team Leader, and Senior SAI management the level immediately above the Audit Director.
parts of the work of supervisors and reviewers are electronically supported on a real time basis. A first
draft of an audit report can be generated automatically, following the conclusion of the audit. One must
point out here that ultimately, a system, including an IT system, is only as good as what is put into it.

Quality Control

Sources for Quality Control Criteria

Quality criteria should ensure that all the three phases of the audit are carried out in terms of the SAI’s
rules, practices and procedures. Quality control measures should also ensure that audits are timely,
comprehensive, adequately documented, performed and reviewed by sufficient and suitably qualified staff
and based on sound professional judgement. It should also be ensured that audit work is based on fact and
evidence. Intuition, hearsay and opinion must be supported by solid evidence.

Reference to, and criteria for, quality control could be found in a number of sources, as:

• Audit Legislation;
• Auditing Standards (including INTOSAI Auditing Standards - European Implementing
Guidelines; IFAC International Standards on Auditing; and SAI’s own Standards);
• Mission Statement of the SAI and other SAI Policies;
• SAI Regulations, Circulars, Checklists and Guidelines;
• Audit Manuals.

Quality in Planning

While the names may differ from one SAI to another, the planning process\(^{6}\) should include several stages,
starting from Strategic Planning, Corporate Planning, Operational Planning, Budgeting, detailed Audit
plans and the development of detailed Audit Programmes. Within the context of this report, planning refers
to the detailed audit plans and subsequent audit programmes. No reference is being made to the macro
level of planning that an SAI may carry out.

The preparation of an audit plan should take into account risk and materiality, based on an understanding
of the auditee and its business. The plan should set out how and when the audit will be conducted and how
sufficient appropriate audit evidence is obtained in order to enable conclusions to be drawn and support the
audit opinion.

\(^{6}\) Terminology differs from one SAI to another. The output from this process can be termed Plans or
Programmes and both can vary significantly in content and detail.
<table>
<thead>
<tr>
<th>Typical Contents of an audit task plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Legal Framework for the audit</td>
</tr>
<tr>
<td>2. Brief description of the activity, programme or body to be audited (including a summary of the results of previous audits and their impacts)</td>
</tr>
<tr>
<td>3. Reasons for the audit</td>
</tr>
<tr>
<td>4. Factors affecting the audit, including those determining the materiality of matters to be considered</td>
</tr>
<tr>
<td>5. Risk Assessment</td>
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<tr>
<td>6. Audit Objectives</td>
</tr>
<tr>
<td>7. Audit Scope and Approach: what evidence is to be obtained to meet the audit objectives; when; how?</td>
</tr>
<tr>
<td>• Materiality thresholds;</td>
</tr>
<tr>
<td>• Systems to be evaluated and tested</td>
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<tr>
<td>• Sampling strategies</td>
</tr>
<tr>
<td>• Anticipated sample sizes;</td>
</tr>
<tr>
<td>• Reliance on other auditors/experts;</td>
</tr>
<tr>
<td>• Any special problems foreseen;</td>
</tr>
<tr>
<td>• (Methodologies referred to further on in the Execution Phase of an audit should be adequately planned).</td>
</tr>
<tr>
<td>8. Resources required, and when:</td>
</tr>
<tr>
<td>• Audit staff (in detail), responsibilities;</td>
</tr>
<tr>
<td>• Specialist staff (who and when);</td>
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<tr>
<td>• External experts;</td>
</tr>
<tr>
<td>• Travel requirements;</td>
</tr>
<tr>
<td>• Time and cost budgets.</td>
</tr>
<tr>
<td>9. If appropriate, an estimate of the fee to be charged for the audit</td>
</tr>
<tr>
<td>10. Details of those within the audited entity responsible for the liaison</td>
</tr>
<tr>
<td>11. Timetable for the audit, and the date that draft report will be available for internal consideration</td>
</tr>
<tr>
<td>12. Form, content and users of final output.</td>
</tr>
</tbody>
</table>

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7 “European Implementing Guidelines for the INTOSAI Auditing Standards” – No. 11 Audit Planning, Annex 1, Appendix 2.
Participants

The Audit Plan should ideally be based upon consultation among SAI personnel who are involved in the specific audit. This may involve the Head of SAI and/or his Deputy who would approve the annual Audit Plan, the responsible Senior SAI Management member, the Audit Director and, at least, the team leader or the more senior audit team members who are involved in the specific audit. This sharing of responsibility enhances the accountability of all the main players involved in the audit. Furthermore, the sharing of experiences at different levels of the organisation would help ensure a more accurate and complete Audit Plan and more realistic Audit Programmes.

Requisites and Measures to ensure Quality Control

The Audit Plan is divided into a number of detailed tasks, which are assigned to individual team members. To ensure quality control during the planning process, measures could include direction, supervision and review procedures to ensure that the audit task plan referred to earlier is adequately carried out.

Primary measures may include an SAI management policy for the use of standard layout and structure of documents, following the requirements of International Auditing Standards (INTOSAI and IFAC), and the completion and approval of a planning checklist.

The responsible Senior SAI Management member should ensure that the Audit Director has suitably taken into account:

- the financial and human resources required (such as audit staff responsibilities, specialist staff and experts required, training, travel arrangements, time and cost budgets) for the audit. Allocation of available resources are based on the priorities of the SAI;
- the timetable for the audit, and the date the draft report will be ready for internal consideration;
- follow-up issues of previous audits. Audit Permanent Files should clearly indicate which previous audit issues and recommendations need to be followed up. This is usually done during the Planning phase of a subsequent audit, although Follow-up may also be dealt with separately from the three phases of Planning, Execution and Reporting/Follow-up;
- other factors that effect the project management of the audit.

Before the beginning of an audit, a pre-audit meeting could usefully be held between the Audit Director, team leader and team members in order to discuss issues that are to be audited, ways to carry out the audit, as well as to discuss potential problems that may be encountered.

The Audit Director should identify the team leader and ensure that he/she and audit team members have:

- been clearly assigned roles and responsibilities;
- appropriately considered follow-up of observations and recommendations made in previous audits;
- updated permanent audit information, including audit issues arising previously;
- obtained comprehensive understanding of the legal framework for the audit, and taken into account any legislative requirements and changes;
• obtained sufficient understanding of the activity, programme or body to be audited;
• adequately considered factors affecting the audit, including risk and materiality assessments;
• adequately considered the audit objectives;
• properly understood and undertook the audit scope and approach (including materiality thresholds, systems to be evaluated, sampling, reliance on experts);
• undergone appropriate ongoing liaison with the auditee as necessary with respect to the timing, scope and approach of the audit;
• ensured that the planning assumptions remain appropriate, taking into account any significant events occurring after approval of the plan.

There should be written approval of any changes in the audit planning tasks by the Audit Director. Changes that substantially effect the overall audit plan, as to objectives of audit, timing, human and financial resources required should be endorsed by the responsible Senior SAI Management member.

Audit Planning should also include monitoring of job by the Audit Director as to budgeted against actual time spent for each job, based on job sheets filled in by each auditor. Monitoring costs is important to assess whether an audit is developing well or not.

An independent review of audit proposals and programmes by peers or other Units within the SAI may also be a useful method of undertaking a Quality 'Hot' review of the Planning process.

Annex 1 of the Questionnaire (see Appendix 1) provides a number of guidelines on what audit supervisors and reviewers could look into to ensure quality control in audit planning. Work of reviewers should be documented.

Quality in Execution

Typical Methodologies for Carrying out Audit Tasks

The fieldwork has to be performed in accordance with the approved audit plan and should result in sufficient appropriate evidence being obtained to determine with reasonable confidence whether or not the financial statements are free from material misstatement and irregularity or that facts relating to VFM audits are scientifically and/or fairly arrived at.

The following methodologies and practices are used in the execution of audits. All references are to the European Implementing Guidelines.)

1. Sources: Methods and Nature of the Reliability and Evaluation of Audit Evidence include (Annex 1 of No 13)

   Sources:
   Generated by auditor directly
   Obtained by third party
   Obtained from auditee
Methods:

- Inspection
- Observation
- Inquiry and Confirmation
- Computation
- Analysis of financial systems

Nature

Documentary, visual or oral (the reliability of oral evidence, in particular, depends upon the source)

2. Audit Approach includes (Annex 2 of No 13)

Objectives

- Regularity (financial and compliance)
- Value for Money (economic, effective, efficient)

Testing

- Systems Based Approach (testing of internal controls)
- Direct Substantive Testing

3. Study and Examination of Internal Control and Tests of Control (No 21)

4. Information Systems (No 22)

General Installation Controls (Annex 1 of No 22)

- Planning, Staffing, Reporting and Segregation of Duties
- Security awareness and policy of both hardware and software
- Continuity and Disaster Recover
- Management of IT Assets and use of External Service Providers

Application Audits (Annex 2 of No 22)

- Organisation and Documentation
- Input
- Processing
- Data Transmission
- Standing Data
- Output

5. Audit Sampling (No 23)

6. Analytical Procedures (No 24)

- Trend Analysis
- Ratio
- Analysis
Predictive Analysis

7. Using the Work of other Auditors and Experts (No 25)
8. Documentation (No 26)

This is particularly important for supervision, review and quality assurance. Working Papers – current and permanent files; Confidentiality; Retention Procedures

9. Performance Audit Methodology (Annex 1 of No 41)

*Data Gathering Techniques:*

- File Examination
- Audit Sampling
- Secondary Analysis/Literature Search
- Surveys
- Interviews
- Focus Groups
- Benchmarking
- Before-After Studies
- (Quasi-) Field Experiments/Experimental Method

*Techniques for Information Analysis*

- Programme Logic Model
- Descriptive Statistics to understand Data Distributions
- Regression Analysis
- Cost-Benefit Analysis
- Cost-Effectiveness
- Meta Evaluation

The choice and means of conducting the above methodologies should also be actively considered and studied during the Planning Phase of the audit.

**Participants**

The main participants in this phase of the audit are the responsible Senior SAI Management member, the Audit Director, the team leader of the audit and his team members. The senior audit staff would carry out duties of a management nature (direction and review). The team leader of the audit would additionally carry out quality control of a supervisory nature.

**Requisites and Measures to ensure Quality Control in Execution/Fieldwork**

The fieldwork, which would have been appropriately planned during the Planning Stage, should be assigned to individual team members. To ensure quality control during the execution/fieldwork process, measures could include direction, supervision and review procedures to ensure that team members understand their assigned tasks and that the chosen audit methodologies are adequately carried out.
Primary measures may include an SAI management policy for the use of audit programmes and questionnaires setting out the work to be performed and the evidence to be obtained. Another policy could include the preparation of audit files setting out and recording the work done, and the results obtained, as well as the use of pre-prepared worksheets such as for the audit of systems and controls.

The Audit Director and the responsible Senior SAI Management member should ensure that audit procedures and working papers are standardised and that sign-off procedures (i.e. signatures by reviewers to indicate that particular areas of audit work have been reviewed) are actually being applied. During the course of an audit they should review whether the audit team leader and members have taken appropriate measures so that:

- audit documentation is being properly kept and is easily traceable to audit tests and findings;
- audit evidence procedures have been properly followed;
- the planned audit approach remains appropriate in light of information gathered in the audit;
- internal control systems of auditee have been properly documented;
- proper evaluation of internal controls and tests of controls have been carried out;
- controls of an IT nature have been adequately taken into account;
- proper sampling, analytical procedures, data gathering techniques and techniques for information analysis have been used, where relevant;
- working papers include evidence containing adequately all relevant, reliable and sufficient conclusions, recommendations and opinions.

The Audit Director and the responsible Senior SAI Management member should also ensure that:

- audit progresses in accordance with the annual audit plan;
- audit changes in methodologies undertaken by the team are approved by them;
- audit plan and action steps are followed unless he/she has approved some variation to the programme;
- the audit team leader, together with his/her team members, have documented the results of their audit testing and their findings. The findings should be described objectively, truthfully, precisely, completely and comprehensively, with emphasis on materiality and conciseness. Problems should be documented in manual or electronic forms and sorted out later with the more senior auditors or audit team leader;
- technical and professionally competent auditors that they engaged have undertaken the necessary testing and other fieldwork procedures, according to the assignment in hand.

The Audit Director, together with the audit team leader:

- should keep in contact with the team members, and direct, supervise and review, step by step, the auditing work under his/her control until completion of the audit and of the resulting report. He/she should give recommendations and suggestions for the implementation of standards and methodological
guidelines and ensure that the audit tasks are being properly carried out and are being undertaken according to the audit task programme.

The Team Leader should:

- continuously supervise the work of the team members to ensure that work is being carried out appropriately. The type and levels of supervision carried out will be decided upon by the audit team leader and the Audit Director, in terms of SAI practices and Senior SAI Management’s directives. The supervision will depend upon such factors as the number of persons in the audit assignment, their experience, expertise, qualifications and aptitude;

- ensure that daily or periodic sufficiently detailed job/time sheets are kept by all team members carrying out an audit. This would help ensure that work is being carried out on target. Job/Time Sheets are also useful for the supervision process carried out by the team leader or Audit Director.

As a general rule, each team member should be supervised by his/her immediate superior. Team members should be made aware that they should take due care in their fieldwork and that they are held accountable for ensuring that work is properly carried out.

Whatever level an auditor is in the organisation structure, he/she should be encouraged to point out possible shortcomings in the quality control system and to provide his/her own views to his/her superiors on any areas relevant to his/her audit work. Feedback between fieldwork auditors and their superiors helps communications and relations between all levels of staff and better understanding of audit tasks and related problems by all concerned.

Upon completion of the audit testing, the Audit Director should review all the aspects of audit tasks carried out in execution of the audit, including tests carried out, findings and working papers. He/she shall evidence such reviews. He/she, together with the responsible Senior SAI Management member, should also identify changes and improvements necessary for future audits. Management should also seek legal and other technical advice in issues outside its competence, should the need arise.

Annex 2 of the Questionnaire (see Appendix 1) provides a number of guidelines on what audit supervisors and reviewers could look into to ensure quality control in the execution of the audit. Work of reviewers should be adequately evidenced.
Quality in Reporting

### Typical Contents of an Audit Report

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

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

Audit Reports on specific financial statements contain an *Unqualified Opinion* (Clean Report), if no material shortcomings are detected and the Financial Statements “Properly Represent” (for Accounts on Cash-Based System) or “True and Fair View” (for Accounts on Accrual-Based System). If an unusual or important matter (“Emphasis of Matter”) needs to be included in the Audit Report to enable the reader to correctly understand the Financial Statements, this should be contained in a separate paragraph from the Audit Opinion in order not to give the impression that the Audit Report is being qualified.

If the Audit Report expresses a *Qualified opinion*, the Financial Statements are usually qualified in one of the following ways:

- **Qualified Opinion** (if the auditor disagrees or expresses uncertainty with one or more items in Financial Statements which are material but not fundamental in understanding the Financial Statements);
- **Adverse Opinion** (if the auditor is unable to form an opinion on the Financial Statements as a whole due to disagreement that is material and fundamental);
- **Disclaimer of Opinion** (if the auditor is unable to arrive at an opinion on the Financial Statements as a whole due to uncertainty or scope restriction that is material and fundamental);

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

- Summary of the environment within which the activity subject to audit takes place;
- Objectives of the audit;
- Summary of audit methodologies used for collecting and analysing data and indication of sources of data;
- Explanation of criteria, such as Benchmarks, used to interpret findings;
- Conclusions relating to audit objectives;
- Recommendations.

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

The Audit Opinion (Conclusions and Recommendations) in VFM Reports presents all significant instances of non-compliance and criticisms that are pertinent to the objectives of the audit and/or provides independent information on whether economy, efficiency and effectiveness have been achieved or how they can be improved.

### Participants

The main participants in this phase of the audit are the Head of SAI and/or his Deputy, who has to approve the report, the responsible Senior SAI Management member and Audit Director and the team leader of the audit who, together with the Audit Director, draws up the draft report, prior to its submission to the Senior SAI Management for its review.
Requisites and Measures to ensure quality control in Reporting

The Reporting function should be appropriately taken into account in the Planning Stage and Project Management of an audit. This function should be mainly assigned to the audit team leader, together with the Audit Director. Quality control measures during the reporting phase include direction, supervision and review procedures to ensure that the contents of the audit reports are properly prepared in terms of SAI legislation, practices and procedures and that the elements that ensure a good quality report, mentioned under ‘Typical Contents of an Audit Report’, are taken into account.

Once the audit fieldwork is complete and approved, the findings may be presented in an interim report, to be reviewed by the team leader and Audit Director, that would be set out for transmission to the audited bodies. The purpose is to check the accuracy of the audit findings prior to continuing with the drafting of the report.

Once the reply to this interim report has been received, the audit team drafts the final audit report. This is done under close supervision of the Audit Director.

The Audit Director should review the following activities to ensure that the final audit report is presented fairly and professionally:

- Drafting and analysis of the whole report structure, including conclusions, opinions and recommendations made by the audit team leader, in collaboration with his audit assistants;
- Documentary evidence in support of conclusions and opinions, ensuring that there is a clear audit trail for audit steps, findings, conclusions and recommendations prepared by the audit team leader and his assistants and a well developed cross-referencing to Working Papers;
- Facts presented in neutral terms;
- All relevant material findings are included;
- Reports are constructive and positive conclusions are also presented;
- Views of the auditee are mentioned (if appropriate) and questions of fact are resolved with the auditee. Any divergence of opinion was discussed during an exit conference or contradictory procedure with auditee;
- Structure of the report is in line with SAI policies and standards;
- Reports are short, clear, precise, simple and objective;
- Events subsequent to audit are taken into account in the final audit report;
- Written representations are made by management of auditee, particularly in instances where certain audit findings cannot otherwise be confirmed;
- All audit findings have been evaluated as to their materiality, legality and factual evidence;
- SAI procedure is followed on how to follow up serious irregularities and fraud discovered in the audit;
- Time limits are adhered to.
Some SAIs may find it useful to have a system wherein the audit report is submitted to a specific Section within the SAI that reviews the audit report, prior to submitting it to the responsible Senior SAI Management member for final review. This step may, alternatively, be carried out following the review by the responsible Senior SAI Management member, but prior to submitting it to the Head of SAI and/or his Deputy.

The report and the audit file are then passed on to the responsible Senior SAI Management member for final review. He/she reviews the report and ensures that the Audit Director has adequately performed his/her own review. Where sensitive issues of a legal nature (for instance, those relating to data security) are involved, the responsible Senior SAI Management member should seek legal advice. The responsible Senior SAI Management member then approves the report or amends it as necessary.

A further step may be the editing of the report by an editor from inside or outside the SAI, prior to submission of report to the Head of SAI and/or his Deputy. Such an editorial review can be useful to assure the clarity of the writing. One further step could be to have a person from inside or outside the SAI – but who has no knowledge of the subject of the audit report in hand (other than that of a layman) – to review the audit report. This would help assure that the report would be understandable to persons not involved in the audit, such as the Members of Parliament and the public in general.

The amended final report is then referred to the Head of SAI and/or his Deputy who signs the report, following any amendments he/she may wish to make.

Annex 3 of the Questionnaire (as Appendix 1) provides a number of guidelines, some of which are additional to the ones above, on what audit reviewers could examine to ensure quality control in the reporting function of the audit. Work of reviewers should be adequately evidenced.

Post-Audit Quality Assurance

General

Each organisation conducting audits should have an appropriate internal quality control system in place during all stages of an audit, known as ‘Hot’ review, which was discussed in the previous section of this chapter. Apart from such a system, the SAI should undertake further internal or external post-audit quality assurance reviews. These ‘Cold’ reviews help establish whether systems are working effectively. Recommendations for improvements are usually also identified for future audits.

Types of Post-Audit (‘Cold’) Quality Reviews

Post-Audit Quality Reviews may be in the form of:

- Internal Evaluations. These evaluations are carried out by the SAI’s own auditors or other experts who are independent from the audit in question. They would look into the presentation and format, technical content and quality of audit, initial impacts and overall assessment;

- External Evaluations. These involve external experts -- academic or other professional bodies, other SAIs or other foreign organisations -- who may be engaged by the SAI to look into specific audits;
• Feedback from Auditee. Comments on the conduct of the audit and report is requested from the auditee in order to view their perspective of how well managed the audit was and whether the auditee could perceive whether any value added was achieved, for instance through SAI’s recommendations;

• Team Review. The audit team of the audit task get together and discuss what lessons have been learnt: what worked well and why, what was less successful and why, and what lessons could be drawn for the future.

(Source: Value for Money Handbook (Spring 1997) Part Four: Securing quality in our VFM work)

Another type of ‘Cold’ Review is the so-called ‘Peer’ Review, which is usually only carried out at an interval of several years. In this type of review, the audit institution’s organisation and working methods are assessed and commented and reported upon by senior members of another SAI (equivalent), who would also suggest measures for improvements. Such reviews are commonly organised for EU Candidate Countries by SIGMA, which engages senior auditors from EU Member State SAIs for this task.

Indirect 'Cold' Reviews may include surveys to interested parties (that would provide opinions on the SAI and its audit reports); feedback from the Parliamentary Committees or Parliamentarians that review the audit reports; comments on report from the media; and any other forms of expressions on the audit and audit report that are made following the completion of the relevant audit.

Opportunities and Risks of 'Cold Reviews'

Opportunities

An independent review, particularly if from outside the SAI:

• Establishes whether the audit process is functioning efficiently and effectively and provides a fresh set of ideas;

• Facilitates the quick implementation of lessons learnt;

• Provides hard facts for the necessity of improving audit processes;

• Encourages the continuous improvement process within the SAI;

• Identifies areas of good practice that can be shared between colleagues.

Risks

On the other hand, an independent review may entail the danger of:

• Popular reports' being prepared by reviewers that would centre solely on weaknesses and could de-motivate audit staff;

• Being time-consuming and detracting attention from other urgent tasks;
• Not being objectively carried out, in the case of internal ‘Cold’ Reviews, in view of reluctance to criticise peers.

**What Post-Audit Reviewers may examine in Regularity Audits**

The reviewers may look into such issues as to whether:

• Audit was properly planned and whether risks were identified and received the appropriate attention;
• Sufficient work was performed to support the Head of SAI’s opinion on the audit report;
• Conclusions on audit judgements are properly explained and supported by audit working papers;
• Audit Opinions are fully supported and documented in working papers;
• Financial Statements are presented in accordance with government accounting and other relevant regulations;
• Working Papers are in accordance with SAI policies and procedures


**What Post Audit Reviews may examine in VFM Audits**

The reviewers may look into such issues as:

• Audit issues and scope;
• Methodology;
• Conclusions and Recommendations;
• Administrative and management context;
• Structure, presentation and format;
• Graphics and statistics.

*(Source: Quality assurance of NAO value for money studies (2001) - NAO UK):*

**Required Elements for Post-Audit Reviewers**

Post-Audit Reviewers should:

• Be qualified and experienced;
• Be independent from audit being reviewed (except for the Team Review);
• Have power to select audits;
• Have sound professional judgement;
• Review audit reports, working papers and documents and carry out interviews with staff involved in the audits;
• Have knowledge of quality control systems in place;
• Prepare written, timely reports to communicate results of external quality control review, and resulting recommendations. The latter should be constructive and balanced, taking into account the difficulties and constraints faced by the Unit carrying out the audit.

Procedures should be established by the SAI, in collaboration with the post-audit reviewer, to determine the nature, extent, frequency and timing of post-audit reviews.

Inventory of documentation, and documents requested by reviewers, should be available to reviewers within an established reasonable time frame (of, say, up to five days). Such documentation should not be retained unnecessarily by reviewers and should be returned to the relevant Unit or Archives as promptly as possible.

Post-audit reviews should not take up an excessive portion of audit time and costs. Time and costs should preferably not exceed five percent of the whole audit time and costs taken for the relevant audit.

Quality Assurance Conclusions

Post-Audit Reviews are not commonly undertaken by the participant SAIs as could be seen by the replies to the questionnaire. This is, however, an important type of review as it independently and objectively ascertains whether an SAI’s quality control system really operates as intended and is efficient.

It would also be appropriate if annual internal reports on Post-Audit Quality Reviews summing up more general findings and recommendations were be presented to and discussed by SAI audit staff. These would be useful for objectively identifying shortcomings and improvements required and stimulating suitable corrective measures.

SAIs are therefore encouraged not to limit quality controls to ‘Hot’ Reviews but to also undertake ‘Cold’ Reviews on a systematic basis.

Institutional Management for Quality

Quality controls are essential for assuring that the planning, execution and reporting phases of the audit process are carried out properly. Post-audit quality reviews are essential to assure that the controls are operating properly and to identify ways to improve their effectiveness. But achieving a consistent standard of excellence in the audit work requires going beyond these. It requires assuring excellence in the people carrying out that work. And achieving needed changes in state entities through the auditing requires effective relations with those who have the capacity to make those changes or the influence to cause them to come about. Top management of advanced SAIs spend a considerable portion of their time, energy and budgetary resources on managing their human resources and their external relations. That is the focus of this part of the chapter.

Recruitment

Leading SAIs establish a clear strategy for recruiting and selecting new members of the staff. One element of this strategy is to seek excellence in the people they hire. One technique that is often used is open
competition for vacant positions, at both the entry level and at more senior levels of the organisation. Because of the organisation’s stature, there are typically far more applications than vacancies, so the task is to select the best from that pool.

The second element of the strategy is to anticipate the SAI’s future needs and recruit to fill those needs rather than simply replicating the existing staff. For example, the conduct of modern attestation audits – in which the primary focus is on examining the auditee’s accounting systems and internal controls – requires different skill from those involved in regularity audits. Similarly, performance audits require a different, and broader, array of skills than financial audits. Thus, the type of work the SAI expects to perform in the future should be a key part of the decision of whom to hire.

**Training**

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

*Technical training* is intended to equip the auditor with the methodological knowledge and skills needed to plan, execute and report whatever type of audit (financial, performance or other) the individual auditor is expected to perform, and to do so efficiently and at a high level of quality.

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

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

**Staff Development**

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

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

- Transparent, so that everyone can understand the basis for the selection, and
- Fair, so that the selection process is seen as being objective and there is no appearance of favouritism.

Failure to assure this can have serious ramifications for morale within the SAI and, indeed, for the external stature of the organisation. Advanced SAIs go to considerable lengths to avoid these risks. Many use a process of open competition, in which the vacancy is widely publicised, along with the qualifications sought on the part of the eventual occupant of the position. Any person is free to apply for any vacant position. Each candidate is then interviewed by several senior managers who assess the candidate’s background, experience and qualifications in comparison to the established requirements of the position. These assessments are then delivered to a selecting official who makes the final decision. Typically, this would be the immediate superior of the vacant position but, depending on the sensitivity of the position, the final decision may require approval at higher levels in the SAI.

**Managing External Relations**

Effective management of its human resources, together with effective quality assurance systems, can assure that the SAI is capable of producing high quality work. But the overall effectiveness of the SAI in achieving greater accountability, economy, efficiency and effectiveness in government entities depends critically on the relationships it establishes and maintains with others. One of the most important of these, the SAI’s relations with Parliament, was the subject of a prior report. Other relationships, however, are also important and warrant continuing high level attention by the leadership of the SAI:

- Mutually supportive relations with the Ministry of Finance are vital to achieving improvements in government accounting and internal controls, objectives which should be shared by both organisations.
- Mutually respectful relations with line ministries and state agencies are necessary to allow auditors to do their work efficiently, without inappropriate interference and impediments.
- Good relations with the media are necessary to assure that the public is aware of the important SAI products and of the actions taken (or not taken) in response.
- Good relations with private sector auditors and relevant professional associations can lead to sharing experiences that can strengthen quality in both sectors.
- Good relations with the academic community can facilitate drawing on that source of specialised expertise, when needed, and in recruiting high quality graduates.

Developing each of these relationships successfully requires a clear strategy in each case, and may entail considerable effort by the SAI.
Conclusions

Assuring high levels of quality in an audit organisation involves a succession of steps that must be taken over a period of time. In fact, it is a never-ending process of continual improvement. The first requirement is to define the standards of quality and then to put quality control procedures in place that will assure that these standards are met. These procedures need not – and should not – suppress the initiative and good judgement of the auditor in adapting to particular circumstances. If the auditor judges that it is necessary to depart from the usual audit techniques, it is incumbent upon the auditor to demonstrate the necessity of doing so, and to show that the approach he or she has chosen is capable of satisfying the audit objectives.

The next stage in the evolution of an SAI’s quality management is to assure that the quality control procedures are working effectively and to identify ways of improving the effectiveness and/or the efficiency of the procedures. The best technique for accomplishing this is the use of various types of post-audit quality reviews.

In view of the importance of this theme and increased awareness by SAIs on quality control, it may be advisable to have Item No. 51 “Quality Assurance” of the European Implementing Guidelines reviewed in order to have a more comprehensive and detailed Guideline once the European Implementing Guidelines for the INTOSAI Auditing Standards are brought up for updating.

Achieving true excellence requires going even further. It requires building an institutional culture in which high quality is a fundamental value that is reflected in the management of the SAI’s human resources and in its relations with other institutions.
APPENDIX 1: QUESTIONNAIRE

Quality Control in the Audit Process

Definition: Quality control consists of all measures taken and procedures carried out within the audit process to guarantee the quality of audit work and of the resulting report (ECA Audit Manual: Module B.12, No 9).

SAIs are invited to answer four questions. The first three cover quality control in the broad area of the audit process, being Planning, Execution and Reporting. The fourth seeks information on SAIs experiences in problem areas.

Question 1:

Please describe the main quality control rules, regulations and procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

Question 2:

Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

Question 3:

Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

Question 4:

Have SAIs experienced any practical problems in operating their quality control procedures and what lessons have been learned?

In order to assist colleagues in framing their replies to Questions1-3, certain background information and guidance is attached in Annexes 1-3. A checklist of key elements which might feature in the Quality control arrangements is included for each area. Any information on these specific areas which colleagues may wish to provide would be welcomed.
Annex 1

Part I: Planning the Audit Task

Ways in which specific audits are carried out in various countries differ substantially. The manner applied depends mainly upon the type of an audit (a regularity audit or performance audit). Each of the individual Supreme Audit Institutions has chosen, in this regard, its own methodologies, according to the type of audit undertaken. Moreover, some audit tasks are aimed at just one entity, whereas other audit tasks may be aimed at several entities simultaneously. Therefore, the scope, content and form of audit task plans may differ accordingly.

According to the “European Implementing Guidelines for the INTOSAI Auditing Standards” (No 11 Audit Planning, Annex 1, Appendix 2), typical contents of an audit task plan contains:

1. Legal framework for the audit;
2. Brief description of the activity, programme or body to be audited (including a summary of the results of previous audits and their impacts);
3. Reasons for the audit;
4. Factors affecting the audit, including those determining the materiality of the matters to be considered;
5. Risk assessment;
6. Audit objectives;
7. Audit scope and approach;
8. Resources required, and when;
9. If appropriate, an estimate of the fee to be charged for the audit;
10. Details of those within the audited entity responsible for liaison;
11. Timetable for the audit, and date that draft report will be available for internal consideration;
12. Form, content and users of final output.

Possible Checklist:

- ensuring that Planning is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI
- obtaining relevant information regarding laws and regulations that might have a significant impact on the audit objectives
- preliminary investigative audit (an audit that aims at conducting an initial study of specific issues to help prepare an audit task plan)
- determining objectives and scope of audit
- identification of sources (e.g. media, findings of auditee's internal audit, inspection and other control bodies) as background for audits
- determining list of activities for audit
highlighting of special problems foreseen when planning the audit
ensuring that members of audit team have a clear and consistent understanding of the audit plan
follow-up is made of issues in previous related audits
understanding the finance, accounting and other relevant functions of the organisation
identification of key elements of internal control system of auditee
using appropriate analytical procedures
identification and analysis of relevant ratios and comparative figures
identification of trends or deviations from predicted amounts
identification of sampling method and sampling population
choice of relevant performance indicators
assessment of inherent and control risks
establishment of materiality criteria and thresholds
establishment of degree of confidence decided for audit
choice of appropriate experts/consultants
preparation of budget and schedule for audit
assessment of reasonable resources necessary to undertake audit
assessment of staff requirements and team allocated for audit
investigation and settlement of queries raised during review stage
drawing up, approval, review of Audit Programme by Head of Division
checklists used in the process of (a) drawing up, (b) issuing an opinion about, (c) approving an audit
task plan
other procedures and practices used in the planning phase of an audit
practices to continuously enhance quality control procedures in the planning phase of audit

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8 The concept of checklist may be presented using as an example the work of the European Court of Auditors. “Audit Planning Checklist” is a form with which a confirmation is obtained that an audit was planned in compliance with the Court of Audit Policies and Standards and its Audit Manual. See Audit Manual, Annex B.5.2 Audit Planning Checklist.
Annex 2

Part II. Execution of Audit

Execution of Audit includes such areas as:

- Tools and Techniques of Carrying out Audits, such as Observation, Questionnaires, Inspections, Use of CAATS, Statistical Sampling
- Study and Evaluation of Internal Controls
- Evaluation of Audit Evidence
- Analysis of Information
- Proper Interpretation of Results
- Proper Use and Maintenance of Working Papers
- Use of Expertise

According to the INTOSAI Auditing Standards (Section 3.2.4) “All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the audit progresses. Review brings more than a level of experience and judgement to the audit task and should ensure that:

a) All evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;

b) All errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and

c) Changes and improvements necessary to conduct future audits are identified, recorded and taken into account in later audit plans and in staff development activities.

Possible Checklist:

- Execution of audit is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI
- Audit examiners have a sound understanding of techniques and procedures such as inspection, observation, enquiry, etc to collect audit evidence
- All phases of audit have been carried out as planned and approved
- Valid explanations are available for non-implementation of any phases of audit
- Appropriate approval exists for significant deviations that have taken place from approved audit
- Staff resources used for audit are largely in line with those planned in terms of time, grade of staff and expenses entailed
- justification for material deviations for budgeted staff resources
- appropriate audit techniques and audit procedures used to fulfil each audit objective in order to provide effective audit evidence
- use of Computer Assisted Aids Techniques (CAATS)
- all envisaged tests for evaluation and reliability of internal controls are used
- appropriate analytical procedures are used and the reliability, independence and quality of relevant supporting data is assessed
- sampling methods are used according to SAI's manuals
- all tests of transactions clearly indicate audit objectives, adequately explain nature and extent of audit work and provide an overall conclusion as to results of audit work
- audit steps and procedures have been designed to obtain sufficient, competent and relevant evidence
- full investigation is made of all queries raised during audit
- existence of adequate working papers in respect of:
  - evaluation of internal control systems
  - audit of routine procedures
  - tests of controls
  - analytical review
  - substantive tests
  - audit of computer-based applications
- Working Papers are appropriately cross-referenced
- audit completion checklists are comprehensive and have been completed, approved and duly evidenced
- work of consultants and other experts has been properly monitored
- other procedures and practices used in the execution phase of an audit
- practices to continuously enhance procedures in the execution phase of audit
Annex 3

Part III. Reporting and Completion of Audit Task

According to the INTOSAI Auditing Standards (Section 4.0.7 a) "At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive".

Possible Checklist:

- reporting is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI
- performance of overall review of financial statements or activity being audited
- form and content of reports are in accordance with established procedures (e.g. title, signature and date, objectives and scope, addressee, legal basis, timeliness, etc)
- terminology used in report can be easily understood by persons to whom report is presented and technical terms are fully explained
- all audit findings have been evaluated in terms of materiality, errors and other irregularities
- all errors, deficiencies and unusual matters have been properly identified, documented and satisfactorily resolved or brought to the attention of a senior SAI officer
- final Audit Report covers all areas of objectives of audit activity and explanations are obtained for omissions
- observations and conclusions in report are supported and well documented to ensure completeness, accuracy and validity of working papers
- all evaluations and conclusions are soundly based and supported by competent, relevant and reasonable audit evidence
- only sufficiently material audit findings are included in the main audit report
- report is timely, comprehensive, performed by suitably qualified staff, appropriately documented and adequately incorporates the audit opinion
- letters of Weakness/ Queries/ Management Letters are submitted to auditee in due time
- receipt of relevant and timely replies to SAI reports and other correspondence is ensured
- replies are carefully studied
- all observations contested by auditee are duly evaluated
material relevant comments by auditee are included in the audit report

relevant significant events occurring following completion of audit are taken into account in final audit report

all significant fraud or other irregularities are notified to appropriate authorities

audit files have been updated to take into account results of audit

material items requiring subsequent follow-up by SAI have been duly identified, recorded and taken into account

other procedures and practices used in the reporting phase of an audit

practices to continuously enhances procedures in reporting phase of audit

procedures to evaluate effectiveness of quality control arrangements.
APPENDIX 2 – REFERENCE DOCUMENTS

The following materials have been collected together and presented in a separate volume entitled “Reference Documents” relating to quality in the audit process. These materials have been used by the Expert Group in their deliberations during the preparation of this report and are being made available for use by participant SAIs.

- INTOSAI Auditing Standards (2001)
- 2001 IFAC Handbook of Auditing and Ethics Pronouncements
- ECA Audit Manual
- European Implementing Guidelines for the INTOSAI Auditing Standards
- Recommendations concerning the Functioning of Supreme Audit Institutions in the context of European Integration (1999, Prague)
- GAO Government Auditing Standards (July 1999)
- GAO document on An Audit Quality Control System: Essential Elements (August 1993)
- OAG (Canada) Annual Audit Manual (May 2002 Revision)
- OAG (Canada) Value-for-Money Audit Manual (July 2002 Revision)
- UK NAO Approach to Financial Audit Review (Audit Circular-Financial AC 01/02)
- UK NAO Review of Financial Audit Work (Audit Circular-Financial AC 01/02)
- UK NAO Quality Assurance Cold Reviews
- UK NAO: Obtaining Feedback from Financial Audit Clients (Audit Circular-Financial AC 11/02)
- UK NAO Standards Assurance Review Procedures (Audit Circular-Financial AC 12/02)
- UK NAO Value for Money Handbook (Spring 1997)
- Quality Assurance of UK NAO Value for Money Studies
- UK NAO Quality Review Criteria
- UK NAO Reports: An Invitation to Comment
- UK NAO Project Team Questionnaire
- Building in Quality (Quality Review of UK NAO VFM reports 1999-2000)
- NCA Self-evaluation Manual (April 1999)
- NCA Manual on Quality Requirements and Instruments (April 1996)
- SCA Guideline on Quality Assurance (December 2001)
Quality in the Audit Process

Volume II

Questionnaire Replies
and Country Papers

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Bucharest, 13 December 2002
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I. Questionnaire Replies
ALBANIA

Question 1:
Please, describe the main quality control rules, regulations and practices used by your SAI in the planning phase of an audit. Also, state what type of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the relevant areas have been properly dealt with by the audit examiners in an audit planning.

Based on international audit standards, our SAI is handled by the principle that the supervising staff and a good management of the Audit Group is very important to carry out comprehensive audits, with less expenditure and within the required period\(^1\). For this reason we have considered the respective standard of the state audit according to which: “The work of the audit group at each level and audit phase should be completely supervised”.

It is reflected in “Internal regulation of Supreme State Audit, where is clearly described and in detail the audit for providing of the quality in the three phases of the audit process: planning, audit exercise and reporting.

In this regulation is defined that in the planing phase of an audit should be gathered and analysed a complete information on a subject being under control, where is envisaged even a preparatory discussion with the entity. Similarly, is worked the legislation field which regulates the activity of this entity. After that, the chief of the Audit Group along with the group of auditors compile the audit program.

The audit program framed by the Audit Group as above, is reviewed and discussed with the chief of the audit sector of Department which carried relevant audit. The audit program is analysed with all audit group, by the Head of the audit Department and after to be reflected the observations, the audit program is approved by the Head of Department.

After the approval of the Head, the relevant audit program passed to a higher management rank of SAI for adoption: General Secretary and at the end the Chairman. In this level is organised a meeting to discuss this program between director, General Secretary and Chairman. In this phase, after presentation of the observations, is approved by SAI Chairman and in this way is finalised the quality insurance of an audit planning.

Question 2:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also, state what types of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the relevant have been properly dealt with by the audit examiners in an audit conducting.

Normally, in this phase the chief of the Audit Group and auditors start the carrying out of the audit in the place. The chief of the group for the audit conducting and quality obtaining is required to keep in touch continually with the employee charged by the head of the entity being under control. Also, he supervises continually the auditors for the progress of the auditing work according to the program and planned phases. According to the duties specified in Regulation of Supreme State Audit, the sector chief and head of Department who conduct

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\(^1\) Reply received 15 July, 2002 from the State Supreme Audit of Albania.
the audit, to be in contact and review step by step the auditing work in a subject until to be ended it. So, they give their suggestions and recommendations for implementation of standards and methodical guidelines and consequently, for realisation of relevant quality control. They investigate with care the work process according to the phases, defined in the planing process and when it is necessary for the important issues to contact with the head of the subject which is under control as well as to report regularly to the senior management of SAI. In any case, by the head of Department or the SAI Chairman, there are organised monitoring meetings with the Audit Group and then are given relevant suggestions. Also, there are organised confrontations with the parties (auditors and audited) to explain key issues, when are pointed out serious legality infringements.

Question 3:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in reporting phase of an audit. Also, state what types of procedures and practices (directions/supervision/reviewing) are in place to ensure that the relevant areas have been properly dealt with in an audit reporting by SAI.

Based on “Internal Regulation” of SAI the whole work in reporting phase subordinated to the quality control. It starts with preparation of the draft-report of the audit sending to the audit subject after termination of auditing work in the place which is framed by the Audit Group based on the audit evidence and necessarily it reviewed in detail and approved not only by the sector chief but even by the head of relevant audit Department. The project of the audit report sent officially to the audited subject. After presentation of observations by the audited subject within the legal term of a month, according to the draft of the audit report by the Audit Group, is drawn up the final audit report which follows the same phases of the audit of quality obtaining as project audit report, but now examining in detail observations made by the audit subject and reflecting them (if they are correct) in final audit report.

After the drawing up of the final audit report by the Audit group are proposed the measures, which sent to the audited subject for improvement of situation. This process developed through continues reviewing and consultation with sector chief and Head of Audit Department and juridical sector, as well as with officially approval by their part of the measures proposed to the senior management of SAI. Such recommendations reviewed and approved by the General Secretary passing to the SAI Chairman for adoption.

After reviewing with care by the SAI Chairman is taken a decision by him for approval of the measures recommended to the audited subject or highest instances from which depends on this subject, they are officially sent to audited subject along with a copy of final audit report.

Question 4:
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

During implementation of the procedures of audit performance during 1998-2001-years, there are identified four cases (audits) of wrong quality, dissimulation of the infringements of auditors, which then became discussion and improvement object.

However, based on the fact that our country aspires to be candidate in EU, we think that such procedures should be improved by our part, in order to be in conformity with experience of EU SAI’s.
Post-Audit Quality Review

SAI in Albania has an organised specific sector, which supervises and estimates the functioning of the internal audit at public sector.

So, the analyse form of the Post Audit Review (cold) is mainly referred to “the internal assessments” and in some cases even “external assessments”, mobilising by our SAI, experts of relevant field, not related to the subject being under control of SAI.

Our analyse evaluate the internal audit reports in respect of providing of internal control quality, in these key directions:

- If the audit is carried out on the base of an approved method, which determines the specifications of the audit exercising, according to the nature of the activity to be audited.
- If is involved entire activity of the subject under control in the audit program and is this program is applied in all specified questions and in a fixed term.
- If there are correct determined the elections, what are the fields with high risk and treatment of the problems raised by the audit findings.
- If for the irregularities disclosed by the audit are determined the responsibilities, are recommended improvements and how they are applied.

On these directions, SAI analyses and evaluates the internal audit and defines recommendations for improvements in the future.

As the sound points of the “cold” system at our SAI there are:

- Determination of irregularities by SAI in the methods of the guideline on the audit exercise, identifying disclosed fields and with risk, as well as recommending their completeness according to the audit standards.
- SAI assessment of internal audit recommendations in according to the effectiveness for the irregularities reduction.
- Supporting of the heads to the structures charged with internal audit and their reports and recommendations.

As weak points of the “cold” system are:

- Actually, is evident the lack of the audit manuals and existing guidelines don’t complete yet the necessary framework in service of the auditors to carry out a qualitative audit.
- There is not established yet an internal audit system, organised according to the auditing standards, to prevent the irregularities, which becomes difficult the SAI work to analyse and evaluate the internal audit.

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2 Received 1 November, 2002.
Question 1:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

The National Audit Office of Republic of Bulgaria ensures the quality of its audit activity according to the adopted auditing strategies, policies and standards which are in compliance with the internationally adopted auditing principles and standards and the good European practice³.

These standards are improved according to the requirements of the new Audit Office Act (adopted on December 4th, 2001) and the results achieved from testing in practice. Moreover, the quality of the audit is ensured by adoption of Guidelines on applying the procedures based on different law articles.

The main procedures, which guarantee the quality at planning phase, are as follows:

- determining the legal framework, which regulates the activity of the audit entity;
- preliminary investigative audit of special issues connected with the activity of the audit entity;
- determining objectives and scope of the audit;
- study of information on the activity of other controlling institutions (PIFCA, Tax and Customs administration, controlling authorities of Public State Insurance Fund, inspectorates to the respective institutions);
- determining the concrete activities and functions to be audited;
- follow-up of recommendations made to previous related audits;
- collecting information about the organisational structure, finance and accounting of the audit entity;
- preliminary study and assessment of internal control system and key controls of the audit entity;
- determining the appropriate analytical procedures;
- determining the sampling methods;
- assessment of inherent and control risks levels;
- determining the materiality criteria and threshold;
- determining confidence degree;
- assessment and specifying the requirements for auditors’ qualification and skills included in the audit team and assessment of the changes needed;
- determining the necessity of appropriate external experts /consultants;
- preparation of audit schedule and planning the responsibilities among the auditors.

³ Reply received 28 June, 2002 from the National Audit Office of Bulgaria.
The results from the preliminary study are included in a report, which is a base for working out a program by the head of the audit team for implementation of the audit task. The Head of Department or the Director of Regional Office approves the program. The creation of a current audit file in compliance with the Working Papers Standard also helps establishing quality control at audit planning phase.

In connection with the appliance of the new Audit Office Act samples of documents are accepted which contribute to the improvement of the quality control on the audit activity and the assessment of the reasonable resources necessary for the audit as well as the term for the audit completion. An information system has been set up and the Secretary general bears the responsibility for it’s functioning.

Question 2:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting the audit.

The main procedures and practices, which guarantee the quality at the execution phase, are as follows:

- knowledge and appliance by the auditors of methods and techniques for obtaining of sufficient, reliable, relevant and reasonable audit evidence;
- follow-up by the head of the audit team the accomplishment of separate phases and activities of the audit in compliance with the approved audit program and in the specified terms;
- requirement for justified explanations by the head of the audit team when there is non-fulfillment at a given phase of the audit program;
- approval by the Head of Department or the Director of Regional Office after coordination with the President of the National Audit Office of changes to the audit program which modify significantly the planned aims and scope of the audit task and require additional resources for its fulfillment;
- participation of auditors in the audit nominated by the NAO President’s order which assigns the accomplishment of the audit;
- issuing of order by the President of the NAO when changes to the auditing team are needed after a report by the Head of Department or the Director of Regional Office;
- use of test for assessing the reliability of the internal control system;
- use of analytical procedures and assessment of the reliability, independence and quality of the audit evidence;
- use of suitable sampling methods in accordance with the adopted Audit Sampling Standard in order the achieved results to be representative for the sampling population;
- follow-up by the head of the audit the observance of the audit procedures in accordance with the aims and scope of the audit;
- supervision of the work of external consultants and experts;
- checking the quality of the working papers at the execution phase of the audit by the Head of Department or the Director of Regional Office before preparing the final audit report or statement.
According to the new Audit Office Act the NAO has the right to fulfil financial audit, performance audit or other specific audits based on adopted and published in the State Gazette ten audit standards. This is of high importance for unification of the audit activity as well as for the knowledge of the rules for audit performance by the audit entities.

Under implementation of the Twinning project with twinner United Kingdom NAO auditors are trained in using computer techniques and methods for more effective performance of financial audit and performance audit.

**Question 3:**
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

The main procedures and practices, which guarantee the quality at the reporting phase, are as follows:

- observing the general principles, procedures and requirements defined in the adopted Reporting Standard;
- compliance of the reports’ content with the defined in the standards requirements for the separate types of audits;
- guarantee of the audit report quality by a decision of the NAO for approving, amending or repealing completely or partially findings or assessments of the audit report;
- forwarding by a decision of the NAO the audit documents or the audit report to the respective competent authorities for taking the property or administrative penal liability in cases of findings of damages and infringements in the execution of the budgets;
- forwarding by a decision of the NAO of the audit documents or the audit report to the Prosecutor’s authorities in case of findings of crime;
- follow-up the fulfilment of the recommendations from the audit reports submitted to the Parliament including the report on the NAO activity;
- examining by the Budget and Finance Committee or by other parliamentary standing committees of the reports on the results of the fulfilled audits and proposing of concrete decisions;
- submitting reports on the results of the audits carried out by the decision of the Parliament to certain parliamentary committees and the National Assembly which can undertake the respective decisions based on the audit findings, assessments and recommendations in the reports;
- direct follow-up of the audit results by the Government. The Council of Ministers and the other executive authorities /Municipal Council and Regional Governor/ have to inform NAO on the measures undertaken with regard to the submitted reports whenever the recommendations for the audit entity of an executive authority have not been fulfilled;
- forwarding to the European Court of Auditors and the European Commission of reports on the results of audits carried out on EU funds and programs. When infringements have been found the report with enclosed audit evidence has to be submitted;
- strengthening the publicity and transparency of NAO activity publishing audit reports on the web-site and in the NAO Official Bulletin.
Question 4:
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

With the new Audit Office Act provisions connected to the appliance of quality control procedures of the independent external audit in the public sector have been adopted which allows the improvement of the system for quality control. The unification of the audit process through adoption of standards, the differentiation of departments for fulfillment of financial audit, performance audit, specific and interim audits and improvement of the auditors’ qualification in different types of audits are prerequisites for increasing the quality and effectiveness of the audit process.

Post-Audit Quality Review

The National Audit Office (NAO) of the Republic of Bulgaria carries out Post-Audit (“Cold”) reviews through:

- Internal evaluations by the Head of Department (member of the Board) or the Director of Regional Office, who express conclusions on the opinions/objections on the respective audit reports given by the auditees managers. In their conclusions they may confirm, amend or repeal entirely or partially findings and assessments of the audit report.

- Internal evaluations by the NAO Legal Assurance and Development of the Legal Framework of the Audit Activity Department. It gives opinions on the audit reports, when they comprised findings on irregularities, damages or criminal acts, for which a responsibility is to be born. The Department may confirm or propose to the NAO, as a collegiate body, to amend or repeal entirely or partially the respective findings as well as the conclusions on the opinion of the auditee’s manager given by the Head of the Department or the Director of the Regional Office.

- Ex-post and interim supervision on the implementation of the NAO recommendations. The Head of the audit team supervises the implementation of the recommendations given, concerning their content and implementation deadlines. When the recommendations are not implemented, the NAO informs the respective competent authorities, as it is stipulated in the NAO Act, which are obliged to undertake the respective actions and to inform the NAO on the steps taken.

- Feedback information from the audited entities. Through letters they express satisfaction from the audits conducted and from the support given for improvement of the management of the budgetary and other public funds.

- Evaluation by other SAI experts. This form of a “Cold” review is applied in pilot audits, which are carried out with the assistance of SAI experts, supporting the implementation of projects executed with Phare Programme funds. The external experts assess the quality of the audit reports and the recommendations given after finalization of the pilot audits.

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4 Received 26 November, 2002.
1. IN PLANNING AN AUDIT

Aiming to standardisation of working approach, scope and methodological procedures, Republic of Croatia, through the State Audit Act, accepted INTOSAI Auditing Standards. Policy of planning an audit procedure has been stated in accordance with the Field Standards of INTOSAI Auditing Standards, and has been further developed in the Audit Manual.

Audit planning demands high quality assurance of audit results, together with timely completing of audit reports, as well as with the aims of economy, effectiveness and efficiency. To complete those demands, it is needed:

- to notice (observe) and assess environmental impact on the auditee's functioning,
- to settle the object of audit,
- to notice (observe) and assess system of management, of Internal Control and Internal Audit,
- to settle best audit approach, and
- to insure relevant documents concerning audit planning.

Scope of audit, as well as goals and criteria, have direct impact on planning of certain steps in audit procedure. Description of planning procedure:

1.1. Decision on audit work

In accordance with the Annual (Operative) Audit Plan, Auditor General carries decision on audit work. Decision is based on collected data and information about auditee and on defined goals and criteria.

Decision contains following information:

- legal framework for the audit (incl. reason for audit);
- brief description of audit activity or program to be audited;
- fact that audit procedures will be carried out in compliance with INTOSAI Auditing Standards;
- legal obligation of auditee to furnish auditors with complete required documentation, deeds, statements and other records, as well as to provide other information needed for audit work.

Decision also names:

- subject of audit;
- object of audit;
- period of audit (time needed to finish audit work);
- beginning of audit, and
- names of team members and the team leader.

Information on decision is given to the team members, after what the team leader takes over all further audit procedure obligations.

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5 Reply received 5 June, 2002 from the State Audit Office of Croatia.
1.2. Audit plan frame

After decision on audit work, the team leader produces the frame of audit plan, as the base for detailed audit programme.

Audit plan frame contains:
- audit subject;
- period to be audited;
- audit activities on which auditors will pay special attention,
- beginning of audit, and
- audit team composition.

Audit plan frame is given to the auditee as information on audit object.

1.3. Audit Programme

Based on audit plan frame, the team leader develops the detailed Audit Programme.

Detailed Audit Programme contains information on:
- audit object;
- composition and name of team members;
- time planned for audit work;
- list of all activities that each team member has to do during the audit, together with the number of working hours needed for accomplishment of these activities.

Detailed Audit Programme is SAO's internal document, and is an obligatory part of audit documentation.

2. IN CONDUCTING AN AUDIT

Based on SAO's legal mandate stated in the State Audit Act and on SAO's Statute, number and kind of staff for accomplishment of all tasks has been stated in the Ordinance on SAO's Internal Working Procedure.

In the middle of 2002, there have been 282 employees in the Office. By the status, there are 28 of management staff (deputy, 7 assistants to the auditor general and 20 heads of the regional offices). However, organization of work is established in the manner that all administrators are direct executors of work and tasks, and managing is actually coordination through direct work. In practice, administrators are often leaders of the auditing teams in which they coordinate work and perform most of difficult jobs. In that manner at the same time is conducted part of the professional improvement of young auditors, and is obtained higher level of quality and standardization in writing reports.

In line with needs and material and organizational possibilities in specific and complicated auditing cases are engaged state auditors from the regional offices or state auditors from the central office are engaged in work of the regional offices because of achieving bigger accuracy, standardization of procedures and criteria, forwarding of knowledge. Results are better auditing and reports, as also full use of the expertise knowledge of the state auditors. That approach is in the frame of the legal authorities and the rule of profession as also in methodological principles, and allows territorial adaptation and fast instructing of bigger
number of state auditors in auditing of particular subject which has to be controlled and are expected bigger results or it has to be done by the request from the Croatian Parliament.

Carrying out audits in compliance with INTOSAI Auditing Standards is a legal obligation. However, legal obligation is not the only guide in auditor's professional acting, there is also a Code of Professional Ethics. Code contains principles and rules for certified state auditors, for candidates for becoming certified state auditors, and for all other persons connected or involved in the work of State Audit Office, concerning expressing their attitudes on public accountability, auditees and people who belongs to audit profession. In forming their attitudes and standpoints, auditors begin from obligation to be self disciplined, in compliance with all demands stated in legal framework for auditing.

While carrying out audits, members of the team are demanded to design audit procedures, with help of which will give reasonable assurance in finding irregularities, mistakes or incompliance with regulations that could be of material significance for financial statements or for audit results.

All audit steps and procedures are described and have to be used in accordance with Audit Manual, and are designed to obtain sufficient, competent and relevant evidence.

Supervision of team members' work is carried out continuously, through all phases of audit work and in all cases, with the aim of quality assurance. It is directed to the audit content and a method used, and is carried out by the team leaders as the most experienced and most expert members. Supervision connotes observing on:

- how and how much do the team members understand audit plan;
- has audit work been carried out in compliance with auditing standards and institutional practice;
- has audit plan been strictly followed in all phases,
- is audit documentation completed and does it contains all relevant facts to confirm conclusions in findings, and
- does each auditor reach established goals.

Besides that, Auditor General, together with his assistants, continuously monitor (observe) work of all auditors through their audits. In a case he notice negativities in auditor's work, AG react in a way to change the audit team or even to suspend auditor from certain task.

### 3. IN REPORTING

Reporting on results on audits carried out is defined through implementation of Reporting Standards of INTOSAI Auditing Standards, precised through the State Audit Act, while detailed guidelines for procedure and mode of making reports has been given in the Audit Manual.

Guidelines were written with the aim to unify procedure and still of writing reports. In short, they itemize procedures for description of fortified facts. Special attention has to be given to
the structure of the report, as well as to demand to make reports short, clear, precise, simple and objective. Manual also gives several examples of audit report content.

Procedure of delivering reports to auditees has two phases. In the first phase, report is delivered in a written form to the legal representative of the auditee to make comments. It means that legal representative, in informal procedure, gives comments and explanations concerning the audit findings, after what eventual disagreements can be resolved or report can be completed or changed if some new facts or circumstances arose. This procedure is in compliance with recommendations of Lima Declaration and with European Guidelines, based on whose implementation auditors apply double-side principle as the base of each public control.

In the second phase, after completed audit work, auditor prepares and signs the audit report, in conformity with the audit standards. Report which includes findings and comments on findings is then submitted to the legal representative on formal base. The legal representative can within 8 days make an objection to the auditor's report. The Auditor General shall decide on the matter within 30 days, and – if objection is founded, it is built in the report. After that, i.e. after unquestionably fortified facts, auditor's report is considered as final report.

Same as in other countries with the similar state audit organization, audit reports in Croatia have to be submitted to the Parliament till the end of the year, i.e. not later then 5 month after the term for finishing annual financial reports.

Content of the reports, also discussions and conclusions of the Parliament regarding audit reports, are always made public through transmission of Parliamentary sessions on TV and radio, as well as by publishing reports on SAO's web-site on Internet.

Post-Audit Quality Review

Besides before mentioned internal evaluation (each team member's work is supervised through all phases of audit work by the team leader, but also by the senior management staff not directly involved in that audit), there are following post-audit reviews (based on a system of self-evaluation after the publication of audit) are in place:

- Feedback from auditee (individually). Auditees, mostly orally but often in written form as well, comment on the work of audit team and the SAO as a whole. Follow-up evaluation in auditees before starting with a new audit is obliged too.

- Evaluation of audit work by the PCs and Parliamentarians (on the basis of a general analysis).

- Self-assessment by the management and senior staff has been carried out two years ago and – recognized as a valuable tool for evaluation of SAO's work and quality control – should become usual practise in SAO on timely bases.

- Peer review (by SIGMA) has been carried out recently. Discussing on all phases of audit process with other SAIs is common practise in the SAO as well.

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6 Received 5 November, 2002.
Question 1
Planning the Audit Task

Audit Guidelines and Office Orders issued by the Auditor General of the Republic of Cyprus govern the direction, execution and reporting, as well as the planning of audit work, and the internal office procedures of the Audit Office of the Republic which is split into sections each responsible for the work in relation to specifically assigned auditees – government ministries and departments, semi-governmental organization, local government and other entities\(^7\).

Audits are planned in advance in terms of time and cost through work programs prepared by each section for a twelve month period from 1 July to 30 June of the following year - annual work programs are approved by the Auditor General and Deputy Auditor General, and quarterly work programs are approved by senior staff.

The work is monitored through monthly job reports, comparing budgeted against actual time spent for each job, based on monthly job sheets filled in by each auditor.

Audit costs are ascertained for each job based on actual time spent and daily rates according to the level of each auditor involved.

For every audit, standardised audit plans for the guidance of staff exist which are applied as appropriate in each case. Every audit is planned in advance, more specifically also, taking into account the relevant legal framework, the activities of each auditee, material risks and issues which arise, strengths and weaknesses in internal controls, as well as the need for expert knowledge and the involvement of specialists if required.

The previous year’s audit report and the response of the management of the auditee to the findings and recommendations of the Auditor General are also reviewed and taken into account, as well as matters arising during the year and discussed in the media.

Senior staff participate in, direct and review the whole process, and audit plans may be altered at the execution stage of the audit too, as appropriate, depending on information which may arise in the meantime, and, in addition, given the experience, matters may be noted to enhance the planning of future audits.

There is also appropriate ongoing liaison between audit staff and with the auditee as necessary with respect to the timing, scope and approach of the audit.

Question 2
Execution of Audit

The audit approach followed by the Cyprus Audit Office takes into account the INTOSAI Auditing Standards. Generally accepted auditing techniques and procedures are employed to gather the necessary evidence (sufficient, relevant, reliable) in order to support the audit opinion. Quality control is exercised through adherence with the ISAs, statutory requirements and in-house professional standards. Within this framework standard or tailor-made audit

\(^7\) Reply received 12 July, 2002 from the Audit Office of Cyprus.
programs are used to ensure all audit areas are covered. Key audit areas are identified by the audit senior and the audit manager at an early stage. Standardised documentation is used in accordance with Office Orders and standard letters are sent to third parties (bank letter, solicitors letter, circularization of debtors).

A significant component of quality control is the technical and professional competence of the auditor. In this respect it is ensured that audit staff have adequate experience and qualifications commensurate with each particular assignment. Recruitment is done in accordance with the requirements of the Schemes of Service and all staff follow the necessary training programs. Specialist areas (e.g. I.T.) are assigned to technically competent staff.

Another important element of quality control is the proper documentation of the audit work. The review of the audit file is carried out by the section leader, principal auditor and on key areas by the director of audit. It is ensured that working papers are properly documented, cross referenced and signed off. Also permanent files are regularly updated.

The Internal control systems of the auditee are properly documented and observation, compliance and substantive testing is carried out as appropriate.

All significant findings are discussed with the auditees. A management letter is prepared setting out salient points, weaknesses and recommendations. Previous years management letters are followed up.

The independence of the Auditor General which also plays an important role as far as quality control is concerned is safeguarded by the Constitution.

Question 3
Reporting and Completion of Audit Task.

In accordance with existing audit instructions and internal office orders of the Cyprus SAI, at the completion of each audit a relative report is issued. The form and contents of the report depends largely upon the type of audit carried out as follows:

(i) Audit of Financial Statements. An audit report (certification) is normally issued. Audit work involves using standardized or tailored made audit programmes and both work done and report issued complies with IFAC Accounting and INTOSAI Auditing Standards.

(ii) For any type of audit i.e compliance, legality, technical and financial, a management report (weakness report) is issued setting the various shortcomings revealed by the audit, together with the relevant recommendations. The report is drafted in accordance with standing office policies which are in line with INTOSAI reporting standards.

(iii) For Value for Money Audits (including investigations) a more detailed report is normally issued, setting out the objectives, the audit or investigation findings and where applicable the relative recommendations.

For all the reports mentioned above great care is taken to ensure that the language used is easily understood and that findings/recommendations stated in the reports are supported by sufficient, relevant and reliable information adequately evidenced to that effect in the working papers. To achieve this, due attention is taken at the planning stage and continuous supervision and guidance is carried out of all stages of the audit which, together with the use ofstandardize or tailored made audit programmes, prepared in line with the INTOSAI
auditing standards, ensure as far as possible the reliability and correctness of the reported audit findings and recommendations. Further quality control procedures include review of working papers and related draft report by, the head of the section carrying out the audit/investigation, the relevant principal auditor and on key areas by the director of audit. The review ensures, among others, that working papers provide sufficient information, are properly cross referenced and signed and that all audit findings have been evaluated as to their materiality, legality and are based on factual reliable audit evidence.

Draft reports are always discussed with the auditee sometimes in the presence of the Auditor General and Deputy Auditor General and the auditee’s views, (in a summarised form), are included in the final report. In accordance with existing office practice, all reports are subject to a further review and scrutiny by the Auditor General and Deputy Auditor General before issued.

It is worth mentioning that any events relevant to the audit which occur between the date the report is prepared and the date it is issued are considered and, if material, are included in the final report. Also matters of permanent nature revealed by the audit process are used to update the relevant permanent audit files.

If evidence shows that fraud has been committed then, the matter, in addition of being communicated to the auditee, is brought to the attention of the Attorney General of the Republic.

Once the report is issued a follow up of the issues contained in it takes place. Answers received from the auditees are followed up until all issues are resolved.

**Question 4**

No noticeable practical quality control problems have been experienced by the Cyprus SAI. It is our belief, based on experience, that adherence to IFAC and INTOSAI accounting and auditing standards, as well as to existing office audit guidelines and relevant office orders ensures that quality controls operate satisfactory, thereby securing high standards of audit work and related reporting.
CZECH REPUBLIC

In order to regulate work procedures in preparing the SAO’s audits and in managing and performing audits according to Act no. 166/1993 Coll., on the Supreme Audit Office, as amended, Directive of the President of SAO no. 37 of 19 May 1999, on the preparation and execution of audits, was issued under Article 3 par. 2 letter l) of the SAO Organisational Rules. The Directive became valid on 1.6.1999 and entered into force on 1.10.1999.

This Directive is currently the sole internal regulation of SAO governing the process of preparation and execution of audits by audit staff. It lays down the main (and binding) principles and procedures that should guarantee the quality of the audit process in its individual phases (planning, execution and reporting).

The answers to the questions in the questionnaire of the EUROSAI working group for quality control of audit work, titled Quality Control in the Audit Process, conform to the used practice and thus also to the current articles of Directive 37. For the sake of clarity, the number of the article in Directive 37 that deals with the issue being described is always given first in the text of the answers to the set questions.

Question 1:
The main principles of control quality, regulations, procedures and principles applied by SAO in the planning phase of audits

♦ Information gathering

(Article 1) In the first phase the audit division creates and updates data files on potential auditees in the area under its jurisdiction. These files chiefly include the following:

- a summary of the fundamental legislation defining their status and powers;
- a summary of other regulations governing their activity;
- a list of substantive problems linked to their existence and work;
- files containing data on their financial management;
- an overview of the system by which their activities are financed, in particular the link between their finances and state budget incomes and expenditure.

It creates the data files from both external and internal sources of information.

♦ Analysis of information, choice of suggestions to be placed in the proposals register

(Article 2) After analysing the collected information the audit division creates specific proposals for audits. The division director immediately places these proposals in the division’s proposals box and regularly presents them to the senior director of the audit section. After assessing and selecting them the senior director decides which will be placed in the recommendations register (of the Office).

8 Reply received 12 June, 2002 from the Supreme Audit Office of the Czech Republic.
♦ Placing proposals in the recommendations register
(Article 3) Once a year the president of the Office presents a list of proposals from the proposals register to the Board (the president also submits every further proposal placed in the proposal register after this date until the plan of audit work for the following year is approved). The proposals chosen by a member of the Office are moved into the recommendations register. The recommendation is scrutinized in greater detail (further information, defining the subject and aim of the audit, selecting a representative sample of potential auditees) by the director of the audit division in collaboration with the Office member. (Preparation for including a recommendation in the draft plan of audit activity).

♦ Compiling the plan of audit work
(Article 4) Recommendations that are to be included in the audit plan are submitted by the president of the Office during the 3rd quarter of the preceding year.

The Office member involved in preparation of the selected recommendation places a capacity request, identifies the periods not suitable for execution of the audit (in respect of the nature of the auditee’s activities) and discusses with the senior director of the audit section which divisions are to participate or possibly how to staff the teams of auditors.

The draft audit plan is drawn up by the senior director of the audit section (from the point of view of making optimum use of the Office’s audit capacity). The senior director then passes it on to the president of the Office for submission to the Board.

♦ Approval of the audit plan
(Article 6) The audit plan is approved by the Board by the end of the preceding year.

♦ Monitoring the audit plan
(Article 8) Fulfilment of the plan is monitored by the senior director, who is obliged to inform the president of the Office and the Board.

Question 2:
Main principles of audit quality, regulations, procedures and practices applied by SAO in the execution phase of audits

♦ Setting out the audit
(Article 17) The Office member discusses with the director of the co-ordination division and the head of the co-ordination group the main points of focus of the audit, the criteria for selecting the auditees (if not already designated in the plan) and the means of co-operation.

♦ Preparation of the audit
(Article 18) The preparatory work is done by the co-ordination group and the outcome of this work is a draft programme for the audit and preparation of instructions. The programme is approved by the member of the Office.
(Article 19) The programme of the audit contains detailed instructions on how to proceed during the audit and its execution. It also contains other essential information for auditors, the list of which is prescribed in detail. The member of the Office may ask for comments on the draft programme before it is approved.

(Article 20) The head of the co-ordination group convenes an audit instruction meeting for the participating auditors to explain the programme of the audit, discuss the issue and pass on any other essential materials and data on the methodology, organisation and timing of the audit. A record is taken of the results of the meeting and is approved by the Office member.

The director of the audit division ensures that the participating auditors are acquainted with the instruction materials and that comments and questions on the programme are delivered to the head of the co-ordination group.

♦ Execution of the audit

(Article 21) The audit is executed by the Office member and the assigned auditors (at least a two-member team of auditors with a designated team head). The audit work is run by the member of the Office (Section 11 of the Act on SAO).

(Article 25) During the audit checks are made as to whether the audited activities conform to the law; their material and formal regularity and their efficiency and economy are assessed.

(Article 26) In order to ensure that auditors are kept informed about the course of the audit, that unresolved instruction matters are discussed, interpretation standpoints on the provisions of legislation are clarified, other audit criteria are applied, legal qualifications are unified and instructions from the member of the Office and the head of the co-ordination group are passed on, an audit day is convened. The head of the co-ordination group makes a record of its course and outcomes and the record is approved by the member of the Office and passed on to the heads of the auditor teams.

(Article 27) The outcome of the audit is an audit protocol. The head of the auditor team is responsible for the content of the audit protocol. The audit protocol must contain fundamental particulars that are laid down in detail.

(Article 28) The audit protocol must contain the following: a description of the required state of the audited activities (this is governed by the provisions of universally binding and other regulations, the criteria for the efficiency and economy and the criteria of material and formal regularity of the audited activities) and a description of the actual state of affairs (deviations from the required state, listing the violated criteria – only negative deviations are mentioned). The state of affairs must be described objectively, truthfully, precisely, completely and comprehensibly, with emphasis placed on materiality and conciseness. Every finding mentioned in the audit protocol must be unequivocally demonstrated by means of documentation.

(Article 30) The structure of the audit protocol is prescribed.

(Article 32) The head of the team of auditors decides whether the auditee’s objections are justified and deals with these objections. If the objections are rejected, the auditee may appeal to the appropriate member of the Office or the body of the Office that will discuss the audit conclusion (senate, Board). No appeal is possible against a decision of the member of the Office or the relevant body of the Office (Section 27 of the Act on SAO). Decisions on objections to the audit protocol and decisions on appeals against decisions on objections form part of the audit protocol.
Question 3:

Main principles of quality control, regulations, procedures and practices applied by SAO in the reporting phase

♦ Draft audit conclusion

(Article 36) The draft audit conclusion summarises and appraises the results of the audit, as proven and documented in the audit protocols, in the prescribed manner. The principles of cooperation for drawing up the draft audit conclusion are set out by the member of the Office, who also decides on the form in which the draft audit conclusion is to be drawn up (predominantly descriptive in form, a form stressing breaches of the law and regulations with detailed substantiation, or a combination of the two) and on the way the text will be divided up (e.g. formal section, introduction to the issue under scrutiny, characteristics of the most important system shortcomings, list of the most important shortcomings found by the audit, summarisation and evaluation of the facts found during the audit).

♦ Internal contradictory procedure

(Article 37) The member of the Office passes on the draft audit conclusion for internal comments. The parties assigned to make comments are designated. The member of the Office compiles the received comments and, after appraising them, decides which comments to incorporate into the draft audit conclusion. The most serious rejected comments are mentioned when the draft audit conclusion is submitted to the approving body.

♦ Approval of the audit conclusion

(Article 38) The audit conclusion is approved by the appropriate body of the Office (senate or Board). The member of the Office works alterations approved by the body of the Office into the text and passes the audit conclusion on to the Board secretariat.

♦ Publication of the audit conclusion

(Article 39) Approved audit conclusions are published by the president of the Office in the Office Bulletin (Section 30 of the Act on SAO).

Question 4:

Tried and tested procedures that do not present any practical problems and lesson to be learnt from them

The contradictory procedure for draft audit conclusions has proved worthwhile. The main participants in this process are the president of the Office, the vice-president of the Office, members of the Office (senate or Board), the senior director of the audit section, the director of the audit division co-ordinating the audit, the director of the legal division and the Board secretary. A member of the Office may ask for comments from other Office staff as well.

The contradictory procedure makes a significant contribution to the quality of the resulting material.
Question 1:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

**Performance audit:** Before an audit is being included into audit plan there should be prepared an audit description\(^9\). Audit description has pre-defined format including problem definition, basic information about audit topic and possible results. Audit descriptions are compared and ranked with audit selecting criteria that are defined in the Audit Strategy. This is done firstly by an audit team and a head of audit department (HAD) and after that by methodology, planning and reporting service (MPRS).

Each audit starts with audit proposal. Audit proposal is prepared by an audit team. Audit proposal has pre-defined format that is in line with INTOSAI auditing standards and European implementing guidelines. This is similar to Netherlands Court of Audit’s audit proposal. Evidence collecting plan and detailed questionnaires (not always) are included in the audit proposal.

All performance audit proposals are being read and commented by opponent team, MPRS, public relations officer and the Auditor General (AG). There is a specific format for opponent’s opinion that stresses main risk points in audit preparing. There are special meetings in audit planning process where comments are being discussed with opponent team, MPRS and the AG.

Final audit proposal should be approved by the HAD.

**Risk audit:** Process is similar to performance audit, but risk audit does not use opponent system yet. Audit proposal is standardized to describe main risks in procurement and subsidies paying systems. Detailed questionnaires and descriptions of audit procedures are always prepared and approved with an audit proposal.

**Financial audit:** Audit manager prepares an audit proposal. There is meeting where auditors from different departments give to an audit team their opinions on main risks of auditee. Financial audit proposals are approved by HAD.

\(^9\) Reply received 7 November, 2002 (corrected version) from the State Audit Office of Estonia.
Question 2:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

Audit manager is responsible for conducting the audit according to the audit proposal. All audits have deadlines and limit of working hours. Time reporting system compares audit with approved time limit and deadline. Each HAD makes monthly progress report to the AG about all audit projects and main questions raised in audit projects.

There are rules for making working papers and cross-referencing. All protocols of interviews are cleared with interviewees.

**Performance audit:** Mainly specific questionnaires are prepared for interviewing and collecting data. Working papers are not always prepared. In this case findings are directly included into report of findings. Written conclusions of interviews are cleared with interviewees. Report of findings is compared with audit proposal and possible conclusions and suggestions by opponent team and MPRS.

**Risk audit:** Tests are made on the basis of questionnaires and working papers are also made.

**Financial audit:** There are many detailed standard questionnaires that are used in testing. Auditors should make working papers to describe their tests and conclusions. Audit manager should approve working papers. Topics that need detailed investigation, are recorded and reported to the audit manager.

Question 3:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

There should always be a clear trail between evidence, conclusions and suggestions. Our reports are structured in a way that this link is easily traceable. Reports should include cross-references to working papers or other evidence and vice versa.

Main messages of performance and risk audit reports are discussed in a meeting where are present audit team, HAD, MPRS, public relations officer and the AG. The same procedure is applied for more important financial audit reports.

HAD is responsible that audit report is in line with audit proposal, factually correct and includes reasonable conclusions and suggestions. MPRS sometimes checks these aspects of reports.

Draft reports are always cleared with responsible minister and auditee before final conclusions and suggestions are made. Final report is approved by HAD.

After the end of audit there is self-assessment meeting where quality of audit and lessons learnt are discussed.
Question 4: Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

After each discussion of audit proposal or report we try to define main quality risks and ways to avoid them in the next paper and on this basis update our methodological guidance. But it is easy to forget.

Post-Audit Quality Review

Internal Evaluations
Methodology Unit of Estonian SAO carries systematically out cold reviews of the audit quality on the basis of set of criteria approved by the management. Such reviews were first introduced a year ago. The result of every review is a detailed, approximately ten pages long report published on SAO’s Intranet summing up strengths, weaknesses and learning points of the audit that was reviewed. The number of such reviews is planned to be up to 20 every year (out of 60 audits in total). The review process is rather time consuming since the audit files have to be reviewed with due care and findings and observations have to be discussed with audit team and management. Still the benefits are worth the time spent on reviewing. Audit quality reviews are also linked to the compensation system of Estonian SAO’s staff – if the audit is of good quality, audit team can receive more money for their work done.

External Evaluations
Estonian SAI has once ordered the external review of an audit from a private auditing firm. The results of that review were also used in a training of auditors. We have also asked many times specialists of different fields of expertise to comment on our (draft-) reports. Especially in the field of performance audit such practices are planned to continue.

Feedback from Auditee
Department of Performance Audit is after every audit asking Auditees to fill in a feedback form. Two other departments do currently not use specific forms for gathering feedback from the Auditees. Still they are discussing relevant aspects of audit implementation in the final meeting with the Auditee. Feedback received from the Auditee is among the topics that have to be analysed by the team in the phase of self-assessment.

Team Reviews
Audit team is after every audit making a self-assessment. The main purpose of self-assessment is to identify the main learning points of the audit. Main results of self-assessment are documented by the audit team and serve also as input for competency management system and cold reviews.

Received 31 October, 2002.
Peer Review

In the end of 1998 SIGMA carried out a Peer Review in Estonian SAO. This Peer Review was covering different areas of organisation building and development and was not directly focussed on the quality of certain Estonian SAI’s audits. Some recommendations made by Peers were dealing with the quality control system of SAO.
HUNGARY

Part I. Planning the Audit Task

According to the Code of Conduct of the State Audit Office of Hungary (hereinafter referred as to SAO), the SAO – while carrying out its audits – makes use of the provisions set out in audit related policies, regulations and methodological guidance documents of INTOSAI, EUROSAI, EURORAI and IFAC\(^\text{11}\).

The SAO has a practice of rolling planning. This means that annual plans are prepared upon up-dating the 3-year mid-term plans. These annual plans serve the basis for individual audit plans.

60% of the SAO’s annual audit tasks are provided in the law, therefore there is only a narrow field of movement in selecting areas and topics to be audited. That is why it has not become general in our practice to conduct preliminary examinations preceding the annual planning. We only prepare preliminary study when preparing for audits of particular interest of which performance are ordered by the President of the SAO within his own authority.

On the basis of the SAO’s annual audit plan, Director Generals of the two audit directorates elaborate an operative audit plan which contains deadlines for the preparation of and for the audit, the approval of the audit programme, the on-site audit, the preparation of the draft report, the submission to the meeting of senior staff; intermediate deadlines for contradictory procedures; furthermore names of the Head of Division responsible for the audit, the Audit Group Director and the staff involved in the audit.

Within the framework of the preparation for individual audits, the team doing the preparations under the leadership of the Audit Group Director makes proposals for the audit objectives, individual audit tasks enabling audit objectives to be fulfilled, the timetable of the audit, the human resources need, organisations to be audited and methods to be applied taking all essential circumstances into consideration. The audit plan has to be checked by associate chief directorates, the Individual Quality Assurance Department and organisations to be audited preceding the approval of the Director General of Audit and the agreement of the President. Essential comments must be taken into consideration. Revised audit plans are discussed at a meeting in which the Director General of Audit, the Audit Group Director and auditors involved in the audit are participating. This is an important element of the review process.

Within the framework of the internal checking and review of audit plans, we put special emphasis on:

- whether procedures selected for the audit objectives are appropriate; whether these procedures are suitable for obtaining competent, relevant and reasonable audit evidence;
- whether problems appearing in the preliminary study and/or in the audit programme can be revealed by using reasonably allocated tools and resources;
- whether responsibilities are explained clearly for each individuals, from the auditor carrying out the audit up to the persons charged with supervising and managing the audit in the hierarchy.

\(^{11}\) Reply received 31 May, 2002 from the State Audit Office of Hungary.
Answers to questions of Part I.

- ensuring that Planning is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI; X
- obtaining relevant information regarding laws and regulations that might have a significant impact on the audit objectives; X
- preliminary investigative audit (an audit that aims at conducting an initial study of specific issues to help prepare an audit task plan); X
- determining objectives and scope of audit; X
- identification of sources (e.g. media, findings of auditee's internal audit, inspection and other control bodies) as background for audits; X
- determining list of activities for audit; X
- highlighting of special problems foreseen when planning the audit; X
- ensuring that members of audit team have a clear and consistent understanding of the audit plan; X
- follow-up is made of issues in previous related audits; X
- understanding the finance, accounting and other relevant functions of the organisation; X
- identification of key elements of internal control system of auditee; X
- using appropriate analytical procedures; X
- identification and analysis of relevant ratios and comparative figures; X
- identification of trends or deviations from predicted amounts; X
- identification of sampling method and sampling population; X
- choice of relevant performance indicators; X
- assessment of inherent and control risks; X
- establishment of materiality criteria and thresholds; X
- establishment of degree of confidence decided for audit; X
- choice of appropriate experts/consultants; X
- preparation of budget and schedule for audit; X
- assessment of reasonable resources necessary to undertake audit; X
- assessment of staff requirements and team allocated for audit; X
- investigation and settlement of queries raised during review stage; X
- drawing up, approval, review of Audit Programme by Head of Division; X

12 Characteristically in case of performance audits, furthermore in case of topic and comprehensive audits with different regularity.

13 In case of financial audits yes, in case of other types of audits occasionally.

14 The SAO mostly uses its own internal experts, and only employs external experts occasionally.
− checklists used in the process of (a) drawing up, (b) issuing an opinion about, (c) approving an audit task plan;
− practices to continuously enhance quality control procedures in the planning phase of audit.

X15 Formal checklists are not applied to review finalised audit plans.

X16 Primarily it is general practice in case of financial audits.

X17 The SAO’s explanation for Working Papers is the same as the relevant definition set out in the European Implementing Guidelines.

It is the practice in case of financial and performance audits, in case of comprehensive and other regularity audits the application of formal Working Papers are currently under introduction.
**Answers to questions of Part II.**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
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<tbody>
<tr>
<td>execution of audit is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI;</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>audit examiners have a sound understanding of techniques and procedures such as inspection, observation, enquiry, etc to collect audit evidence;</td>
<td>X</td>
<td></td>
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<tr>
<td>all phases of audit have been carried out as planned and approved;</td>
<td>X</td>
<td></td>
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<tr>
<td>valid explanations are available for non-implementation of any phases of audit;</td>
<td></td>
<td>X</td>
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<tr>
<td>appropriate approval exists for significant deviations that have taken place from approved audit;</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>staff resources used for audit are largely in line with those planned in terms of time, grade of staff and expenses entailed;</td>
<td></td>
<td>X</td>
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<tr>
<td>justification for material deviations for budgeted staff resources;</td>
<td>X</td>
<td>18</td>
</tr>
<tr>
<td>appropriate audit techniques and audit procedures used to fulfil each audit objective in order to provide for effective audit evidence;</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>use of Computer Assisted Aids Techniques (CAATS);</td>
<td></td>
<td>X</td>
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<tr>
<td>all envisaged tests for evaluation and reliability of internal controls are used;</td>
<td></td>
<td>X</td>
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<tr>
<td>appropriate analytical procedures are used and the reliability, independence and quality of relevant supporting data is assessed;</td>
<td></td>
<td>X</td>
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<tr>
<td>sampling methods are used according to SAI's manuals;</td>
<td>X</td>
<td></td>
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<tr>
<td>all tests of transactions clearly indicate audit objectives, adequately explain nature and extent of audit work and provide an overall conclusion as to results of audit work;</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>audit steps and procedures have been designed to obtain sufficient, competent and relevant evidence;</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>full investigation is made of all queries raised during audit;</td>
<td>X</td>
<td></td>
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<tr>
<td>existence of adequate working papers in respect of:</td>
<td></td>
<td></td>
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<tr>
<td>evaluation of internal control systems;</td>
<td>X</td>
<td></td>
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<tr>
<td>audit of routine procedures;</td>
<td></td>
<td>X</td>
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<tr>
<td>tests of controls;</td>
<td>X</td>
<td></td>
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<tr>
<td>analytical review;</td>
<td>X</td>
<td></td>
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<tr>
<td>substantive tests;</td>
<td></td>
<td>X</td>
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<tr>
<td>audit of computer-based applications.</td>
<td></td>
<td>X</td>
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<tr>
<td>Working Papers are appropriately cross-referenced;</td>
<td>X</td>
<td></td>
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<tr>
<td>audit completion checklists are comprehensive and have been completed, approved and duly evidenced;</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>work of consultants and other experts has been properly monitored;</td>
<td>X</td>
<td></td>
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<tr>
<td>practices to continuously enhance procedures in the execution phase of audit.</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

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18 Resources for audits are planned in kind (parameters) only, we plan separately individual costs only (e.g. cost of the employment of external experts).
Part III. Reporting and Completion of Audit Task

All draft of reports of the SAO – parallel to the contradictory procedure with the audited body – are subject to twofold legal and professional audit review. Those draft reports of auditors which imply personal responsibility at the audited bodies are subject to independent, overall review before the submission to the involved parties.

According to our internal rules, reports of the SAO can only be signed by the President after the presentation of a certificate issued by the Quality Assurance Department - which is independent from audit directorates and is under the direct leadership of the President – following a successful review. Those reports of auditors implying responsibility can be forwarded to the responsible person after making the modifications deemed necessary by the Independent Quality Assurance Department.

Based on presidential decision, the Independent Quality Assurance Department can a posteriori review draft reports of the SAO, furthermore procedures concerning the performance of audits selected by sampling and reports of auditors prepared on audits. The review aims to facilitate the effectiveness of internal professional and procedural rules, methodological recommendations concerning the given – financial, performance or comprehensive – audit, and to further develop them.

Answers to questions of Part III.

- reporting is carried out in accordance with auditing policies, standards, manuals, guidelines and practices of SAI;  X
- performance of overall review of financial statements or activity being audited;  X
- form and content of reports are in accordance with established procedures (e.g. title, signature and date, objectives and scope, addressee, legal basis, timeliness, etc);  X
- terminology used in report can be easily understood by persons to whom report is presented and technical terms are fully explained;  X
- all audit findings have been evaluated in terms of materiality, errors and other irregularities;  X
- all errors, deficiencies and unusual matters have been properly identified, documented and satisfactorily resolved or brought to the attention of a senior SAI officer;  X
- final Audit Report covers all areas of objectives of audit activity and explanations are obtained for omissions;  X
- observations and conclusions in report are supported and well documented to ensure completeness, accuracy and validity of working papers;  X
- all evaluations and conclusions are soundly based and supported by competent, relevant and reasonable audit evidence;  X
- only sufficiently material audit findings are included in the main audit report;  X

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19 Reports usually contain background information as well to satisfy the information demand of the Parliament.
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>Report is timely, comprehensive, performed by suitably qualified staff, appropriately documented and adequately incorporates the audit opinion;</td>
<td>X</td>
</tr>
<tr>
<td>letters of Weakness/ Queries/ Management Letters are submitted to auditee in due time;</td>
<td></td>
</tr>
<tr>
<td>receipt of relevant and timely replies to SAI reports and other correspondence is ensured;</td>
<td>X</td>
</tr>
<tr>
<td>replies are carefully studied;</td>
<td>X</td>
</tr>
<tr>
<td>all observations contested by auditee are duly evaluated;</td>
<td>X</td>
</tr>
<tr>
<td>material relevant comments by auditee are included in the audit report;</td>
<td>X</td>
</tr>
<tr>
<td>relevant significant events occurring following completion of audit are taken into account in final audit report;</td>
<td>X</td>
</tr>
<tr>
<td>all significant fraud or other irregularities are notified to appropriate authorities;</td>
<td>X</td>
</tr>
<tr>
<td>permanent files have been updated to take into account results of audit;</td>
<td>X</td>
</tr>
<tr>
<td>material items requiring subsequent follow-up by SAI have been duly identified, recorded and taken into account;</td>
<td>X^{21}</td>
</tr>
<tr>
<td>practices to continuously enhances procedures in reporting phase of audit;</td>
<td>X</td>
</tr>
<tr>
<td>procedures to evaluate effectiveness of quality control arrangements;</td>
<td>X^{22}</td>
</tr>
</tbody>
</table>

**Post-Audit Quality Review^{23}**

There is an independent quality assurance unit within the State Audit Office of Hungary which currently operates quality control mechanisms in course of the audit process and reviews draft audit reports in accordance with defined criteria as described in the replies given to the Questionnaire.

The Independent Quality Assurance Department has not carried out ‘cold reviews’ in compliance with the definition provided in the ECA Manual (Module B.12). However, there is a document under preparation which aims at developing the existing quality assurance system within the organisation.

Depending on Presidential decision, in 2003 the Independent Quality Assurance Department will be able to begin the practical implementation of reviewing procedures of the conduct – from planning to completion – of audits selected by sampling and reports of auditors prepared

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^{20} See footnote 19, we rarely use management letters.

^{21} The SAO conducts special surveys on the realisation of its suggestions and recommendations taken in the given accounting period which is attached to its annual report submitted to the Parliament.

^{22} The Independent Quality Assurance Department regularly evaluates them in its opinion given for draft reports (and in its annual report as well).

^{23} Received 30 October, 2002.
on audits. This review aims at examining the effectiveness of technical and procedural rules and methodological recommendations with the purpose of developing them. This new task of the Independent Quality Assurance Department is stipulated in the Code of Conduct of the SAO as of 1 January 2002. This task is in fully compliance with INTOSAI and EU recommendations related to the development and operation of an independent quality assurance system.

In addition, it is the practice of the Independent Quality Assurance Department to support the improvement of future audits by collecting cases concerning best practice and outlining possibilities for development in the annual report prepared on reviews.

The above outlined activity fits into the category of ‘internal evaluations’. Besides this evaluation, the SAO also carries out team reviews. It means that there is a professional group set up for evaluating the given audit. This group consists of experts/auditors of the Audit Directorate which was responsible for performing the given audit.
LATVIA

Introduction

This material about quality control was prepared at the time when the new State Audit Office Law just came into force (12 June 2002), also during the Twinning project that is going on at our SAO at the moment in co-operation with experts and consultants from the UK NAO\textsuperscript{24}.

There is no doubt that we will have to come back to quality control issues many times in future:

- after the results of pilot audits are evaluated;
- when we will be able to start using knowledge acquired during the future training courses;
- when we obtain some experience from the EU candidate countries working group on audit planning and other issues;
- after the EU member countries experience is analysed.

So here we are offering the current quality control model that is being used at the SAO and already has some new elements introduced.

Part I. Audit Planning.

The annual Audit Plan is approved by the State Audit Office Council and Auditor General submits it to the Parliament for their information.

The State Audit Office determines the unit to be audited, audit time, audit type and audit methods.

Audit work is divided among Departments. Audit Departments carry out audits in accordance with the annual Audit Plan approved by the SAO Council (the procedure is set out in the SAO Law).

At the beginning of an audit, the Sector Head appoints the audit team, team leader, sets out a deadline for submitting audit plan and prepares an authorisation letter to the audited unit. The letter is signed by the Department Director.

The audit team leader submits the draft audit plan and the supporting documentation to the Sector Head for evaluation and reconciliation. The Sector Head together with the audit team leader make the necessary corrections in the draft audit plan, determine the amount of time necessary for completing separate audit procedures and both sign the plan.

The Sector Head submits the Audit Plan and supporting documentation to the Department Director for approval. Significant changes in the approved Audit Plan can be made only with the Department Director’s permission. The draft Audit Task is also submitted to the Department Director along with the Audit Plan.

Audit Task with the audit completion deadline set out is approved by the Department Director.

\textsuperscript{24} Reply received 26 June, 2002 from the State Audit Office of Latvia.
Audit planning model depends on the audit type. Any audit plan is developed after obtaining information about Laws and Regulations that could have an impact on the audit objectives.

The objective of a legality audit is to check and evaluate, whether the audited activities, programs or audited institution’s financial statements are correct and sufficient and whether all the activities that are reflected in the financial statement have been legal and correct.

The objective of a performance audit is to check and evaluate economy, efficiency and effectiveness of the actions or programs and their conformity with the planned outputs of the audited institution’s operations, and it contains:

- audit of economic administration with reference to compliance with sound administration principles, practice and management policy;
- audit of efficiency and productivity of the use of human, financial and other resources, including information systems, efficiency activities and supervision procedures and follow-up of the actions taken by the audited unit to correct the discovered shortcomings;
- audit of the effectiveness of an activity with regard to accomplishing the tasks of the audited unit and comparing factual results with the expected results.

When carrying out performance audit, the SAO:

- Studies and evaluates reliability of internal control of the audited unit, determines the scope of audit;
- Plans the audit in a way that ensures a high quality audit to be carried out in economical, productive, effective and timely manner;
- Provides competent, appropriate and sufficient evidence to support auditor’s opinion and conclusions about the audited unit. Evidence and auditor’s conclusions based on the evidence have to be appropriately documented and their quality has to be guaranteed.
- Auditor’s work on every level and audit phase during the audit should be closely supervised, the documented work should be reviewed by senior staff.
- When determining audit scope, an auditor has to study and evaluate the reliability of internal control.
- When carrying out an audit, auditors should check the compliance with the legislative acts. The auditor should determine audit activities and the order in which they will be carried out to ensure discovering all shortcomings and irregularities that might have had a direct or indirect impact on the financial statement figures or legality audit results.
- If an illegal activity, fraud or mistake possibility is discovered, the auditor has to broaden the scope of audit in order to prove the suspicions right or wrong.
- Competent, appropriate and rational evidence has to be obtained to support auditor’s conclusions about the audited unit, program, activity or function.
- When carrying out a legality audit, the auditor has to analyse financial statements to determine whether they comply with general accounting standards. Financial statements have to be analysed to obtain rational support for the opinion on the financial statements.
Part II. Carrying out Audit

The State Audit Office auditors carry out the audits in accordance with the State Audit Office Law and the SAO Regulation.

An audit is initiated by the Auditor General or by the head of Audit Department of the SAO.

Audits are carried out in compliance with our Audit Manual that contains 19 auditing programs in the following spheres:

- revenue cycle;
- state enterprises;
- implementation of the state budget;
- checking the state property documentation;
- preventing misappropriation of the state and municipality financial resources and property;
- public procurement;
- checking the cash department of the state and municipality enterprises;
- checking the cash department of enterprises;
- municipalities;
- municipality budgets;
- municipality enterprise;
- supervision control;
- control environment;
- revenue cycle (data processing);
- acquisition cycle;
- store inventory;
- investment accounting;
- privatization of the state and municipality owned objects.

We have planned to review and improve the Manual within the Twinning project.

Audit materials and information requested by the State Audit Office have to be submitted to the State Audit Office within a period of two weeks, if the request does not specify a shorter term. For failure to comply with this provision, liability, in accordance with legislative enactments, comes into effect.

If the requested audit materials and information are not submitted, an audit opinion is made on the basis of the materials available.

The State Audit Office notifies the relevant departmental manager or the Office of the Prosecutor regarding violations of the law committed by responsible officials, which have been determined by an audit, in order that the offender be held to liability as prescribed by law.

Settlements regarding transactions by institutions to be audited without the prior consent of the State Audit Office are not binding on the State Audit Office when providing audit opinions.

An audit opinion is developed after a legality or performance audit. The conclusions are made on the basis of data obtained and documents examined during the audit. The SAO examines the efficiency of a transaction only after its implementation.
Part III. Reporting and Completion of Audit Task

According to the State Audit Office Law, Article 53, based on the audit evidence obtained and documents checked during the audit, the SAO Auditor’s Report is compiled and sent to the audited institution. Then according to Article 54, based on the SAO Auditor’s Report and written comments of the audited institution attached to it, the Audit Opinion is drafted. And Article 55 says that an audit is closed when a Collegiate Decision is taken about the approval of the Audit Opinion.

Thus external audit work in the State Audit Office of Latvia is being carried out in compliance with the INTOSAI Auditing Standard, respectively, at the end of each audit the auditor prepares a written opinion or report, in our case “Auditor’s Opinion” setting out the findings in an appropriate form. It includes both auditor’s opinion and remarks on the financial statement (if it is a legality audit) and auditor’s report (value for money audit). Auditor’s Opinion on the financial statement is submitted in a standard form and reflects the results of the checks and other audit work carried out. Auditors also report on the compliance of the audited activities with the legal provisions and issues like insufficient control systems, illegalities and fraud.

When completing a value for money audit, auditor reports on economy and productiveness of the use of resources and effectiveness of the actions taken to achieve the goals. The audit objectives are clearly stated in the Auditor’s Report. The report can be critical, it can contain independent opinions and suggestions on economy, productivity and effectiveness issues. Reporting standards:

1. At the end of each audit the auditor should prepare a written opinion, setting out the findings; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.

2. The final decision regarding the actions to be taken with regard to fraud or significant irregularities discovered by auditors, should be taken by the SAI.

3. Regarding legality audits – the auditor has to prepare a written report that may be either a part of the report on the financial statements or a separate report on the legality checks. The report has to contain a positive declaration about the correctness of the inspected issues and a negative declaration about the unchecked issues.

4. A value for money audit report has to contain all the relevant irregularities according to the audit goals.

Our SAO has certain direction, supervision and reviewing procedures. After each audit the following documentation is submitted to the Sector Head:

1. Summary of the audit findings and mistake corrections, all most important audit statements supported by audit evidence.

2. The SAO Auditors Draft Report that is to be sent to the management of the audited unit, containing audit findings and suggestions about improvements.

3. Working documentation along with a written confirmation obtained from the management of the audited unit about them being responsible for all the financial information given to the auditors.
The Sector Head gets acquainted with the submitted documentation, approves it and, if it appropriately supports the audit conclusion, signs the auditors report and sends it to the audited unit for signing.

After receiving or not receiving an explanation from the audited unit the Sector Head together with the audit team leader drafts the audit opinion and the report to the management.

The Sector Head submits the Auditor’s Opinion, explanations from the audited unit, Draft Audit Report and Draft Report to the Management to the Department Director who determines a date for the Collegiate Meeting and sends the documentation to the Collegiate Members for review. If the audit evidence submitted allows to obtain a clear concept about the audit conclusions, the Department Collegiate at their meeting take a decision about approving Auditor’s Opinion and Audit Report and closing the audit.
LITHUANIA

Essential moments concerning Lithuanian SAI methodology

At present we have the only valid document regulating procedures and practices of audit process and its quality control, that is “Public Audit Requirements” (in international terms they should be referred as National Government Auditing Standards or just Standards)\textsuperscript{25}. The Standards were officially adopted by the Auditor General on 21 February, 2002 then published in the \textit{Official Gazette} (Valstybės lūnios 2002 Nr.20-790) and since then came into effect. Other significant regulations and manuals are still in the process of development, their drafts are frequently changed rather dramatically. That’s why in our answers we refer mostly to the Standards.

Our Standards provide that there are the following quality control procedures:

- supervision
- internal review
- external review

Supervising audit work involves ensuring that audit is being conducted according to the audit plan and audit programme. Heads of Audit Departments are in charge of the supervision.

- Internal review shall be conducted by the Manager of the audit group (if appointed), Director of an audit department or his/her Deputy. Audit work of each audit should be reviewed. Internal review entails verification of working documents, audit report and audit opinion.

- External review of audit work is conducted by the units of the National Audit Office not involved in the audit under review.

Now it is still difficult to refer to our practice, because the new audit approach is to be implemented only from the 1\textsuperscript{st} of July. So the audit cycle will end not before the end of the year. That’s why we could now only approximately say, that all Quality Control Procedures that were indicated in the enclosed Annex are to be used in the future and are to be included into new manuals that are currently developed.

Question 1:

Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

1. To assess findings of the preliminary study (according to the working documents).
2. To set the working time necessary for supervision and review in the audit plan.

\textsuperscript{25} Reply received 18 July, 2002 from the State Control of Lithuania.
Question 2:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

1. To monitor, whether the audit is carried out in compliance with the plan and program (programs).
2. To assess the quality of working documents (their expediency, significance, use as a base for audit report and opinion statements)

Question 3:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

1. To assess whether the statements of audit report are soundly based on audit evidence.
2. To assess remarks of auditee, that were submitted after reading the draft report.

Question 4:
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

There is no practical experience to learn any own lessons.

Post-Audit Quality Review

Internal Evaluations
According to the Financial Audit Manual (draft), the review shall be conducted by the following Departments of the National Audit Office:

- Department of Performance Audit Management,
- Department of Financial Audit Management,
- Department of Public Accounts Audit and Methodology.

These departments are in the starting point to implement newly adopted external review procedures.

External Evaluations
Contracting of external experts, academia people is necessary to identify better weaknesses in quality assurance. The implementation of such contracting requires additional funding.

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26 Received 31 October, 2002.
Feedback from Auditee
Law on the State Control specifies that every audited entity will have a right to make remarks on the audit conducted by the NAO and will submit the signed audit report to the National Audit Office within 10 working days from the date of its receipt.

Team Review and Peer Review from other SAIs
The draft audit manual of the National Audit Office of Lithuania does not specify any review team responsible for external reviews of our audit work. The manual does not provide for an audit institution of another country to conduct external reviews. The National Audit Office of Lithuania is considering the possibility of inviting university professors to conduct external reviews. In future we are to discuss the possibility of representatives of other supreme audit institutions undertaking external reviews.

The presentation of the National Audit Office of Lithuania (22-24 October 2002, Gdansk) covered the external review procedures. At present we are unable to point out the strengths and weaknesses of the external review as we do not have any experience in the field (the audit work, conducted in accordance with professional standards began in July 2002 and will be finished next year).
Financial Audit

Question 1:
The main quality control rules, regulations, procedures and practices used in the planning phase of the audit.

1. A three year audit plan for the period 2002-2004 has been prepared covering all major government departments within the three year cycle detailing the time frame and resources required to carry out the financial and compliance tasks. This plan is prepared at Unit Manager level and discussed and approved by the Assistant Auditor General and eventually by the Auditor General.

2. The respective audits are effected according to the plan time frame as per approved audit plan. On a monthly basis the Unit Manager instructs the audit personnel to initial the audit according to the resources plan subject to plan modifications to suit any changes deemed necessary. The Manager also makes contact with the auditees and confirm dates of the audit commencement and planned timing. Support and logistical services are also requested and sorted out.

3. The Principal auditor, within the respective units, commence the audit by making contact with the departments concerned. A business and systems review is carried. This details the objectives and operations of the auditee and outlines all the internal control and business processes. Following this detailed review the Principal Auditor then proceeds to plan the audit having regard to the risks identified. Risks include that of the department involved and that of the job itself.

4. The Plan outlines all the tests and reviews, both systems and analytically based, and any substantive testing and sampling to be carried out. This will then lead us to the audit budget whereby man-hours are calculated and audit budget is formulated. This process is done at Principal and Unit Manager level.

Question 2:
Please describe the main quality control rules, regulation, procedures and practices in the execution phase of an audit.

1. Following the completion of the audit plan the tasks are assigned to the various staff members involved in the execution of the respective audits. Tasks are divided and spelt out within the individual plan. This process is the responsibility of the Principal Auditor who will ensure that the audit is carried effectively and within the budget and allotted time frame.

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27 Reply received 31 July, 2002 from the National Audit Office of Malta.
2. Audit staff take effective responsibility to complete their individual tasks under the supervision of senior auditors and principal auditors. Any difficulties arising are either sorted out as they arise if the immediate superior is present on the job or logged on the specific form “Work to be Completed” and sorted out later with the Principal Auditor.

3. Upon completion of the Audit testing the Principal Auditor carries out a review of all aspects of the audit including tests carried out, findings and working papers. All audit files and papers are standardized and review includes assurances that all standards set are complied with.

4. The Unit Manager will then discuss the audit with the Principal Auditor and ensure that the objectives of the Audit as per plan were achieved and quality standards have been complied with. At this stage the Manager ensures that the risks outlined at the planning stage have been addressed. The audit file is finally inspected to ensure that all conclusions are backed up by proper working papers and tests carried out are clearly documented.

Question 3:
Please describe the main quality control rules, regulations procedures and practices in the reporting phase of an audit. Also what kinds of procedures and practices are in place to ensure that these areas have been properly dealt with.

1. Upon reviewing the audit assignment the Principal Auditor issues the audit report. This in practice is carried out jointly with the Unit Manager. The report generally includes the following:

   - The Audit Objectives
   - The Areas Tested
   - The General Audit Methodology
   - The tests carried out and sampling techniques used for each specific area
   - Findings, quantifications & effect
   - Recommendations

2. The report and the audit file is then passed on to the Assistant Auditor General (AAG) for a final review and issue of the report to the individual department. The AAG reviews the report and refers to working papers and either approves the report or adjust the contents accordingly.

3. The AAG then sends the final report to the respective Departmental Director with a covering letter stating the areas covered by the report. A deadline is set whereby the department will be expected to send in the reaction to the audit report. Departments are requested to outline the action that needs to be taken to address any deficiencies within their operating systems and what action they plan to take to mitigate any weaknesses and the reduction or elimination of any risks identified.

4. Replies from the departments are discussed between AAG and Unit Manager. Action plans outlined by the departments are noted and followed up to ensure that such plans
are actually implemented. Any divergence of opinion between the NAO and respective department is discussed at an exit meeting. Non responding departments are referred to their respective Permanent Secretary.

Question 4:
Any Practical problems experienced in operating Quality Control Procedures and lessons learnt.

The main problem in operating the quality control procedures arose from the lack of standardization of procedures. The reason for this problem was that staff members come from different working environment and from private audit firms and everyone bringing in a different working methodology.

The problem was resolved by standardizing all procedures including filing and working papers. New recruits are given a thorough induction course on the systems and standards. Before actually given audit jobs, new entrants, are assigned to colleagues in observer capacity so as to gain experience of systems and quality control.

Paul Borg
Assistant Auditor General
**Value for Money**

**Question 1**

*Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.*

1. A number of criteria are used in selecting VFM audit studies. In particular, NAO selects audit topics that:
   - Further NAO policy and strategy
   - Address priority/high growth areas or new initiatives in Government
   - Focus on modernising government
   - Deal with people and not processes
   - Are of interest to the Public Accounts Committee and to the media.

2. A one page study proposal of the audit is prepared by the unit manager and reviewed by the Assistant Auditor General.

3. A preliminary study report is compiled from existing reports, memos and other printed material at our disposal.

4. A letter addressed to the Permanent Secretary concerned and signed by the Assistant Auditor General informs the former of a pending pre-audit in his field with a view of a full audit and requests a preliminary meeting to establish contacts with the Department.

5. A formal meeting with the Permanent Secretary and other staff of the auditee and Assistant Auditor General, manager and staff of NAO is carried out and minuted.

6. A pre-audit plan is prepared by the manager after additional information is acquired from the department concerned. The pre-audit plan is reviewed by the Assistant Auditor General.

7. The pre-audit plan is carried out, and the results obtained are presented in a report and reviewed by the manager and Assistant Auditor General. NAO determines whether a full audit is feasible.

8. If a full audit is possible, a full operational plan for the audit is drawn up by the unit manager and reviewed by the Auditor General. The full operational plan would include:
   - The legal framework for the audit
   - Brief description of the activity, programme or body to be audited
   - Reasons for the audit
   - Audit objectives
   - Audit Scope
   - Audit Methodology
   - Resources required and related cost
   - Audit timetable
Question 2
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

1. The audit plan is divided into a number of tasks and assigned to individual team members.

2. Staff are directed in the performance of their duties, in particular with the techniques and procedures (inspection, observation, enquiry) to be followed in carrying out audit testing. Staff are requested to document the results of their audit testing.

3. Staff are constantly monitored by the manager in the performance of their duties.

4. The Assistant Auditor General is updated daily with Work in Progress.

5. A report is prepared by the principal auditor at the end of each stage of an audit on all findings discovered in the course of his/her audit work. This report is reviewed by the manager to ensure that:
   - All evaluations and conclusions are soundly based and are supported by relevant audit evidence and working papers;
   - All errors, deficiencies and shortcomings have been properly identified and documented;
   - Changes and improvements necessary to conduct future audits are identified.

6. At the end of the execution phase of the audit, the audit manager ensures that all audit steps have been completed.

Question 3
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

1. The major headings of the final audit report are agreed by the unit manager and team members. The report headings are then reviewed and approved by the Assistant Auditor General.

2. The final audit report is prepared by the principal auditors and reviewed by the unit manager. In particular, the audit manager ensures that the final audit report covers all areas included within the audit scope and that only material audit findings have been included. The audit manager also reviews the form and content of report to ensure that the results and recommendations are clearly communicated and can be easily understood by the auditees and other users of the report.
3. The final audit report is reviewed by the Assistant Auditor General who assesses whether the report is comprehensive and adequately supports the final audit opinion.

4. The draft final audit report is delivered to the Permanent Secretary and the Director General of the Department concerned for their comments.

5. An exit conference to discuss response from auditee is held at NAO premises.

6. After the draft final audit report is updated with material discussed during the exit conference, a new draft is drawn for onward transmission to AG for his review and signature.

7. The final version of the report, following AG intervention, is mailed to the Permanent Secretary for information prior to submission to the House of Representatives.

**Question 4**  
**Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?**

1. We have not really encountered any practical problems in operating Quality Control procedures described above.

2. NAO is considering performing a risk assessment in its audit planning stage as part of its Quality Control procedures.

Maria Attard  
Audit Manager
POLAND

Introductory remarks

The principles of functioning of the Supreme Chamber of Control [SCC] are set forth in the 1994 SCC Act (with amendments) and in the SCC rules and regulations, in particular, in the 1995 Instruction by the SCC President conc. Audit Proceedings. Further detailed provisions to specify tasks to be allocated to SCC units (audit departments and regional offices) and staff members in the course of audit proceedings ensue from other instructions and circulars by the SCC President. In particular, in July 2002 the SCC President allowed for test application of SCC Auditing Standards (which after one year of application are to be assessed and possibly amended). Chapter 17 of Standards deals with „Supervision and Quality Assurance in the Auditing Process”. Elements of quality control are included in other chapters as well.

The majority of audits by the Supreme Chamber of Control are the so-called co-ordinated audits, which cover between a few and one hundred auditees and are carried out in accordance with a uniform program by a few up to under twenty SCC units. The mechanism to carry out co-ordinated audits accounts for the necessity to establish a complex Quality Control system to guarantee comparable results of particular audit undertakings.

Leading assumptions behind the Quality Control system built into SCC audit proceedings include:

- supervision over auditors’ activity exercised at any level and stage of audit work, among others by way of reviewing documentation of completed work by a senior level employee;
- formal supervision by Directors of SCC units (and other SCC staff members authorised to directly supervise auditors’ work) combined with supervision by an audit co-ordinator (as well as Directors of audit co-ordinating units and employees acting on their authorisation);
- presenting opinions concerning co-ordinated audit programs (and other major audits) as well as respective collective audit reports, inside the unit which co-ordinates a particular audit, and by other SCC units, advisors to the SCC President, and members of SCC top management (President, Vice-Presidents and Director General). Prior to adoption, these documents are considered with representatives of SCC units and persons that contributed opinions; this makes it easier to check implementation of recommendations, and adjudicate all issues of controversy;
- publishing in the SCC Act (and the SCC rules and regulations) a list of issues which ought to be covered in particular types of documents generated at subsequent stages of audit proceedings (the audit program, audit protocol - audit minutes, post-audit statement, collective audit report - pronouncement on the results of the audit);
- willingness to establish consistent audit practices across the SCC, among others, by way of publicising pronouncements by SCC Appeals Committees and the SCC Council regarding objections tabled by auditees;
- possibility for auditees as well as the respective central state bodies to critically assess audit findings and recommendations, using procedures designed for placing objections or comments.

28 Reply received 9 November, 2002 (corrected version) from the Supreme Chamber of Control of Poland.
Question 1
Please, describe the main Quality Control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction / supervision / reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

The SCC audit planning process includes two core phases:
1. establishing audit topics to be incorporated into the annual audit plan;
2. developing programs for particular audits.

Following the SCC Act, the basis for the SCC activity is provided by periodical audit plans, which determine audit topics to be taken up in a given period of time. In the audit planning process priority is given to those tasks which are to be taken up by the SCC by virtue of the law (in the first place - the state budget execution audit). Establishing remaining audit topics is done under a preparatory process incorporating a few stages and containing components which affect obtaining the desired quality of such works.

First, priority audit directions are specified (for three-year periods). They are problem areas of particular importance from the viewpoint of the state and economy (e.g., economy restructuring, corruption risk, etc.). General priority setting makes it possible to include into the plan a vast variety of topics, at the same time setting up a barrier to limit possible other suggestions.

Works on designing particular audit topics are carried out mainly in SCC units. Proposals (along with justifications) are presented by high rank staff members, most often - future audit co-ordinators. Director of the respective SCC unit checks their correctness (among others, for compliance with priorities, formal feasibility of a particular audit task, etc.) and assesses their purposefulness, taking into account guidelines presented by SCC top management and results of analyses completed by the authors. Also audit topics submitted by the Sejm Committees, President of the Republic, Prime Minister, Supreme Court, Supreme Administrative Tribunal, Ombudsman on invitation by the SCC President are taken into account. Out of several (at times - under one hundred) proposals the Director selects a few (several) ones, taking into account the audit potential; next he or she requests to develop assumptions for the selected topics. The assumptions specify, among others, audit objectives, the period to be audited, justification for taking up this or another audit task, basic audit topic, risk areas referred to as areas of potential irregularities, audit timetable, and estimation of resources necessary to take up the audit task in question (referred to as labour intensity of an audit).

The collection of audit topics along with assumptions presented by SCC units makes up an initial draft annual SCC audit plan. It is presented for consideration by SCC Management (a group composed of the SCC President, Vice-Presidents, Director General, some Directors and advisors to the SCC President) for selection of audit topics. Thus created draft audit plan is then presented to the SCC Council for final selection and adoption.

Plan implementation is monitored during the year by way of following the so-called sssssoperations plan, which constitutes a broad version of the SCC annual audit plan. Operations plan includes a schedule of works related to running every audit, number of auditees involved and estimate labour intensity of a particular audit task. Apart from audits covered by the SCC annual plan, it also contains some ad-hoc audits.
The second phase of audit planning consists in developing, agreeing and adopting the document which specifies the course of a particular audit task, referred to as “the audit program”. Works on draft program are usually run by future audit co-ordinator, who co-works with the legal advisor, Vice-Director in charge and Director of the SCC unit. The SCC rules and regulations specify a list of issues to be covered in the audit program. Following the originally developed assumptions, detailed audit directives are phrased. To this end usually a preparatory audit is carried out in a body typical of the population to be studied later. Such audit findings, along with preceding audit findings collected in this area, provide the basis for developing the audit subject matter and methodology. On top of that the person drafting the program has access to detailed information regarding legal regulations concerning issues planned to be audited. Also input from Parliamentary materials is taken into account (in the shape of M.Ps’ utterances at plenary sessions, inquiries and works completed in committees), analysis of complaints and suggestions submitted to the SCC, information coming from other state and local Government bodies, research and expert opinions, as well as major press publications. In some SCC units the practice is followed to discuss designed directions of study in groups of people furnished with knowledge of given problem areas. The discussion leads to establishing the subject matter for the audit task in a way that would permit studying essential aspects of the audited activity. Particular issues are phrased in items, which later makes supervision of their implementation in the course of audit activities easier. One part of the program comprises methodological hints, phrased as factual questions aimed at specifying the issues for study, complemented with a list of evidence necessary to reach specific findings, and recommended ways to study those (at that stage - specifying, wherever necessary, the size of the audit sample in particular cases). These also specify connections among particular issues and the most advantageous order of study. The program also includes tables which after completion permit to assess results of auditees, and, whenever possible, to quantify them. The aim of methodological hints is to clearly indicate key problems, the study of which will be decisive for the future assessment of the audited activity. The audit program also contains information of organisational nature, among others - a list of bodies to be audited, a list of SCC units to participate in the audit, calculation of labour intensity of audit proceedings, the way to communicate with audit co-ordinator, etc.

Draft audit program, after the review, by the Vice-Director in charge, and the Director, with all corrections, approval by the Director, and initial acceptance by the supervising Vice-President, is handed down for hearing opinions from SCC units designed to participate in a particular audit, Legal and Audit Strategy Departments as well as advisors to the SCC President. Opinions deal both with technical issues (audit subject matter and methodology), and issues of organisation (confronting estimate resources with plan assumptions). The unit in charge of developing the audit program suggests the scope and way of taking them into account. Next, the draft is adjudicated at the session of the SCC Management; though the SCC President may decide differently. Following the results of the discussions, the SCC President (or on his or her authorisation, one of Vice-Presidents) accepts the presented audit program, or orders amending it.

Apart from audits covered in the annual work plan, the SCC also runs ad-hoc audits, in fact with involvement of a single SCC unit in order to study a single auditee; they may be of preparatory nature (to develop programs for future audits), follow-up audits to study the implementation of recommendations from previous audits, complaint follow-up audits - in order to consider complaints and proposals presented to the SCC. Planning such audits takes place following a simplified procedure - certain decisions are made by Director of SCC unit (although, taking up an audit task always requires approval from the SCC President, or one of Vice-Presidents); instead of a full program an audit problem area is developed for approval by a Director.
Question 2
Please, describe the main Quality Control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction / supervision / reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

In co-ordinated audit there take part auditors (audit teams) from different SCC units. Assuring proper quality of audit proceedings is the responsibility of:
1. in-line managers, especially Directors of SCC units and other staff members, who directly supervise auditor’s work;
2. audit co-ordinator, an SCC staff member nominated to run the course of a co-ordinated audit, though he or she might not be an in-line manager of auditors participating in the audit in question.

The audit program is passed for auditors to become individually prepared for the audit task. Before beginning the audit, a pre-audit meeting is held in order to discuss issues, which are to be audited, and ways to study them. Familiarity with the subject matter and methods used to carry out audit procedures is tested by audit co-ordinator, who whenever needed, discuss them in the course of meetings held with audit teams in particular audited units.

In every audit team a manager is nominated, to organise team work and hold the responsibility for the correct and timely course of audit work. Technical supervision over audit in course is exercised by team manager, and audit co-ordinator (if this is necessary, also Vice-Director of the unit in charge of a particular audit co-ordination) along with supervising persons from this SCC unit which carries out the audit in question. On a day to day basis do they consult the emerging problems and provide advice, as well as assure the testing of exactness of implementation of particular audit tasks, including the exhaustion of components to be listed as description of errors (the fact, the scope of the problem, causes, effects, persons accountable) as well as correctness of documenting audit findings and observance of all audit procedures. On top of this, the audit program may impose the obligation to obtain a positive opinion from the audit co-ordinator regarding draft audit protocol before having it passed to the auditee. For co-ordination and assurance of proper course of work, mid-audit meetings may be held, which serve the purpose of presenting mid-audit findings and exchange of experiences. On top of that, whenever the subject audited requires that, specialised audit bodies may become involved in audit work along with external experts commissioned out by the SCC.

There are more ways to assure quality of audit work; they include among others:
- auditors’ commitment to present especially difficult problems which have emerged in the course of audit work - such problems are discussed in a group of experienced staff members, and, whenever necessary, opinion is sought with the Legal Department or other SCC units;
- imposing on auditors the obligation to consult the contents of questions to be posed to persons in senior state administration positions with the Director in charge;
- in state budget execution audit - nominating an expert in accounting for fragmentary testing of calculations done by audit teams.

Implementing the audit program is obligatory. The procedure to obtain acceptance to depart from studying particular issues involves writing a motion by the auditor together with a detailed justification, an opinion by the audit co-ordinator, position by the Director in charge,
as well as the decision to be made by the supervising Vice-President. A similar mode is binding in case of a shift in resource allocation. Changing deadline for the audit exercise, which might be accounted for by labour intensity of the audit task, requires for an auditor to place the respective motion, for the co-ordinator to express their opinion, the supervising Vice-Director’s acceptance and consent from the Director in charge. If failure to keep the original deadline as scheduled in the audit program were to occur, such change would require on top of the above approval by the supervising Vice-President. While extending the audit and stepping beyond time frames specified in SCC annual audit plan requires following a separate procedure for the plan to be amended.

Particular audit tasks do not have budget values ascribed, apart from audits carried out outside Poland, where the audit budget is strictly defined and cannot be exceeded.

Audit proceedings are carried out following procedures specified in the SCC Act and the SCC rules and regulations. Specifically do they regulate the way to collect and store evidence. Assessment whether the evidence is sufficient stays in the first play with the auditor, but can be reviewed by audit co-ordinator and legal advisor at the stage of drafting the post-audit statement. In some SCC units the mechanism of committing the audit team to present draft post-audit statement for co-ordinator’s positive opinion, still before passing the audit protocol to the auditee, is used.

Question 3

Please, describe the main Quality Control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction / supervision / reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

Two types of audit reports are generated at the SCC - individual (dealing with single-audit exercises) and collective (dealing with two or more audits). An individual audit report includes the audit protocol (describing the actual state of facts) and post-audit statement (or statements), including the assessment and recommendations ensuing from the findings presented in the protocol. The collective audit report is titled “pronouncement on the results of the audit”.

Audit protocol, as a document designed to register findings at the conclusion of audit proceedings with a particular auditee, should contain components enumerated in the SCC Act and the SCC rules and regulations. The contents of the protocol should correspond to the subject matter as stated in the audit program, while the findings related to particular issues should be described in subsequent items with cross-references to audit documentation, where the evidence to support the truthfulness of findings is collected. At it was said before, the audit program may impose the obligation to obtain a positive opinion from the audit co-ordinator regarding draft audit protocol. Technical review of the protocol is done in the first place by the auditee, entitled to present objections to facts there described. They are adjudicated following the procedures set forth in the SCC Act. It happens that the contents of the protocol will finally be phrased only after a number of reviews carried out by the auditor and SCC Appeals Committees.

On the basis of the audit protocol the post-audit statement is developed, which contains assessment of the audited activity along with justification as well as recommendations aimed at removing the irregularities disclosed or preventing their occurrence in future (the SCC Act
and the SCC rules and regulations specify issues which should be covered in the post-audit statement). Draft statement is drawn up by the auditor who assesses audit findings in terms of the legally specified audit criteria. Keeping the standard of assessments based on unquestionable evidence is guaranteed by the review of the contents of draft post-audit statements done by the audit co-ordinator, legal adviser and Vice-Director in charge, Director, and - in some cases - also by the supervising Vice-President. On top of that, the audit program might incorporate the obligation of obtaining for the draft post-audit statement a positive opinion from Director of the SCC unit which co-ordinates a particular audit prior to passing it to the auditee, in case the statement in question is drawn up by other SCC unit.

Obtaining answers to the post-audit statement is guaranteed in the SCC Act. The Act also specifies the scope of information to be contained in the answer and imposes criminal sanctions for providing untrue information on implementing post-audit recommendations (although the very implementation of those recommendations is not obligatory). The answer is analysed by the auditor who presents evaluation together with justifications to the Director in charge. Whenever necessary, the SCC applies to have them supplemented, possibly with additional information submitted on a cyclical basis, and after a specific period of time has elapsed, carries out a follow-up audit to test implementation of post-audit recommendations.

Assessments, comments and recommendations by the SCC which have been questioned by the auditee, are reviewed at a number of levels in the course of the appeals procedure following the order specified in the SCC Act. Objections are analysed by the auditor, audit co-ordinator, and, whenever necessary, by the legal advisor. The analysis consists in confronting the objections with the contents of the statement, protocol and audit documentation. Subsequently the Appeals Committee nominated to that end, and incorporating senior staff members of a particular SCC unit adjudicates the objections. Adjudication of objections is an open process with the possible presence of representatives of the auditee; and the pronouncement takes on the shape of a Resolution by the Committee requiring approval by the SCC President; in case of correspondence addressed to the supreme state bodies, objections are adjudicated by the SCC Council. Committee resolutions as well as draft Council Resolutions are furnished with opinions drawn up by the Adjudication Section at the Legal Department, which leads to Quality Control of this part of SCC audit proceedings. So far, no synthetic assessments in this respect are ever developed.

Exhaustive presentation of audit findings takes on the shape of a collective report for the Parliament (“pronouncement on the results of the audit”). It covers legal aspects of and provide contexts for the activities studied, along with most important audit findings, assessments and conclusions (the SCC rules and regulations specify the pattern for drawing up the report); usually they also quote those parts of answers to post-audit statements which enrich the contents of the report.

The SCC unit which co-ordinates a particular audit develops draft collective report. Opinion is provided inside this unit, by other units taking part in the audit and next by SCC Legal and Audit Strategy Departments, advisors to the SCC President, and members of the SCC top management. Next, a discussion is held following the mode adopted for considering draft audit programs, and the SCC President (or a Vice-President authorised by the President) approves the report.

Prior to presenting the collective audit report to the addressees and publication, it is passed to the respective central state bodies to enable them take positions on the contents. The position, if presented, is enclosed with the report, and the SCC President may in turn present its opinion on the position expressed.
ROMANIA

Question 1:
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kind of procedures and practices are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

The main rules, regulations, practices and procedures used by the Romanian Court of Accounts are provided in the Norms of External Subsequent Financial Control and Findings Follow-up, approved by the Courts’ Plenum in 2002\(^{29}\).

According to them, the responsibility for the control quality assurance belongs to:

- the control team leader,
- the director of the specialized control structure,
- the Counselor of Accounts, Head of Division.

At the top management level of the Court of Accounts, the quality assurance of the control deeds is performed by the Division for Coordination and Methodology, where a compartment for inspection and quality assurance has been set up. This compartment includes qualified and experienced staff, having good knowledge of the control and accounting procedures as well as of evaluation of the control reports, and operates independently of the any other Courts’ division.

During the planning stage, the responsibility for the quality assurance is shared by the audit team leader and the head of the audit directorate and consists in supervising the way the following activities are carried out:

- Collection and preliminary review of the information about the auditee.
- Review of the accounting and internal control systems.
- Estimation of the human and other material or financial resources needed for the audit work.
- Setting up the work schedule.
- Elaboration of the audit plan.
- Contacting the audited entity.
- Drawing up the audit programme.
- Approval of the audit plan.

The permanent and current files, offering an image on the effective audit quality, insure the successful implementation of the activity of quality assurance.

\(^{29}\) Reply received 3 July, 2002 from the Court of Accounts of Romania.
Question 2.
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kind of procedures and practices are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

During this phase, the director of the audit structure undertakes the following actions:
- Checks the way the audit evidence is collected in line with the planned techniques and procedures.
- Assesses the competence, the relevance and the reasonability of the data selected to formulate an opinion.
- Reviews the accuracy in drafting the conclusions resulted during the audit activity.
- Analyzes the conclusions resulting from the audit activity and approves any amendments to the control plan, needed as a result of the fieldwork.

Question 3.
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kind of procedures and practices are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

During the reporting stage, the quality control assurance is performed both by the Director of the audit structure and the Counselor of Accounts, Head of the Division, that review the way the following activities are carried out:
- Drafting and analysis of the conclusions, opinions and recommendations
- Documentary support of the conclusions and opinions
- Assessment of the audit team performance
- Follow up of the impact of the audit report on the auditee.

Question 4.
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

The current law and the related Norms for external subsequent control and findings follow-up introduced procedures and practices in line with the best practice in the field, so that the opinions expressed in the audit reports are perceived by the beneficiaries of the audit reports as orientations for their activities improvement as well as for the improvement of the regulations having a social impact.
SLOVAK REPUBLIC

Question 1:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.


According to the Law SAO SR shall audit the management with:budget resources which according to law are approved by the National Council of the Slovak Republic or by the Government of the Slovak Republic including the means obtained by the municipalities and higher territorial units for execution of self-government and transferred exercise of state administration out of these budgets,

b) property, obligations, financial means, property rights and public debts, statutory institutions and The National Property Fund of the Slovak Republic,

c) property, financial means and property rights of municipalities and higher territorial units which they have gained for settlement of expenses for transferred exercise of state administration,

d) property, obligations, financial means, property rights and debts for which the Slovak Republic has accepted guarantee,

e) property, financial means, property rights and debts, and financial means which were provided to the Slovak Republic, to legal persons or natural persons who are enterprising with resources of the state budget or disposing of the state property within development programs or for other similar reasons from abroad.

Within this scope the SAO of SR shall audit too:

a) the methods of levying and claiming taxes, custom duties, drafts, payments and fines forming the revenues of the state budget,

b) the execution and application of rights and obligations arising from financial and economic relations, participant of which is the subject mentioned below.

For the purposes on Act on SAO SR, funds of the European Communities and any other foreign funds provided for the projects based on international treaties shall also be regarded state budgetary funds.

30 Reply received 31 May, 2002 from the Supreme Audit Office of the Slovak Republic.
The auditing activity of the Supreme Audit Office is related, in the extent stated thereinbefore, to:

a) the Government of the Slovak Republic, ministries and other central bodies of the state administration of the Slovak Republic and bodies subordinate to them,

b) state bodies and legal persons if the function of a founder or an incorporator is pursued by a central body of the state administration or by other state body,

c) municipalities and higher territorial units, legal persons established by municipalities and legal persons established by higher territorial units,

d) state purpose funds, statutory institutions established by a law, legal persons in which statutory institutions have a capital participation, legal persons with state capital participation,

e) The National Property Fund of the Slovak Republic, legal persons with capital participation of the National Property Fund of the Slovak Republic exceeding 50 % excluding natural monopoly and with capital participation of the National Property Fund of the Slovak Republic exceeding 34 %, natural persons and legal persons.

The planning phase of an audit:

The preparation of the audit event is ensured by the head of the audit event in co-operation with heads of audit groups.

Within this preparation auditors are obligatory to acquaint themselves with generally binding regulations and/or other normative regulation of audited issues ensured by the head of the audit event.

Director oh the section and/or director of the branch office are obligatory to suggest the time period adequate the audit extent and its intensity.

Audited agencies are obligatory to provide information, documents and explanations connected with exercising of its activity. On behalf of SAO SR, the head of the audit event shall require information, documents and explanations according.

State administration bodies are obligatory to co-operate with SAO SR auditors in tasks achievement. Particularly, they are obligatory to ensure the audit performance and submit the output audit materials on request.

Based on suggestion of director of section and/or branch office, President and/or relevant Vice-President of SAO SR can include persons who do not belong to SAO SR staff in the audit group when their professional skills are necessary for audit performance, necessarily.

The result of the audit preparation is the audit program, according to which the audit event is performed. In accordance with audit activity focus of SAO SR, audit program has to include audit subject, audit purpose, subjects where the audit will be executed, organizational ensuring, ant the term of audit event realization.

Adequate time limit should be restricted for program execution. Audit program is obligatory for the audit group.
Based on decision of section and/or branch office director, the head of the audit group elaborates the audit procedure in co-operation with heads of audit groups. The way of examination of the audit subject are determined by the audit procedure. In the audit procedure the provision of relevant standard indicating the required state is reported to the individual program events.

In conclusion of the preparation the head of the audit event will execute an audit instruction for auditors and additional persons. The goal of the instruction is to make auditors and additional persons familiar with the audit program, procedure, generally binding regulations and discussing of possible open questions and specific issues.

Section and/or branch office director can suggest and SAO SR President and/or Vice-presidents can approve the invitation of experts-specialists in relevant field in order to give their professional commentary.

This procedure incorporated in Guideline on audit proceeding rules of SAO SR should ensure the quality of performing of audit tasks.

**Question 2:**
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

At the audit performance auditors are obligatory to proceed in the way which shall lead to truth, complexity and provability of audit findings.

During audit performance the auditor is obligatory on the audited subject:
- to find out the real state according the program positions and/or audit procedure,
- to compare the real state wit the state required (provisions of generally binding regulations). The comparison performed by the auditor serves for evaluation of harmony with the required state.

The real state in the audited scope is found out by the auditor mainly by data of economy informatics, results of professional expertise and other documents.

Revealed information is investigated as for truth, objective and formal rightness and complexity, they are analyzed when necessary. Auditor deals with their composition, reference to other documents till he draws conclusion that the shown fact is really right and objective.

Audit findings reported in the protocol on audit result have to be documented evidentially. Documentation of found facts are ensured in the way that the auditor refers to written documents from which found facts come from or documents are attached to the protocol if the reference would not do.
Head of the audit group shall elaborate a protocol on audit result. This protocol should include the description of facts found out and titles of provisions of those legal prescriptions, which were broken.

The head of the audit group or head of the audit event is obligatory to inform the head of the audited subject or his representative authorized in writing, with the protocol content and to enable him to give written objections against truth and provability of audit findings in determined period.

In case that the audited subject will submit objections against truth and provability of audit findings after being informed on protocol contents, the audit group will confirm the justness of submitted objections. The result will be forwarded to the audited subject in writing. The result information is a document attached to the protocol.

If the necessity of protocol amendment will arise by confirmation of objections, head of the audit group will elaborate an appendix to the protocol.

Section and/or branch office director is responsible for adequate preparation, performance, administration and implementation of audit event.

**Question 3:**

Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

Protocol /”protocol” is called the report for auditees/: See question 3. This protocols are the basis for most of many other reports.

Reports to the National Council: According the Law:

- SAO SR shall prepare its Opinion concerning the Proposal of the State budget of the Slovak Republic and the Proposal of the Final State Budgetary Account of the Slovak Republic. SAO SR submits the Opinion concerning the Proposal of the State Budget of the Slovak Republic to the National Council of the Slovak Republic within the period under the special regulation. SAO SR submits the Opinion concerning the Proposal of the Final State Budgetary Account to the National Council of the Slovak Republic within 30 days after the decision of the Government is made.
- Upon request by the National Council of the Slovak Republic, SAO SR shall prepare an opinion concerning the Proposal of the State budget of the Slovak Republic.
- Based on the resolution of the National Council of the Slovak Republic, SAO SR shall conduct audit for the purposes of the National Council within the scope of its competencies.
- SAO SR shall submit to the National Council of the Slovak Republic a report on auditing results for the past calendar year not later than by the end of March of the following year. Such report on auditing results shall be submitted whenever so requested by the National Council of the Slovak Republic.
President shall inform the National Council and the appropriate bodies about important findings and the facts resorting from the auditing activities.

SAO SR reports frequently to the National Council and its committees about its audit findings. These reports are prepared from the audit protocols.

The reports are discussed at the meeting of SAO SR directors and at the Counsel of president and vice-presidents.

**Question 4:**

**Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?**

According the Law on SAO SR from January 1, 2001 the Office shall apply the international auditing standards of the European Union and adapt them to the conditions in the Slovak Republic for the purposes of quality and professional competence.

Therefore the standards and guidelines of SAO SR will be carefully reviewed, the situation in the area of audit approach and methodology will be regularly monitored and updates done as necessary.
SLOVENIA

Introductory remarks

The Quality Control of the Court of Audit of the Republic of Slovenia is referred to the audit process and is regulated by:

- The Court of Audit Act and Rules of Procedure of Court of Audit,
- The Guideline on quality assurance,
- Guidelines on main activities at each stage in the audit process,
- The draft audit manual chapter and checklists on quality control,
- Instructions and internal rules accepted by the President of the Court of Audit.

Quality Assurance consists of control procedures incorporated in the audit process with clearly defined quality standards, roles and responsibilities. All activities are part of the quality assurance process and are aimed to improve quality of audit work. The guideline on Quality assurance and in greater detail the audit manual chapter on quality assurance define roles of each member of the audit team and audit management in terms of their duties and responsibilities for maintaining the quality of the audit.

Quality criteria have been defined by the Court of Audit in order to provide quality control. Such quality criteria must be followed by auditors and management. At each audit stage quality criteria are defined for separate procedure and audit product. Work on quality assurance is documented usually on a special form that consists of checklists and questionnaires.

Question 1:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

Quality control at planning stage is essential for assuring the plans to be in accordance with legislative requirements, guidance, strategic objectives, defined priorities and President’s instructions. In addition the quality control has to assure that: plans are in line with expected strategy and defined priorities, planning efforts are effective enough in meeting received initiatives and in addressing current issues and novelties referred to new legislation and/or government administration reforms, contribute to better value for public money and benefit for public sector financing in general.

The reviewer of detailed audit plan main concern aims at audit objectives which have to be clear and responsive to audit subject, and audit work planned in order to meet those objectives. The audit plan must contain clear scope that focuses the extent, timing and nature of the audit. The methodology has to be designed in appropriate way and audit resources planned to adequate extent and structure.

31 Reply received 6 November, 2002 (corrected version) from the Court of Audit of Slovenia.
At the Court of Audit there is quality control of audit planning at various levels as follows:

- Each team leader has a role to ensure that an audit plan contains all necessary elements, is prepared according to auditing standards, guidelines on planning and audit manual; that audit objectives are properly treated, proper methods and audit techniques are used to achieve those objectives and adequate resources are planned to perform audit in time and expected quality.

- Then plans are reviewed by the Head of the Department who approves the plan and in that way should ensure that the plan meets the necessary quality criteria. He or she must assure that all requirements for a good quality plan are fulfilled and that audit plan enables auditors to perform audit in an efficient and effective way. The plan is then submitted to the Deputy President for agreement.

- The Deputy President reviews the detailed audit plan again together with audit programs prepared by audit department and comments on it. Each audit program has to be submitted to the Deputy President before the Head of Department finally approves it. The Deputy President can require changes. The Head of Department takes into account observations and comments or has to explain in written way why she/he acts differently. However the Head of Department is responsible for detailed audit plan that she/he approved and for its implementation. The role of the Deputy President is to ensure that all professional and regularity requirements are fulfilled. The Deputy President issues his/hers approval to the audit plan in a written form.

- The detailed audit plan can also be the subject of supervision that is a form of additional quality control. Supervision can be executed on request and by authority of the President or Deputy President. It is carried out on the base of special decree issued by the President and performed usually by advisers or senior auditors and with the support of designed checklist and documented on the special form. Results of supervision are presented in a special report and submitted to the head of supervised audit department who can comment on it and answer to given recommendations, and finally to the President.

**Question 2:**

Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

Besides good planning the success of the audit depends on the quality at execution stage. High-Quality performance includes proper reviewing and supervision. It is necessary to constantly monitor execution of individual audit. Reviews, supervision and other activities aim to better quality and early in the process identify if:

- audit team has appropriate knowledge and skills needed to perform assigned task,
- auditors understand instructions and given directives,
- work is done in accordance with approved audit plan,
- audit objectives are reached and planned tasks are accomplished and all applicable audit standards are met,
- audit findings and discovered irregularities and errors are supported by sufficient, relevant and reliable audit evidence to support observations,
- auditee’s views and explanations are adequately considered and included into working papers,
- audit involves objective evaluation of the evidence against the accepted criteria,
- findings and conclusions are tested against accumulated evidence and discussed with the auditee to get valuable input and to validate correctness of auditors work,
- audit has necessary and sufficient observations to support conclusions made against each audit objective,
- recommendations are included in audit and are discussed with the auditee to ensure that they are doable (can be implemented) and will achieve desired results before incorporated in the report,
- audit results are in the report that meets the Court of Audit’s reporting standards.

At the Court of Audit there is quality control of audit execution at various levels.
- Each team member has a personal responsibility to ensure quality of their individual audit task.
- Team leader has a role to review the work of the individual member and ensure that the work of the whole team is carried out in accordance with the approved audit plans. He or she currently monitors execution of an audit and reviews the audit performed by the team members and examines effectiveness and efficiency of their work.
- Deputy Presidents’ work on quality assurance of audit execution is usually part of final phase. It is documented on special form which consists of checklist and approval statement to the draft report. Deputy President constantly monitors all audits in process and tries to be acquainted with potential questions. She/he is also involved in solving auditing and accountancy issues, that appear as problems during an audit, evaluates their influence on audit and if needed, approves audit plan modification. Deputy President is also involved in cases of disagreement or discrepancy in professional judgement between the Head of Department and an auditor.
- In addition there are also special supervisions performed by the advisers of the Deputy Presidents who carry out on the spot checks of audit execution of the audits. The intention is to provide strict quality control during the audit execution phase.

**Question 3:**
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

At all stages and roles reviewing and supervision provide assurance that the President who finally signs the audit report is satisfied with the overall quality of end product in the audit process.
Report review is based on the accepted audit reporting standard which ensures that each audit result in a report clearly communicates to the reader:

- the objectives, nature, time period covered by the audit, and scope of the audit, including any limitations,
- the professional standards used,
- a description of the program or activity that was audited, including management's responsibilities,
- that criteria used and any disagreements with the auditee on their suitability;
- the observations made,
- the recommendations to guide corrective action,
- auditees’ comments and explanation including planned action in response to the audit and any differences of opinion,
- the conclusions reached against each audit objective.

At the Court of Audit there is quality control of audit reporting at various levels.

- Each team member has a personal responsibility to ensure quality of their individual work presented in working papers.
- Each team leader has a role to prepare the draft audit report and ensures that it is in line with the findings obtained by the audit team. He or she has to review the working papers and approve work done by individual team member.
- The Head of Department reviews and amends the audit report. He or she is responsible for a good quality of audit report and assures that it fulfilled all quality criteria. The report is then submitted to the Deputy President for agreement.
- The Deputy President is included in quality assurance at reporting stage after audit draft report is prepared and audit work reviewed by the Head of the Department. The Deputy President takes part in the reporting procedures three times, at draft stage, at proposal stage, and before an audit report is presented to the Editorial Board. In case that an auditee filed its objections to the audit findings in the audit report, the Deputy President is member of the Senat which decides upon disputable disclosures.
- The Deputy Presidents advisers can also review the report and make a recommendation for agreement to the Deputy President. They help Deputy President in reviewing reports as a part of their regular tasks.
- The audit reports are also reviewed by the Editorial Board to ensure that the style and format of the reports are consistent. Its duty is also to care for other aspects of quality as proper use of legal bases for an audit an adequate use of professional terminology and grammar. All proposed corrections are reviewed and approved by the President before final version of audit report is defined.
Question 4:
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

The Court of Audit has in place very complicated and closely interconnected quality assurance process that causes some problems linked with time management and large workload at the Deputy President level. Lack of knowledge and audit experience at auditors level are still present and have an effect on quality of audit work.

One can say that the Court has excessive quality controls but current situation, organisation, staff structure and management require strong quality assurance system that constantly improves quality and saves good reputation of our institution.
Question 1:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

1.1-Regularity Audit:

- The Turkish Court of Accounts (TCA) exercises its auditing authority on the establishment and institutions that fall under its auditing jurisdiction. It is a collegiate SAI, equipped with judicial powers. The auditing is exercised through its auditors who are attached to an audit group, headed by a principal auditor, called “Chief of Group” (CoG). There are some 25 audit Groups and each is charged with accounts of certain establishment and institutions assigned to them. The CoG, taking into account views of auditors on the group, prepares a “Proposal of Annual Audit Programme” (PAAP) by selecting accounts out of the accounts group is responsible for.

- PAAPs from Audit Groups are reviewed by the Audit Planning and Report Drafting Group that acts as an advisory council of the Presidency and then submitted to the General Assembly of TCA, which totals 58 members and is composed of President of TCA, Members of 8 Chambers and 8 Chamber Chairman.

- Annual Audit Programs are put into effect by the decision of the General Assembly. After the approval of Programs the Presidency assigns account(s) to the individual auditor through his/her CoG.

- The auditor receiving the audit programme, which includes names of accounts and working days for each account, plans the audit by:
  1.1.1-obtaining relevant information on the laws and regulations regarding the auditee.
  1.1.2-obtaining prior reports on the account.
  1.1.3-assessing the topicality (whether there has been public interest stimulated over the audited body’s operations – media coverage)
  1.1.4-highlighting problematic areas that s/he has learned from prior external or internal audit reports or from any other source.
  1.1.5-checking if the issues in the prior reports have been/are being followed up.
  1.1.6-understanding the finance/budget, accounting and other relevant functions of the auditee.

1.2-Performance Audit

- The planning stage of performance audit is carried out according to the “Performance Audit Manuel” prepared by the Performance Audit Group.

32 Reply received 19 September, 2002 from the Court of Accounts of Turkey.
• Performance Audits are carried out by teams within the Performance Audit Group. Performance audit process begins with the general survey by which relevant information is obtained on the audit field.

• Obtaining sufficient information the team prepares a study proposal, which in general contains information regarding to: Background information, objectives of the auditee/programme, subject of audit and fundamental questions, risk to VFM, methodology, expected results, parliamentary and/or public interest, other risks and difficulties timetable and budget. The study proposal is reviewed by the CoG and submitted to the top management.

• Following the approval of study proposal by the President an audit plan “preliminary study” is prepared by the team according to the format shown in the Performance Audit Manuel. This study also forwarded to the president for his approval after reviewed by the CoG.

**Question 2:**
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

2.1-Regularity Audit

• Regularity audit is carried out according to rules and principles provided by the TCA Law # 832 and the regulations and circulars based on this Law.

• Currently, the audit carried out is based on the 100 % transaction examination instead of system based audit. Therefore, the auditor has to check every transaction to see whether there is/are unlawful one(s). The auditor inquires of the responsible officials on the transaction(s) that s/he considers to be against the Law. Receiving the defence statement from the responsible official the auditor writes the audit report by including the responsible officials defence statement and his/her final opinion. The inclusion of defence statements in the audit report is considered by TCA as an important tool of quality control.

• In general, the auditor works on his/her own but under the guidance and supervision of the team leader and CoG. Since there is no usage of working papers in the TCA practice the supervision is performed by the CoG thorough reviewing the inquiries and the report drafted by the auditor. The legislation does not stipulate that the CoG should exercise supervision during the conduct of an audit. The supervision is, therefore, carried out on draft inquiries and the audit report. In the case of disagreement between the views/opinions of the auditor and the CoG, the CoG endorses the report that s/he is not in agreement with the auditor.

2.2-Performance Audit

• Full investigation phase, that is execution of audit, is regulated in the “Performance Audit Manuel”. At this stage a plan is prepared to determine the best tools for collecting
evidence, which must be relevant, reliable and sufficient, and to select relevant techniques of analysis. The audit is performed in the framework of this plan.

- The working papers prepared by the auditors of the audit team are reviewed by the CoG.

**Question 3:**
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit

3.1-Regularity Audit

- The Law # 832 and relevant Regulation provide rules for reporting procedures as well as type and content of reports.

- The provisions of the above-mentioned Law and Regulation establish the quality control process:
  
  3.1.1-The audit report includes the views/claims of the auditee /responsible official and also endorsement of CoG (as explained in 2.1 above)
  
  3.1.2-Under items 56 and 57 of the TCA Law, on the items of audit report the written opinions of the prosecutor and the member of the chamber, trying the account, are obtained before the trial of the account. So the relevant Chamber tries the account considering the auditor’s opinion and that of the member and prosecutor and the defence statement.
  
  3.1.3-Acts of corruption and other acts constituting guilt, which take place in the audit report, are reported to the related authorities/Public Prosecutors, if the relevant Chamber decides so.
  
  3.1.4-According to items 67, 74 and 77 of the aforementioned Law, the decisions of Chambers can be appealed, demanded to be revised or corrected by the concerned officials and institutions.
  
  3.1.5-The member of Chamber may demand a second review of the account. This rare practice may be also considered as an instrument of quality control.

3.2-Performance Audit

- The audit team produces an internal report (outline report) to be reviewed by the CoG and submitted to the President for his assessment. Then the report is sent to audited body as a basis for discussion.

- After discussion/response with/from the audited body a draft final report (TCA Report) is drawn in which the auditee’s agreement or otherwise, evidences and findings are incorporated. The team after finalizing the report briefs the top management on the report.

- Including amendments by the top management the report is sent to the audited body to obtain their opinion. The “TCA Report” redrafted after receiving Auditee’s opinion and forwarded to the President
Question 4:
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

- The regularity audit carried out by TCA, which is an SAI of the continental tradition and bases its audit on a system that requires examining 100% of transactions, appears not to be very close to the quality control processes. Except the Statements of General Conformity, its not reporting to Parliament is another culprit in the weakness of the system.

- TCA appreciates that not only establishing quality control in the audit process but also a sound quality management that covers all the structure of the Institution will help to attain the desirable results.

- To establish quality management system based on audit management personnel management and continuous improvement TCA has directed its endeavours to the Strategic Management and Strategic Planning

- In this connection, TCA has prepared the “Strategy Statement 2000-2004” and “Annual Activity Plans”. In line with strategies of this Statement, a research report has been drawn as to how the SAIs of developed countries have established and is implementing the quality control/management /assurance systems and how TCA can benefit from these experiences.
EUROPEAN COURT OF AUDITORS

Introductory remarks

1. All of the European Court of Auditors (ECA) audits are planned, executed and reported on based on the Court's Audit Policies and Standards (CAPS) and the Court's Audit Manual (which put the CAPS into practical effect). The Audit Manual respects international auditing standards (INTOSAI, modified for the specific Community context where necessary).

2. The concept and practice of quality control are included both within the CAPS and the Audit Manual and cover procedures at all stages of the audit (planning, execution and reporting) taking into account all hierarchical staff levels within the organisation (auditor, team leader, head of division, director).

3. The ultimate responsibility for the quality of the Court's audit work lies with the Director of the audit group in question. In practice this role is effected by ensuring that quality control procedures have been completely and effectively applied. The Head of Division is responsible for ensuring that all audit and quality control procedures have been applied to the audits within his or her audit sector. The day to day responsibility for the application of quality control procedures lies with the team leader for the audit in question, generally a senior auditor.

4. The Court's CAPS place particular emphasis on formalised quality control procedures being an integral part of audit process. They are applied on an on-going basis process in real time (ie. during the audit process, not subsequent to its completion). They state- "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 the audit task team leader or, in the case of work carried out by the team leader, the Head of Division. The objective of this review should be to ensure that sufficient, relevant and reliable evidence has been obtained. This review should be evidenced in the working papers. Work initially reviewed by the audit task team leader should be subject to further reviews by the Head of Division and by the responsible Director. These further reviews should also be documented in the working papers. The responsible Director should ensure that a quality control system is in place that operates effectively."

5. The Court is currently in the process of implementing an automated audit system (ASSYST) which provides for the computer automation of all aspects of an audit from planning through to reporting, including management of resources. One of the objectives of this system is to further improve the quality control over the audit process through a strictly defined set of authorisation and approval criteria, and by ensuring that standard documents and checklists are used and completed in all cases.

33 Reply received 17 October, 2002 from the European Court of Auditors.
Question 1:
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

The principal elements to ensure the quality of the ECA’s audit planning process is through the preparation of two detailed documents - a preliminary study, and then an audit planning memorandum. These documents are reviewed and ultimately approved by Audit Groups, made up of Members of the Court.

A preliminary study is prepared for all non-recurring audit tasks and are intended to demonstrate whether a particular audit task is a worthwhile use of the Court’s resources.

An audit planning memorandum is prepared for all audit tasks and sets out the objectives of the audits and how these objectives are to be met on both a technical and practical level.

These key planning documents are prepared under the supervision of the Team Leader and approved by the Head of Division. The layout, structure and content of these planning documents is set out in the Court’s Audit Manual, and there is planning checklist to ensure all elements have been covered.

Quality control in this phase is therefore ensured through a number of means:

i) Use of standard layout and structure of documents, following the requirements of International Auditing Standards (INTOSAI and IFAC);

ii) Completion and approval of a planning checklist;

iii) Supervision, review and approval of team leader and Head of Division;

iv) Approval by the Member responsible for the audit department concerned; and

v) Review and approval by Audit Group

Question 2:
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

In the field work stage of the audit, the quality of the work is assured through a number of means:

i) The use of audit programmes and questionnaires setting out the work to be performed and the evidence to be obtained;

ii) Preparation of audit files setting out and recording the work done, and the results obtained.

iii) The use of pre-prepared worksheets such as for the audit of systems and controls;

iv) Close supervision of the team leader and Head of Division;

v) Review of work by the team leader and Head of Division, with documentation of this review;

vi) Completion, review and approval of audit checklist to ensure all elements of the audit work have been carried out.
Question 3:
Please describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

Once the audit fieldwork is complete and approved, the findings are set out in so-called sector letters for transmission to the audited bodies. The purpose of the sector letter process is to check the veracity of the audit findings prior to continuing with the drafting of the report.

Once the replies to sector letters have been received, the audit team draft the draft report, or preliminary observations. This is done under the close supervision and involvement of the Head of Division. This document is then put before the Audit Group for review and approval. This process allows a check to be made on the findings and presentation, and is an important element in ensuring the quality of the report.

During this process the Court's methodology department (ADAR) is able to review the draft documents and make comments and discuss any problems during the Group meetings.

Once the Audit Group is satisfied with the draft report is presented to the Court for approval. This allows for further discussion and examination of the contents, thus providing a further layer of quality control. Once approved, the draft report is sent to the Commission (or other EU institution) for examination and preparation of a reply.

Following receipt of the Commission's reply a contradictory meeting is held where any points of disagreement are discussed. In particular this process aims to ensure the accuracy of the Court's findings and the relevance and appropriateness of its interpretation of these findings. Once this process is complete then the Court's reports are published in the Official Journal of the European Communities.

Together these procedures aim to ensure the clarity, accuracy and objectivity of the Court's reports.

Question 4:
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

The Court has a Quality Assurance function which has the ex post role of evaluating if and how well QC procedures have been implemented. This is done in part by examining a selection of completed audits in detail. The lessons learnt from this process are then fed back into the audit process to contribute to continuous improvement.

As with any complex process a number of difficulties have naturally been encountered in operating these QC procedures. This is somewhat exacerbated by the multicultural and multilingual nature of the Court, with staff coming from a wide range of backgrounds and practices in both the public and private sector.
A further cause of problems is the natural tendency for the Court to overstretched its resources by being too ambitious in its work programme. In this case pressure on staff and management mean that sufficient time is not always devoted to undertaking QC procedures in full.

Many of the lessons learnt by the Court in recent years have been reflected in the conception of the Court's new automated audit system (ASSYST) which is currently being implemented. In particular this should both help improve the efficiency of the audit process and ensure the quality of the audit work and documentation. The system will also provide a structured framework for a logical hierarchical review and approval procedure.
AUSTRIA

1. Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

Every audit is defined as a project\(^{34}\). The audit process is analogous to the project organisation. The organisation consists of the project team, which is headed by the audit manager (project manager) and the audit principal (normally the responsible director general) who commissions and steers the audit. The project team works on the individual project phases; the audit findings are submitted to the audit principal for preliminary approval.

Before the audit is commissioned, the audit team drafts an audit plan which contains agreed minimum contents (in particular a description of the audit object, the audit purpose, themes, methods, the schedule and the costs) which is submitted to the audit principal for approval.

The audit manager determines the thematic responsibilities of the audit team members.

2. Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

During the audit phase, the audit manager conducts regular team briefings with the audit team to harmonise the findings and the assessments made (e.g. criticism, praise, recommendation). He discusses with the audit team any adjustments to the audit objectives as against the audit plan.

The audit manager informs the audit principal in due time on deviations from the audit plan, he suggests modifications and seeks he approval from the audit principal.

A milestone briefing is held at least once during the on-site audit phase between the audit principal and the audit team. During this briefing, the project course is monitored by a comparison of the audit plan (target) and the progress of the audit (actual).

The audit manager verifies whether the audit findings and evaluation results are covered by the material surveyed (e.g. documents from the auditee, interview protocols, recordings). The audit team documents the survey results and the stages of the audit.

Using the audit findings, the audit team assesses the extent to which the auditee accomplishes its tasks and achieves its objectives. The audit manager verifies that the responsible stakeholders with the auditee were given an opportunity to state their case.

At the very end of the on-site audit, the audit team presents the major findings and preliminary assessments of the audit that was performed to the auditee in a debate. Together with auditee representatives, the audit team looks for forward-looking solutions (element of the advisory function of the Court of Audit).

\(^{34}\) Reply received 14 November, 2002 from the Court of Audit of Austria.
3. Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/supervision/reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

At the start of the reporting phase, the audit manager agrees with the members of the audit team on objectives, issues, contents and the scope of the contributions to be provided by the team members to the written audit findings (= report to the auditee) and sets the rules for cooperation and the flow of information.

Every auditor is held to document audit statements by corresponding factual material. Figures are cross-checked by a second member of the audit team for their validity and correctness (four-eye principle).

The audit manager condenses the contributions received from the individual team members into uniformly structured audit findings which are free of contradictions and discusses the edited contributions with the respective team members.

The audit manager ensures that the aspect of chronology, logic and comprehensibility of the audit statements is given due weight by ranking and weighting the contributions. Moreover, he makes sure that the presentation is balanced, both in qualitative and in quantitative terms. He ensures a distinct separation of facts and assessment (e.g. criticism, praise, recommendation) and verifies whether there is an assessment for every fact which expresses a clear standpoint of the Austrian Court of Audit.

Before the written project findings are finalised, the audit team presents the envisaged contents to the auditee in what is called an exit meeting. The audit team weighs the relevance and validity of the facts surveyed and of the assessments made against the statements of the auditee.

The audit findings which have been edited by the audit manager and modified as necessary are discussed with the audit team. A comparison between the audit plan and its implementation is made, major deviations are justified.

The draft audit findings are then submitted to the audit principal for preliminary approval, who reviews the report as to its consistency with the audit assignment. Finally, the report is authorised by the president of the Court of Audit.

- Practices relating to Post-Audit Quality Assurance

After the audit findings have been authorised, the audit team evaluates the audit process and discusses improvement potentials.

The Court of Audit transmits the audit findings to the auditee for comment and to the Federal Ministries having subject-matter competence (this practice concerns audits performed at the central level; similar arrangements apply to regional and local audits).

The audit team studies the merits of comments received and drafts a counter-comment (rebuttal) if it cannot be accepted by the Court of Audit. The counter-comment is submitted to the President of the Court of Audit via the audit principal for approval. The comments and
counter-comments are incorporated in the Court of Audit’s annual report. The annual report is to be submitted to the relevant general representative bodies (central level: the National Council, regional level: province parliaments (diets) in the nine provinces; local level: municipal council for local communities of at least 20,000 inhabitants, for which the Court of Audit has audit competence) and published and such also available to the public at large (also on Internet– www.rechnungshof.gv.at ).

The appropriate general representative body or the relevant Public Accounts Committee discuss the report by the Court of Audit and may demand further information thereon from the President of the Court of Audit. Quality assurance in terms of a follow-up on audit recommendations by the Court of Audit on the parliamentary level which goes beyond the audit process is achieved by the dissemination of the audit findings via the media and by preparing from the reports of previous years an annually updated list of suggestions which have not been acted upon.

4. Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

Audit processes are regularly evaluated with a view to a further improvement and acceleration of processes.
In 2002, the National Audit Office of Denmark started the work of implementing a new audit support system TeamMate\(^{35}\). The system is expected to be operational from January 1, 2003 and this will result in significant changes in the quality assurance procedures and the quality control.

The following reply describes the NAOD experiences with quality assurance in financial audit as well as in performance audit.

The NAOD deliberately chose the term “quality assurance” and not the expression “quality control”. Assurance has positive connotations in opposition to control, which gives the impression of negative sanctions. The philosophy of quality assurance is not to point fingers at anybody, but to learn and develop audit services delivered by the NAOD based on our professional qualities.

In a modern audit organization, quality assurance – as reflection – is becoming a theme of its own – a learning process, which creates a feed-back loop for initiating an improvement process. It is a consequence of the fact that the audit process produces audit evidence as documentation for the auditor’s reports and statements, and concurrently any audit implies a certain audit risk. In a modern SAI, quality assurance is a mean to reduce the audit risk in the audit process. Quality assurance is establishing a learning process, and the final aim is to improve the audit process and reduce the audit risk fundamentally.

According to the National Auditing Standards established for public sector audit in Denmark, it is essential that the quality of the audit is evaluated currently.

The aim of this evaluation is to create assurance of the quality of the carried out audit.

It is stipulated in the auditing standards that a precondition for quality assurance is the existence of agreed audit objectives and procedures, which have the purpose of assuring an acceptable level of quality of the audit tasks. It is essential that audit plans exist and that the staff members have the required qualifications for the audit task.

The purpose of quality assurance is to evaluate to what extent the stipulated policies and procedures are followed, and to establish whether they have had the intended impact on the audit.

**Question 1: Planning**

On basis of our standards, the NAOD developed an audit manual describing the procedures and the audit products. The descriptions contain the requirement for planning the audit

\(^{35}\) Reply received 15 November, 2002 from the National Audit Office of Denmark.
product, the implementation of the audit product and the essential documentation in each audit file.

The audit manual is the baseline for evaluating the quality of the audit work. The manual is the starting point for answering the following questions:

- To which extent do the auditors follow the audit planning and implementing procedures established in the audit manual?
- Does the audit file contain the relevant planning documents and audit documentation, which gives NAOD sufficient audit evidence?

The planning of the audit is divided into two phases. By way of introduction an overall planning and order of priority takes place, where after the individual offices plan and prioritises the various audits.

**Overall planning**

When planning the audit, an attempt is made to obtain a coverage of the state accounts, the coverage forms the basis so that the Auditor General – in the report on the state accounts – may form an opinion on the quality of the state accounts and the individual areas of ministry. Plans are outlined so that the individual products may obtain a satisfactory coverage of the state accounts.

The annual plan for the NAOD’s financial audit has to be made based on the overall strategy and performance targets that are announced every year by the management.

In the planning process, the individually planned audits are registered in a database. Furthermore, the ongoing updating of the database is made concurrently with the audits are being carried out.

**Quality control on the administrative level**

In accordance with the rules, it is the director’s responsibility to ensure that the quality of the planning corresponds to the internal audit guidelines. Furthermore, it is also the director’s responsibility to ensure that the audit is carried out as planned. In practice, the auditors quality-assure each other’s work where after the director endorses and approves the planning of the audit.

**Question 2: Performance**

The NAOD refers to the answers given under the heading “quality control on the administrative level”, as the procedures for quality control when carrying out the audit are the same.

The quality assurance of performance audit is different from the financial audit because the circumstances and conduct in performance audit is dissimilar from the traditions in financial audit.

After several years with internal quality-assurance of the special audit reports, the NAOD found that this evaluation process was run-down. There was a need for a new quality-
assurance process, which could give more input to the internal development and learning process.

For that purpose a panel of six independent university professors from different Danish institutions was established, the professors came from disciplines such as law, economic, accounting, political science. The NAOD invited the evaluators to present their professional assessment of the performance audit reports with the aim of pointing out the potential for improvement. The results of their examination were presented in a written report. The evaluators’ reports were later orally presented to the group of auditors, who had made the NAOD reports. The external evaluation of VFM reports is an ongoing process.

The evaluation is accessible for all members of the staff on NAOD’s intranet. If requested, the evaluation reports could be handed over to the Press or any other citizen claiming the documents under the Freedom of Information Act.

The external evaluation includes both the content of the report, the methodology, questions as well as the presentation of the observations and findings.

The results of the first evaluations were generally positive. All the evaluated reports were of a high quality and the presentation of the subject gave the impression that the area was carefully examined. Data was collected properly and the analysis was carried out in a professional way, even though the methodology was not always sufficiently sophisticated.

**Question 3: Reporting**

The NAOD refers to the answers given under headings “planning” (1) and “performance” (2), as the procedures for quality control when carrying out the audit are the same.

**Question 4: Problems with quality control**

The NAOD has not yet experienced any particular problems, because the NAOD will not start using TeamMate exclusively until January 2003.

**Closing**

In November 2000, a working group was set up with an Assistant Auditor General as chairperson. Two directors and several senior auditors were appointed as members of the working group.

The group started with a seminar discussing the approach to quality assurance. In order to get more information on the subject, colleagues from a local commercial auditing firm were contacted and the leading partners were interviewed about their experiences on quality assurance. These colleagues had recently carried out quality assurance within their own audit firm. This knowledge sharing gave some ideas on how to avoid especially some social-psychological problems, when controlling audit files produced by other colleagues.

The group developed the necessary working documents such as concept papers, guidelines for the quality assurance and questionnaires.
The selection of audit files was made in collaboration with the responsible director and auditor. The quality assurance group wanted to analyse average audit files. The audit files selected should be representative for the process and should not be the poorest or the most perfect audit file. This was not a theoretical attempt to make a representative sample of audit files, but it worked in the social setting in which it was applied. Especially, it is important that everybody accept the findings based on the audit file scrutinized.

On basis of the examination of the selected audit files, the general conclusion was that NAOD conducted an audit of good quality. Of course, there was room for improvement in different phases of the audit process and the audit documentation.
Financial Audit

Question 1:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the planning phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in planning an audit.

- Financial audit manual requires preparation of an audit plan based on risk analysis, which in turn requires sufficient familiarisation with client, its accounting system and management style of its head. The familiarisation with client encompasses (a) provisions of regulations and other norms, descriptions, plans, budget, performance contracts, reports on activities and audit reports; (b) discussions with audit manager and previous auditor if the client’s auditor has changed; (c) performance audits of the SAO and other auditors on client’s sphere of operations; (d) client’s financial rules; and (e) preliminary analytical procedures.

- A written risk analysis document and audit plan are required. Audit manual determines the contents of the plan in general terms and provides audit plan example. Audit manager reviews the risk analysis and audit plan documents and guides auditors in their improvement. Audit manager signs the audit plan when he/she is satisfied that it is in line with the manual and possible requirements set by head of the department.

- Audit plan are required to be completed by fixed deadline.

Question 2:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the execution phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the audit examiners in conducting an audit.

- Audit procedures are documented in audit manual and in its annexes. Audit managers control execution of the audits based on their judgement. It is up to each audit manger to decide what control consists of. However, if problems cannot be solved in co-operation with accountable auditor and her/his Audit managers, the latter turns to the head of department.

- Audit manual requires auditors to submit at least two intermediate reports during the audit.

- The auditors are reported, how many days they have used in various audit projects and other activities; these reports are sent to audit managers as well.

36 Reply received 11 November, 2002 from the State Audit Office of Finland.
Question 3:
Please, describe the main quality control rules, regulations, procedures and practices used by your SAI in the reporting phase of an audit. Also state what kinds of procedures and practices (direction/ supervision/ reviewing) are in place to ensure that the following areas have been properly dealt with by the SAI in reporting an audit.

- Auditors submit intermediate reports, which describe the scope and the work done and audit conclusions and their grounds and possible recommendations. An audit trail from conclusions to findings is required and controlled by audit manager.

- While preparing the final audit report auditors are required to fulfil a questionnaire about the audit and its results. The questionnaire can be seen as a checklist that audit has been performed correctly in all essential aspects.

- A paper specifying expressions to be used in audit reports is prepared by the head of the financial audit department; an audit report example is prepared, too, by him.

- Auditors make their draft of audit report, which are examined by audit managers. Audit managers submit the draft to the head of the department after corrections agreed have been made.

- Reporting threshold is determined by the head of the department. In determining it he usually asks opinions of audit managers.

Question 4:
Have SAI experienced any practical problems in operating their Quality Control procedures and what lessons have been learnt?

- Some problems have arisen as regards reporting threshold.
PORTUGAL

1. Tribunal de Contas of Portugal has the system of evaluation of the “performance” of auditors, which also includes the quality of their work. This evaluation is done every year and covers the conducting of audits.

2. The assessment of the auditors’ work also is done on an ongoing basis by the Tribunal Members responsible for a given sector.

3. The Tribunal de Contas also has a unit of internal control, which can verify if the auditors’ work is conducted according to the orientations, procedures and norms defined by the Tribunal.

37 Reply received 20 November, 2002 from the Court of Auditors of Portugal.
II. Country Papers
QUALITY ASSURANCE IN THE OFFICE OF THE AUDITOR GENERAL OF CANADA

The matrix appearing below and on the following pages, provided by the Office of the Auditor General of Canada in October 2002, describes the Quality Management System used by OAG for its Value for Money (performance) audit work. A comparably rigorous approach is used with respect to its Annual (attestation) audits and its Special Examinations. These are described in the Annual Audit Manual, Chapter 8 and in the Special Examination Manual, Appendix 1, both of which are available through the OAG website. In addition, an external peer review was conducted covering the Annual Audit work in 2000, by the auditing firm of PriceWaterhouseCoopers, resulting in a clean opinion. An external peer review of the Value for Money work is planned for 2004.

The matrix demonstrates that, as in other advanced SAIs, the approach to quality goes far beyond the controls applicable to individual audits. Rather, it pervades the entire management policies and practices of OAG.

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<table>
<thead>
<tr>
<th>Quality Management Element</th>
<th>This element should provide reasonable assurance that:</th>
<th>Key Instruments Employed</th>
<th>How do we Know That There is Quality?</th>
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<tr>
<td><strong>Leadership and Planning</strong></td>
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| 1. Strategic Direction      | There is a shared view of the future direction, strategy and priorities of the Office. The strategic direction focuses on the changes needed in the Office’s business and organization to fulfill its mandate to Parliament, and to stay relevant in the years to come. | • Auditor General Act  
• Financial Administration Act  
• Strategic Planning Exercise: vision; values and strategic challenge including the Auditor General’s focus areas  
• Office’s chain of results (OAG Report on Plans and Priorities performance reporting)  
• Panel of Senior Advisors | Executive Committee review and approval of Strategic Plan  
Chain of results reporting (OAG Report on Plans and Priorities performance reporting) |
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</table>
| 2. Selecting the Audit    | Audits are within OAG authority and address high risk areas and/or are seen as important and relevant areas for review by Parliament, the public and departments. | • Auditor General Act  
• Financial Administration Act  
• Other legislation  
• Environmental scan  
• Parliamentary requests  
• Long-term entity plans (One-pass planning system)  
• Legal Services advice and support  
• Client survey results  
• Panel of Senior Advisors | Executive Committee review of long-term entity and functional audit plans  
Executive Committee approval and Legal Services review of VFM audits planned (Wakefield) |
| 3. Operational Planning   | Group budgets provide sufficient and appropriate resources and the time necessary to conduct and complete the selected audits. | • Operational Planning Exercise | Executive Committee approval of Operational Plan (including resources for the survey phase of the next year’s VFM audits)  
Verification or re-allocation of resources for the current year’s VFM audits |
| 4. Methodology            | Appropriate methodology, tools and techniques are in place, useful and applied consistently. | • Methodology review and update mechanisms for VFM methodology  
• Practice Review reports  
• Lessons learned | Review and approval by Practice Development Committee of Methodology Development Plan and other up-date requirements. |
<p>| Audit Management          |                                                       |                         |                                    |</p>
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</table>
| 5. Conduct of the Audit     | Audits are conducted with due regard for efficiency and economy in terms of time spent and resources consumed and in accordance with the legislative mandate, policies and practices of the Office. | • VFM Manual and guidance  
• CICA Assurance Handbook | A “building in quality check list” that covers key control points by chapter authors, the AAG/CESD, technical experts and FRLs as the audit unfolds.  
Key control points are at the end of the preliminary survey phase and at the end of the examination/reporting phase prior to the release of the PX draft to the department. |
| 6. Project Management       | The audit team delivers the audit on time, in accordance with OAG principles and audit costs are justified. | • OAG Competency Model  
• Human Resources information (indicators)  
• Approved budget and human resources  
• Key production milestones  
• Audit Control File  
• Progress reports  
• Electronic tools | Final Review Checklist  
PX review  
Accountability Report  
(See checklist under Conduct of the audit) |
| 7. Planned Audit            | The work is adequately planned and issues are selected on the basis of risk, their relevance to the Office’s mandate, significance, and auditability. Criteria that are suitable for evaluating the subject matters are identified and developed. | • VFM Manual and Guidance  
• Survey Report  
• Examination Plan  
• First advisory committee meeting | Approval of the Examination Plan at the end of the preliminary survey phase with formal sign-offs by chapter authors and by AAG/CESD.  
(Examination plan to include: audit objectives, audit criteria, methodologies and data collection techniques to employed, sampling techniques when applicable, audit programs, resources assigned and available, timelines, and project budgets.) |
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<td></td>
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<td>• VFM Manual and guidance</td>
<td>Review of planning file by PX</td>
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<td>• Confirmation of findings resulting from field work with the entity audited</td>
<td>Quality review by Quality Reviewer - carried out by an AAG or senior PX who has the time, knowledge and experience with the practice and entity or subject matter knowledge and the respect of his/her colleagues.</td>
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<td></td>
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<td>• Review by AAG/CESD, Quality Reviewer, and Advisory Committee of significance and ordering of issues, report message and conclusions and their rationale.</td>
<td>Review and approval of audit programs by PX and FRL(s) if applicable.</td>
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<tr>
<td>8. Accessible, Sufficient and Appropriate Evidence</td>
<td>Sufficient appropriate evidence is obtained to provide a reasonable basis to support the conclusion expressed in the report. Matters that in the auditor’s professional judgment are important to provide evidence to support the conclusion expressed in the report are documented.</td>
<td>• VFM Manual and guidance</td>
<td>Review and approval of evidence by DX(s)</td>
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<td>• Review of evidence by DX(s)</td>
<td>Before release of PX draft, review of substantiation by PX and AAG</td>
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<td>Quality Reviewer review, if required</td>
<td>Quality Reviewer review, if required</td>
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<td>(See checklist under Conduct of the Audit)</td>
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<td>9. Reporting the Audit</td>
<td>The report addresses high risk areas, is relevant, coherent, clear, credible, accessible and in plain language for the readers. There is effective oversight of every chapter and report before release that ensures consistency with mandate, past corporate decisions, Office principles and coherence of messages.</td>
<td>• VFM Manual and guidance</td>
<td>Legal Services approve Internal draft for clearance</td>
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<td>• Quality Reviewer review</td>
<td>Substantive review and edit from Reports Group</td>
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<td>• Clearance of report with audited organization and third parties where applicable</td>
<td>Engagement review meeting prior to release of PX draft</td>
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<td>• Challenge by Advisory Committee – PX draft</td>
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<td>• Final review by AG</td>
<td>Quality Reviewer, FRLs (including Legal Services) and regional principals approve PX draft for matters within areas of interest</td>
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<td>AAG/CESD approves PX draft (final review checklist)</td>
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<td>AG message briefing (PX draft)</td>
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<td>PX and AAG/CESD sign-off on quality (Transmission draft)</td>
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<td>Review of Sensitivities and Questions and Answers with AG (after Transmission draft)</td>
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<td>Quality Reviewer sign off prior to release of report</td>
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<td>Oversight and review by AG or designate</td>
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<tr>
<td>10. Consultation</td>
<td>Consultation is sought from authoritative sources and specialists with appropriate competence, judgement and authority, to ensure due care when dealing with complex, unusual or unfamiliar issues.</td>
<td>• Audit advisory committee</td>
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<td>• Quality Reviewer</td>
<td>Final review checklist</td>
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<td>• VFM Manual and guidance</td>
<td>Quality Reviewer sign-off before issuing the PX draft chapter</td>
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<td>• Functional responsibility leaders (FRLs) including Legal Services, Subject Matter Experts (SMEs) and Product Leaders (PLs)</td>
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<tr>
<td>11. Independence, Objectivity and Integrity</td>
<td>All persons performing the audit, including specialists, maintain an objective state of mind in order to remain unbiased in carrying out their responsibilities and in forming their conclusions. Practitioners are free, and appear to be free, from relationships that may bias their professional judgment.</td>
<td>• Code of Professional Conduct of the Office</td>
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<td>• VFM Manual and guidance</td>
<td>Conflict of interest declarations/ recertification</td>
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<td>Formal sign-off by chapter author on the independence of audit team at the end of the survey phase</td>
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</tbody>
</table>
| 12. Security, Access and File Retention | Confidentiality and appropriate access to sensitive information is maintained. Files are adequately retained and protected to facilitate availability and confidentiality as it relates to Office records policies. | • National Archives of Canada Act and Regulations  
• Government Security Policy (OAG security policies)  
• OAG records management policies | Security clearance procedures  
Security checks done by the Office |
| **Client Focus** | | | |
| 13. Communicating Audit Messages | Post-tabling audit messages are communicated clearly and consistently. | • Guidance from Parliamentary Liaison about pre-tabling briefings and briefing requirements.  
• Guidance from Communications group on preparation of Press Releases and responding to media enquiries.  
• Guidance in preparing communications to Parliament. | AAG/DAG/CESD review  
Reviews by Parliamentary Liaison and Communications groups  
*(See checklist under Conduct of the Audit)* |
| 14. Feedback from Clients and Stakeholders | Clients and stakeholders perceive information and audit process as useful. | • Reporting of take-up of recommendations in OAG Performance Report/Tracking system  
• Survey instruments  
• Analysis of external communications (media, public enquiries, references in debates)  
• Analysis of the scrutiny of the Report by PAC and/or other standing committees of the House of Commons | |
<p>| 15. Effective Reporting | Intended users understand the report and properly interpret its contents. | | |</p>
<table>
<thead>
<tr>
<th>Quality Management Element</th>
<th>This element should provide reasonable assurance that:</th>
<th>Key Instruments Employed</th>
<th>How do we Know That There is Quality?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People Management</strong></td>
<td></td>
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<tr>
<td>16. Resourcing</td>
<td>Audit teams have collective knowledge of their subject matter and the auditing proficiency necessary to fulfill the requirements of the audit. Persons carrying out the work have adequate technical training and proficiency.</td>
<td>VFM Manual and guidance, Human Resources policies and guidance, OAG Competency Model, Professional Development curriculum</td>
<td>PX provides assurance to AAG that the audit has been properly resourced (see “Quality check list” under Conduct of the Audit) Annual employee development plans Quality Reviewer review of examination plan Review of examination plan by Advisory Committee</td>
</tr>
<tr>
<td>17. Leadership and Supervision</td>
<td>Persons working on the audit receive an appropriate level of leadership and direction. Adequate supervision of all persons, including specialists, is provided so as to ensure that audits are properly carried out. All team members are encouraged to perform to their potential and receive appropriate recognition.</td>
<td>VFM Manual and guidance, Assignment and annual performance reviews, AP and ASG collective agreements</td>
<td>Assignment and annual performance reviews (See checklist under Conduct of the Audit) Employee satisfaction survey</td>
</tr>
<tr>
<td>18. Respectful Workplace</td>
<td>A working environment is provided in which everyone is treated with dignity and respect and encouraged to realize their full potential. Open and honest communication to create a climate of trust and teamwork is encouraged. Our talent and diversity is valued and learning and quality-of-life endeavours are supported.</td>
<td>Human Resources policies and guidance including Discrimination and Harassment Policy and Health and Safety Policy, Official Languages Act, Employment Equity Act and Canada Labour Code, Values and Behaviours document, AP and ASG collective agreements, Employment Equity Plan and Report</td>
<td>Employee satisfaction survey</td>
</tr>
<tr>
<td>Quality Management Element</td>
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| 19. Performance Management | Employees receive timely and constructive feedback on their performance and have access to counselling and guidance. | • Performance Management System including assignment and annual objectives and appraisals  
• Counseling and guidance processes  
• Promotion processes | Assignment and annual performance reviews including career and development plans |
| 20. Professional Development | An evolving learning curriculum and development opportunities are maintained to prepare staff to audit and facilitate their personal growth in knowledge and experience throughout their tenure at the OAG. | • Centralized Professional Development function  
• Professional development through such means as on-the-job training, annual staff updates, formal courses, self-directed studies, and internal and external assignments  
• Library resources  
• Self-Learning Center | Training framework – expected training strategy/curriculum, formal training and sequence of training.  
Annual performance appraisal including career and development plans  
Employee satisfaction survey |
| Continuous Improvement | | | |
Our Quality Management Framework for VFM audits is appropriate and effective. | • Practice review policy and program  
• Regular internal practice reviews  
• Internal audit  
• Panel of Senior Advisors  
• External practice review by experts | Audit Committee reviews  
Executive Committee approval of areas for improvement  
House of Commons Standing Committee on Public Accounts review |
| 22. Lessons Learned | Audit experience is assessed and opportunities for improvement are identified and implemented. | • Lessons Learned Philosophy  
• Survey instruments | Executive Committee approval of areas for improvement  
Employee satisfaction survey |
Quality Assurance in the Audit Process. A Danish Experience

By Rolf Elm-Larsen

I. Introduction

1. This paper describes the Danish experiences with quality assurance in financial audit as well as in performance audit.

It is two different lines of production based on unlike approaches, methods and techniques. The two types of audits have also designed the audit process in alternative ways. For that reason the quality assurance processes are treated apart.

The National Audit Office of Denmark (NAOD) deliberately chose the term “quality assurance” and not the expression “quality control”. Assurance has positive connotations in opposition to control which gives the impression of negative sanctions. The overall objective of this exercise was not to point fingers of anybody. The philosophy of quality assurance was to learn and develop the audit services delivered by the NAOD on basis of our professional qualities.

2. In a modern audit organization, quality assurance as reflection is becoming its own theme as a learning process which creates a feed-back loop for initiating an improvement process. It is a consequence of the fact that the audit process not only is producing audit evidence as documentation for the auditor’s reports and statements but also in the same production process generates audit risk. In a modern SAI, quality assurance is a mean to diminish the risk built into the audit process. Quality assurance is establishing a learning process which final aim is to improve the audit process and reduce the audit risk fundamentally.

II. Quality assurance of financial audit

3. This chapter of the paper describes the structure and the processes of quality assurance of financial audit in NAOD. It also gives a brief summary of the principal finding of quality assurance processes as they are presented in the final report, as well as the follow up initiative on basis of the recommendations.

A. Danish Auditing Standards

4. According to the National Auditing Standards laid down for public sector audit in Denmark, it is essential that the quality of the audit is evaluated currently.

The aim of this evaluation is to create assurance of the quality of the carried out audit. It is stipulated by the Auditing Standards that a precondition for quality assurance is the existence

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38 Paper prepared by Rolf Elm-Larsen (National Audit Office of Denmark), SIGMA expert (received 22 October, 2002).
of audit objectives agreed upon and procedures which have the purpose of assuring an acceptable level of quality of the audit tasks. It is essential that audit plans exist and that the staff members have the required qualifications for the audit task.

The purpose of the quality assurance is to evaluate to what extent the stipulated policies and procedures are followed, and that they have had the intended impact on the audit.

5. On basis of the National Audit Standards, the NAOD developed an audit manual describing the procedures and the content of several audit products. In the manual, the audit products are described. The descriptions contain the requirement for planning the audit product, the implementation of the audit product and the essential documentation in each audit file. The audit manual is the baseline for the evaluation of the quality of the audit work. The manual is the starting point for answering the following questions:

- To which extent does the auditors follow the auditor the planning and implementing procedures laid down in the audit manual?
- Does the audit file contain the relevant planning documents and audit documentation which gives NAOD a sufficient audit evidence?

B. Examination of the audit quality

6. In November 2000, the Auditor General decided to carry out a quality assurance examination of the financial audit products. For this purpose a working group was set up with an assistant auditors general as chair person. Two directors and several senior auditors were appointed as members of the working group.

7. The group started with a seminar discussing the approach which had to be preferred in the quality assurance. To get more information on the subject, colleagues from a local commercial auditing firm were contacted and the leading partners were interviewed about their experiences on quality assurance. These colleagues had recently carried out quality assurance within their own audit firm. This knowledge sharing gave some ideas on how to avoid especially some social- psychological problems, when controlling audit files produced by other colleagues.

The group developed the necessary working documents such as concept papers, guidelines for the quality assurance and questionnaires.

8. The selection of audit files was made in collaboration with the responsible director and auditor. The quality assurance group wanted to analyse an average audit files. The audit files selected should be representative for the process and should not be the worst or the most perfect audit file. This was not the most theoretical based way to make a representative sample of audit files but it works in the social setting in which it was applied. Especially, it is important that everybody accept the findings based on the audit file scrutinized.

In the future, when the auditors are getting familiar with quality assurance process a more random based selection of audit files is to have a preference. Also for the quality assurance processes there are room for improvement of methods.
C. Results of the quality control.

9. On basis of the examination of the selected audit files the general conclusion was that NAOD conducted an audit of good quality. Of course there was room for improvement in different phases of the audit process and the audit documentation. In the following paragraphs some of the most important recommendations are listed.

10. The quality assurance group had three significant recommendations concerning the planning. First of all, there was a need for developing the overall planning of the financial audit. There is a need to improve the order of priority of the audit activities in the planning period.

Secondly, it was recommended that to develop the planning of the more complex audit task both concerning the timeschedule and the human resources.

Finally, it was recommended that the audit planning should emphasize more explicitly the considerations concerning materiality and risk. In general, it reflected that more analysis was required for choosing the right issues for the audit. On basis on this analysis, the most efficient audit methods and audit tools could be selected.

11. The result of the evaluation of the audit implementation emphasized the need for a more structured use of our computer assisted audit tool (CAAT) and the need for more precise use of statistical sampling techniques both concerning planning and evaluation.

The overall conclusion of the quality assurance review on this issue was that a more systematically and rational use of CAAT could improve the quality of the audit evidence.

12. By going through the audit files, it was first of all observed that there was great diversity in the understanding of sufficient audit evidence. Therefore, it was recommended to develop a common understanding of the concept sufficient audit evidence throughout all audit units of the NAOD.

Through the examination of the audit files, it was also observed that a logical relation in substance between the planning document and the evidence collected in the audit process was missing. For that reason, it was recommended that a better connection between the planning and the implementation of the audit was establish.

Finally, it was recommended that reporting should contain a comprehensive balanced evaluation of all the findings. The audit observations should be presented in accordance with the priority of materiality.

D. Follow up on the quality assurance project.

13. After the quality assurance group had presented its report an intensive activity started to realize the potential for improvement. The results influenced the developing activities and the internal education program in the years to come. It also produced an effect on the professional attitude of the individual auditor on her job.

This complete process of quality assurance emphasised that it is a collective learning process within the organization. The overall principal has been that everybody has to gain knowledge from an evaluation of their audit work. Some of the audit jobs or audit files have even been promoted as best practice cases in training courses and on the intranet.

In connection with the quality assurance project no sanctions have been enforced. It was important because a meaningful quality assurance project requires a confident relationship between the assessor of the audit file and the auditor.
III. Quality assurance of performance audit projects.

14. In this part of the paper the principals and procedures of quality assurance of performance audit are described. This process is different because the circumstances and conduct in performance audit is dissimilar from the traditions in financial audit. It requires two diverse practices of reflection for obtaining an effective procedure and structure in the quality assurance.

15. Each year the NAOD publish about fifteen performance audit studies on precise areas of special interest.

Some years ago, a special group responsible for methodological development of performance audit in NAOD - examined internally the performance audit reports. This evaluation involved a grading of the reports on different parameters. This form of evaluation had been much criticized by the auditors. Especially the auditors whose reports received marks under the average found the system unfair. They argued that the evaluators didn’t understand the special conditions under which their reports were produced.

16. After several years with internal quality assurance on the special audit reports, the NAOD become conscious that this evaluation process was run-down. There was a need for a new quality assurance process which could give more input to the internal developing and learning process.

For that purpose a panel of independent university professors from different Danish institutions was establish. In total 6 university professors from disciplines such as law, economic, accounting, political science joined. The NAOD invited the evaluators to present their professional assessment of the performance audit report with the aim of pointing out the potential for improvement. The results of their examination were presented in a written report. The evaluators reports were later orally presented to the group of auditors which made the original report.

The evaluation is accessible for all members of the staff on NAOD’s intranet. If demanded, the evaluation reports could be handed to the press or any citizen claiming the documents under the information freedom Act.

The external evaluation extends both the content of the report, the methodology questions as well as the presentation of the observations and findings.

17. Overall results of first round of the evaluations were in general positive concerning the result of the quality of the audit reports. All the evaluated reports were of a high quality and the presentation of the subject gave the impression that the area was carefully investigated. Data was collected properly as well as the analysis was carried in a professional way, even though the methodological applications not always were sufficiently sofisticated.

There were three main points of criticism. First, it was not satisfactorily clear why the NAOD had chosen a subject for more intense examination. It ought to be more precisely argued why an area or a subject deserved the interest of the NAOD. What did it sufficiently material? Why was it considered a high risk area or subject?

Secondly, the evaluators found the arguments should be stronger for the method’s used in the individual audit report. More explicitly, arguments on the basis the aim and approach of the audit examination why the methods were selected.

Finally, and thirdly it was criticized that the basis for the NAOD performance audit was a narrow conceptual framework of public administration. It was pointed out explicitly by one of
the evaluators that the performance audit, in its actual approach, is based on the concept contained in the New Public Management (NPM). First of all it is a concept that has inspired many administrative reforms in Denmark even though it is not explicitly approved by the Danish Ministry of Finance which is responsible for the policy on administration issues. Secondly the NPM is very appealing to performance auditors because it emphasize the measurements and all sort of quantitative data including accounting information.

18. The systematically follow up on the evaluation has not yet reached a level where there is a broader basis for drawing more general conclusion on the quality of the NAOD performance audit. But in the nearest future it must be expected that the results influence the chapters in the audit manual concerning the performance audit project. It will of course also have effect on the subjects and issues selected for training and internal education.

IV. Conclusion

19. The NAOD has collected some experiences with quality assurance of the audit products. The main observations are following:

- The NAOD has set up quality assurance systems for both financial audit and performance audit studies
- The NAOD has chosen two different approaches for assuring the quality of the audit product because there are fundamental differences in the nature and procedures of the financial and performance audit
- Quality assurance is a delicate and difficult balance for the evaluator. It is at the same time a tough process for the auditors under examination
- A successful quality assurance process requires that the evaluator and the auditor under evaluation understand and respect each others task and working methods
- Focus through the whole quality assurance process should be on future improvement, learning and development. These aspects create an organization with a growing quality in the audit work.
- A meaningful process of quality assurance requires that the National Audit Office has produced Audit Standards and Audit Manuals. It is necessary because it is the baseline for the evaluation of the audit product.
- Finally, quality assurance is a general evaluation of the audit concept laid down in the auditing standards and the way in which these principles are applied in the daily audit work. For that reason the results of the quality assurance could have consequences for the content of the audit standards and the audit manuals.

The process of quality assurance is process which has to be designed in accordance with general accepted evaluation standards. The manuscript of the process could and should be written before hand. If the findings and observation should be of any use, it is important that they are reflecting the evaluators own judgement. To use an analogy from the world of film, what has artistic value is the directors cut, and not the cut which the commercial director sells the blockbuster. The essential is that the members of quality assurance teams carry out their professional judgement and only that.
GERMANY

Bonn, 12 September 2002

Audit Unit I 1

Draft by Dr. Löwer

Internal and external studies on the efficiency of Supreme Audit Institutions

SAIs are quite right in focusing on the efficiency of their work\(^{39}\). Concerning the cost-effectiveness of their work, they must apply at least the same standards that they apply in their audits of the executive branch. Firstly, adopting this attitude is dictated by the rules of fairness; secondly, it is a requirement derived from the efficiency principle; and, thirdly, an issue of credibility. Transparency and openness in its own affairs give SAIs the degree of authority vis-à-vis Parliament and its committees that is necessary for them to argue confidently and rigourously in support of their audit findings.

However, procedures for enhancing efficiency and providing assurance about quality must not distract attention from the essential issues: Given the wide variety of matters to be audited, audit quality depends last but not least on the flexibility and creativity of the auditors. This is why any quality management scheme that relies on a standardised approach does not deserve its name.

The Bundesrechnungshof faces a continued challenge of seeking to achieve best practice by means of continuous updating and adapting its key quality management tools, i.e. its Rules of Procedure, Audit Rules and Schedule of Responsibilities. Further essential principles for ensuring the achievement of quality standards in auditing are laid down in our Audit Guide. The areas to be emphasised are:

- the analysis of tasks,
- the methodical selection and prioritising of audit assignments,
- the methodical choice from among different audit approaches,
- audit design, and
- the evaluation of the audit procedure, of the audit findings and of the action taken in response to our audit recommendations.

The details of this will be discussed below

Furthermore, quality management procedures are in place for specific tasks, e.g. the editing of the Bundesrechnungshof’s annual report by Audit Unit I 1 which is in charge of dealing with fundamental issues of auditing. To support audit planning, a fundamentally revised version of the Bundesrechnungshof’s Automated Audit Planning and Information System APIS is operated.

\(^{39}\) Paper received 19 November, 2002 from the Federal Court of Audit of Germany.
The Bundesrechnungshof has adopted the objective of enhancing the visibility of the processes of increasing efficiency and ensuring a high quality of its audit work. However, the Bundesrechnungshof does not consider the standardised cost and performance accounting systems used by public and private sector entities adequate for fairly presenting the working methods and the products of government auditing. It is therefore imperative to develop solutions that meet the specific requirements of the functions of government auditing. The Bundesrechnungshof is implementing an experimental project covering all its audit divisions and aiming at taking the first steps towards developing a suitable concept. Effective from the beginning of the current year, a system is in place for recording the input of time and the costs incurred by each Senior Audit Director, Audit Director and auditor. This is to provide an overview of the use of resources.

As from October 1998, further steps have been taken to devise transparent procedures and, to the extent possible, uniform standards for all areas of audit work. A working group has conducted a survey, in close conjunction with the Bundesrechnungshof’s ‘colleges’ (that steer the work of the audit units) to identify the support needed in the form of tools for analysis and steering. On completion of this survey, the working group has developed proposals addressing the core functions of a quality management system which have become indispensable tools for the daily work of the Bundesrechnungshof’s audit units. The core functions are task analysis, audit design and evaluation.

1. Analysis of tasks

The analysis of tasks is a major key to quality management. It is the bottom line for all further steps. Tasks analysis is a preparatory stage for audit planning. Furthermore, is the basis for the systematic planning individual audit assignments. A complex analysis of tasks is helpful for the better identifying gaps in audit coverage. Finally, tasks analysis enables the Bundesrechnungshof to target its limited audit resources so as to achieve optimum audit impact.

Where the remit of an audit reflects the remit of one or several government departments, tasks analysis can start by analysing the subheads of the departmental budget(s) concerned. Such analysis may generate information which is useful for defining areas to be audited and identifying the appropriate methodical audit approach.

In order to work out a meaningful overall analysis of tasks, it is necessary to have criteria in place that enable a systematic description of tasks to be formulated which is at least comparable for a group of audit units. The classification of descriptions of tasks into types may take regard to budget structure within the departmental budget, to the volume of expenditure, to audit subjects, to audit focus and to audit criteria.

2. Audit design

Given the usually vast amount of matters to be audited which have been identified by the analysis of tasks, it is then necessary to define individual audit subjects that are capable of being selected for audit planning. It is therefore necessary to identify descriptive criteria for
the selection of audit subjects. These criteria thus formulated must embody the clearest possible interpretation and specification of the pertinent provisions of the Bundesrechnungshof’s Audit Rules (section 13 para 1 sentence 2, section 13 para 2, section 15 of the Audit Rules).

As a next step, the question has to be asked how a given audit subject can be segmented and arranged by themes by means of choosing suitable audit criteria, audit types and audit approaches. The point of departure for the formulation of such criteria is again to be found in the Audit Rules (audit topic: Section 17 para 1 of the Bundesrechnungshof’s Audit Rules; Audit Criteria: Section 4 of the Bundesrechnungshof’s Audit Rules; types of audit: Section 18 of the Bundesrechnungshof’s Audit Rules). If, e.g., a government department or agency has not yet been audited at all or not been audited for a long time, a general audit will be most suitable for gaining a comprehensive overview over its financial management and operations. If a general audit of the entity in question has been carried out fairly recently, a follow-up audit suggests itself, perhaps supplemented by a selective audit of a small sector of operations, if the previous audit has generated findings suggesting a need for or the expediency of an in-depth examination. Where the granting of statutory benefits is concerned, various audit approaches may be conceivable. Apart from verifying the accurate granting of the benefits, it may be appropriate to audit their funding or the impact which the pertinent statutory provisions have in terms of equitable results and the input of administrative resources. In the latter case, however, no straightforward criticism may be expressed, and only recommendations may be given. Audits of projects, programmes and systems may give rise to questions about the need, the potential overlap with other measures, and the consideration of potential alternatives.

Where audits have been adequately defined in terms of subject, approach, type and audit criteria, suitable criteria must also be found for prioritising audit assignments in a meaningful way while taking regard to the limitation of audit resources, thereby supporting audit planning pursuant to Section 14 para 3 of the Bundesrechnungshof’s Audit Rules.

To prepare the individual audits, those in charge must be enabled to draw on a number of characteristics by means of which they may determine audit objectives, the audit focus, the time schedule for the audit, the audit scope and the methods to be used so as to allow the steering and evaluation of the audit (audit design, embodied in an audit schedule: Section 23 of the Bundesrechnungshof’s Audit Rules). This is preceded by the collection of material, i.e. the gathering and analysis of documents and information on the audit topic. Accessible sources should be drawn on in a comprehensive fashion. The analysis of the material gathered at this stage may also influence the audit subject and the audit focus. The audit schedule sets out the reason or motive underlying the audit, the audit topic and the audit objective. It specifies the audited bodies and, where necessary, other bodies on whose premises audit evidence is to be collected. Furthermore, it specifies the auditors to be assigned to an audit exercise and indicates the time schedule for the successive steps in which the audit is carried out. The audit schedule must explain the approach to be adopted, the volume of the matters to be audited and the audit methods. All components of the audit schedule taken together form a structure of objectives and targets which must be compared to the actual accomplishments during all stages of audit implementation.
3. Evaluation of audits

Evaluation is not a single action but rather a process that accompanies each audit exercise. The evaluation process serves to improve the audits already under way and to generate knowledge for future audit assignments. At the core of the evaluation is the comparison between the structure of objectives and targets and actual accomplishment at each stage of the audit. This will generate conclusions especially for

- optimal steering of the current audit exercise,
- improvement of future audit planning, and
- the selection and presentation of audit results with regard to the addressee(s) of the audit report.

It will be expedient to evaluate an audit exercise after completion of the collection of audit evidence in situ and at the time of drafting the audit record. The audit results should be evaluated after receipt of the comments made by the recipient of the management letter and on completion of the audit. The result of the evaluation will be recorded in writing.

4. Approach and results

The Bundesrechnungshof’s working group on quality management has furnished the ‘colleges’ and auditors involved with guidance and checklists that enable these recipients to carry out the analysis of tasks and the evaluation on their own. The adaptation and further improvement of these tools has been the subject of a continuous exchange of ideas between the audit divisions and the working group. Major findings and guidance on procedure have been included in the Bundesrechnungshof’s Audit Rules and Audit Guide. The Bundesrechnungshof will continue the process of further refining its tools for generating findings and for steering its audit work. The Bundesrechnungshof’s continuous efforts in this field are motivated by its conviction that government auditing cannot rely, without close consideration, on ‘dried and cut’ solutions that may be suitable for other public or private organisations. Therefore, the Bundesrechnungshof remains committed to advance specific tools for monitoring the mission performance and ensuring a high quality of its work, taking regard to the specific challenge of government auditing. The Bundesrechnungshof primarily considers this continuous perfection effort as its own task which must be performed concurrently with the performance of its audit exercises and makes high demands on internal communication and steering. Setting high standards of audit work and continuously monitoring compliance with these standards is an original task of government audit bodies. Given the nature of their mission, they can hardly draw on external support except in isolated cases, and any such support will necessarily be limited in terms of impact.
Quality Controls in the Audit Process of the Netherlands Court of Audit

1 General

The Netherlands Court of Audit (NCA) distinguishes three ‘quality clusters’.

1. Strategic product quality
Every audit should contribute to the objective of the organisation. Whether this is the case is measured by formulated indicators.

2. Technical product quality
The technical product quality relates to the audit findings, the opinions and the recommendations: the audit itself should be of an acceptable quality. The quality is acceptable when the product meets the requirements of cogency, consistency, accessibility and objectivity.

3. Process quality
Process quality refers to the activities in the different phases of the audit on which the product is based. The audit process should meet the requirements of thoroughness, efficiency, and verifiability and of optimal functioning of formal quality requirements.

2 Quality control practices and procedures in audit process (“Real time”)

The NCA distinguishes four audit phases: preparation of the audit programme, the audit, the reporting phase and the follow-up. These audit phases should comply with the manual on 'Quality requirements and instruments'. The manual also looks at instruments for ensuring that quality requirements are achieved as effectively as possible. These instruments are not compulsory, since the Netherlands Court of Audit's management approach involves determining the general course to be followed in advance, with the emphasis on achieving results. It is left to the own professionalism of the auditors to put together the best combination of instruments, as long as the product and process meet the relevant requirements.

2.1 Preparation of audit programme
The annual audit programme is based on the Boards Audit Strategy 1999-2004, which is derived from the NCA's mission. This audit strategy indicates the areas and types of audit on which emphasis should be placed. The audit strategy is subdivided in seven strategic goals. For each strategic goal year objectives and output are formulated. In the period June - December the annual audit programme is drawn up according to a bottom-up approach.

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40 Paper prepared by Joop Vrolijk (the Netherlands Court of Audit), SIGMA expert (received 22 October, 2002).
The quality of the annual programme is guaranteed by the following.

- The audit departments monitor the audit field during the year (an audit department is a part of a directorate; there are three audit directorates at the NCA).
- With the help of a brief check list for drawing up an inventory of risks the head of an audit departments comes to a list of priorities.
- This list is then discussed in a meeting of a member of the Board, the director, the head of the bureau and the complete audit staff of the bureau.
- The comprehensive audit programmes of the three directorates are discussed in the Management Team (MT), consisting of the secretary-general and the directors. This team chooses from a wide range of potential audits in line with strategic objectives. (All the objects for financial audit are incorporated in the programme).
- In a special meeting between the Board and the MT the audit programme the Board can influence the programme, after which the annual audit programme is drawn up.
- The annual programme is further made operational by the head of the departments. This contains the3 audit schedule and the required capacity: what product will come at what time? The MT draws up the operational programme.
- A special unit 'Quality & Control' (see par. 3) monitors the different steps in the programming process and advises the MT about the normal proceeding of the process and the consistency of the programme with the audit strategy, strategic goals and expected output.

2.2 Audit planning: audit proposal

Every individual audit has a planning phase. The audit team carries out a preliminary audit in which it studies literature, files and interview relevant officials. In the end the Board decide to approve with the audit proposal. After the Board's approval the audit proposal is the leading document in the audit.

The planning phase is a very important phase. A thorough approach of this phase is a necessary condition for a sound audit result in accordance with the strategic product requirements.

The formal requirements in this phase are:

- The preliminary audit should end in an audit proposal; the project leader of the audit team is responsible for drawing it up.
- An audit proposal should be in line with the manual on 'Audit proposals' and indicate potential focal issues, outcomes of assessment of inherent risks and internal control risks, possible audit questions, audit criteria, suitable methods and techniques, possible audit results, necessary capacity, other costs and the framework and timetable for the implementation of the audit. Besides it should encompass a summing up of the quality instruments used in the execution and reporting phase.
- The manager of the audit department concerned assures himself of the process quality
- The director in charge reviews whether the proposal is in line with the audit programme, his expectations and whether the manual for audit proposals is followed.
- In some cases (complex audit, political risk, etc) there is three-way-consultation between Board member, director and project manager to discuss the main topics of the proposal.
• Deviation of the audit proposal is only possible if the director in charge and the Board agree. In this case the NCA has a special procedure ending with a note of violation or change.

In general audit teams use the following quality instruments:

• **Milestone planning** to make clear the activities to be carried out and to prevent activities being forgotten.

• **List of action points** to indicate who should carry out what activities and by what date.

• **Time recording** to establish whether the estimated costs are still realistic (efficiency and planning).

• **Dividing tasks** into the interests and areas of expertise of the various team members.

• **Literature study** defines terms, select audits methods or formulate audit criteria.

• **Codification files** for consistent use of standards used by the Court of Audit in the past and the basic standards underlying them.

• **Aspects, Indicator, Question- scheme** to indicate what questions must be answered to assess compliance with the relevant indicators

• **Discussion on the proposal** within own audit department or with peers from the NCA review

### 2.3 Audit execution

After the decision of the Board the audit team starts the performance of the audit. Then the auditors set about collecting data. When the auditors have collected sufficient data to provide a cogent answer to the audit questions, they draw up a draft report of findings in which the findings (observations) are confronted with the criteria. The report of findings contains only the actual findings and not any policy-related conclusions or opinions and recommendations. It is an internal NCA document to be used in the reporting phase.

The formal requirements in this phase are:

• By short letter the project leader informs the ministry/agency about the general features of the audit proposal (specific focus of the audit, the standards, the timetable) to get agreement or a minimum of understanding.

• The project leader verifies the factual accuracy of the report of findings by visiting the auditee concerned. If necessary the team changes the report into the final report of findings.

In general audit teams use the following quality instruments:

• Collecting data by means of **checklists** in examining documents and procedures (compliance and substantive tests), interviews, **surveys**, visiting external locations, assistance of IT specialists/ Statisticians.

• Review of milestone products by internal and external peers (e.g. on a mini conference).

• **Monitoring progress** by project leader according to milestone planning and list of actions

• **Time recording** by audit team members

• **Logbook** (a sort of diary) in which daily activities, discussions and agreements are noted.

• **Audit team meetings** in which feedback is given about the proceeding of the various tasks and about completion of the product in accordance with the audit proposal.
2.4 Reporting and publication

In this phase the report of findings is transformed in a report with conclusions and recommendations. The Board presents the report to the Government and the Parliament.

The quality of this phase is mainly based on the formal requirements.

- In the so-called four-way consultation the project leader, the responsible Board member, the audit director, and the editor discuss the ‘message’ to be conveyed and the outlines of the report, based on a proposal of the project leader. In case of a financial audit the discussion is concentrated on the tenor of the opinion.
- The project leader writes draft report together with editor.
- The manager of the audit department concerned assures himself of the process quality.
- The director in charge reviews whether the report proposal is in line with the audit programme, his expectations, result of four-way-consultation and whether the audit manual concerned is followed and findings and opinions are cogent.
- The Board decides on the report after review with underlying documents among others the note of the four-way consultation.
- The Board of the NCA sent the draft report for contradiction to the minister concerned (not required by law).
- The project leader includes the main elements of the response in the final report and appends a final reaction (epilogue) if necessary.
- After director's agreement decide the Board about the final text of the report.

In general the following quality instruments are used in this phase:

- Editorial skills for reviewing draft report on separation of facts and opinions, consistency in opinions and recommendations and on a clear and intelligible audit message.
- Briefings to Parliamentary committee concerned and the minister concerned.
- Press-release.

2.5 Follow-up

One month after publication of an audit, the audit team evaluates the quality of the audit. The evaluations can be discussed up to the highest management level. The aim of self-evaluation is to improve NCA's professionalism by initiating an internal learning process on the quality of product and process. The aforementioned three quality clusters are distinguished in the evaluation.

Within two months after publication of the audit the project leader has to organise a meeting with the auditee to get answers on questions about the effects of the audit: were the conclusions and recommendations in line with the auditee's expectations, are they implemented or not? Was the communication during the audit satisfying or not?

The last step is after one year. The project leader has to chart the effects of published audits: did they achieve the intended objective and/or mission? The effects achieved may be of different kinds: specific improvements, new activities by a minister, further audits by third parties, prevention, social and political debate etc.

To disclose the quality of its activities the NCA yearly publishes in its annual the results of the internal self-evaluation and of the effect monitoring (Meta evaluation).
3 Other post-audit quality assurances ("Cold review")

**Independent quality assurance reviews**

The NCA has established a distinct quality assurance function. The unit called ‘Quality & control’ executes, as much as possible, independent quality assurance reviews. The objective is to provide an assessment of the overall quality of work within the NCA. Characteristics of the approach in the NCA:

- special focus on the processes in the organisation;
- review on subjects every year (strategic planning, operational planning, monitoring, accountability and effectiveness);
- an audit on special issues (for instance the quality of documentation, audit proposals).

**Surveys**

From time to time surveys under ministers and ministerial policy makers, members and staff of Parliament, internal audit departments, NGO’s, and journalists are carried out in order to find out their opinions on the organisation, role, work, products of the NCA.

**Specific issue: self evaluation**

The instrument of self-evaluation was introduced in 1995. In the beginning it was a learning instrument and an instrument for internal accountability as well. A couple years ago the instrument of self-evaluation was evaluated. It was concluded that the learning part didn’t work very well because team members felt uncomfortable: they felt themselves assessed by management. The NCA then decided to use the self-evaluation only as a learning instrument.

As noted one month after publication of the audit report the project leader organises a team meeting (preferably in an informal setting) in order to evaluate the performed audit. The chair is mostly a colleague who was not involved in the audit. This enables the project leader to participate in the discussions. During the meeting all the team members have the possibility (and the duty) to formulate strong and/or weak points of the audit following the three quality clusters according to the Manual on Self-evaluation.

The main objective is learning by the team. Of course it is possible that learning points and tips are found for others as well. The team (that is the project leader) is obliged to report to the manager of the audit department on the following topics:

- lessons to be learned by audit department, directorate and the NCA (if any: the team decides);
- the relation between costs of the audit and its results/effects;
- the relation between this audit and the strategy:
  - is it in line with the strategy;
  - is the strategy in line with the audit;
  - are there findings for other parts of the NCA to take into account.

The report to the manager of the audit department is discussed in a meeting of the audit department (held each month on a regular basis). There it is decided if and to what extent information is sent to the director. If lessons to learn are delivered to the director he decides whether a discussion on the highest management level is necessary.
The results of self-evaluations can be negative like
• reading of the report by the director and the Board took too much time;
• there was a lack of secretary support;
• team members were less available due priorities set by management

but also positive such as
• time schedules had been accomplished;
• good support of internal department for computers;
• good sphere in the team.

For more information see the web site of the Netherlands Court of Audit www.rekenkamer.nl
under publications/manuals the following manuals are available:
• manual on quality requirements and instruments;
• manual on self evaluation

NCA/JV/18-10-2002
Quality Assurance in the Swedish National Audit Office (RRV)

This paper summarises RRV’s approach to quality management and quality assurance. It is more of a Total Quality Management (TQM) approach giving standards, advice and follow-up on all the major activities within the RRV that affects final quality.

RRV works with the full scope of audits (performance and financial audit) and with a broad audit remit covering the whole state sector including state owned or controlled enterprises, state foundations and governmental grants to municipalities and counties. From July 2003 RRV will be transferred to the sphere of the Legislature (Parliament) instead of as now the sphere of the Executive.

RRV regards its commitment on Quality Management (QM) as an on going activity reflecting the continuously growing demands and expectations on the audit profession in the society. The ambition is to match the professional standards in all relevant aspects on the private side for Financial audit and a reasonable application of academic criteria on research reports for the Performance audit. The present QM status represents a successive improvement, during many years, along a development curve. During the last years more focus have been on a Total Quality Management (TQM) approach and the investments in QM have been more costly. In the earlier phases of our development on QM we tried to avoid professional mistakes in assessing irregularities, bad management and low efficiency and effectiveness at our clients. This was a major concern on all levels of 'supervision', i.e. quality checks of draft reports before finalising our audit work. Successively we have in the Financial audit refocused on the more demanding task to present a well grounded professional assessment on the annual Financial Statements in line with Generally Accepted Auditing Standards (GAAS) of the Intosai and IFAC type. In the Performance audit we have refocused on better defined 'Audit Questions' to be studied and by using more of generally Accepted Academic Criteria (AAC) for collecting and analysing information.

More important common TQM platforms created/supported by a broad staff engagement and participation are:

- A Mission and Vision statement,
- A Code of Ethics,
- An annual Performance assessment of staff.

Financial Audit

A TQM concept has been thoroughly analysed, debated, accepted and documented in an 'Audit Guide' (RRV 2000:22 available in English). In this combined Policy Paper and Main Standard the major cornerstones are defined. The Quality work is categorised as the ambition to build in quality in all the stages of audit: a) Input quality, b) Process quality, and c) Results quality. They are:

41 Paper prepared by Bo Sandberg (the Swedish National Audit Office), SIGMA expert (received 18 November, 2002).
Input quality

- A certification programme for Financial Auditors over 5 years with 400 hours of lectures, designed to start from an academic degree in accounting. An external examination is performed by the association that certify Chartered Accountants on the private side. There are one test after 3 years and a final test after 5 years. The tests are the same (to 75%) as for the auditors on the private side and they are given at the same day. Today 90% of the staff have started up with this programme. A financial salary incentive on +10% after being 'certified' is applied.

- A well defined hierarchy of audit responsibilities is established close to the set up applied on the private side: 1) the auditor in charge, 2) the assignment leader, 3) the examination leader, and 4) the participating auditor. To be promoted to the highest levels requires among other qualifications the certification described above.

Process quality

- Each year we carry out internal (cross-wise between auditors in charge) quality follow-ups of a fifth of our assignments. This is of clear quality assurance (QA) type. Today after five years implementation all audit assignments (several hundreds) are followed up and documented at least once.

- RRV has a contract with a Chartered Accountant firm that annually checks how this internal cross-wise follow-ups work and report back to the Assistant Auditor General.

Results quality

- Routines for a systematic follow-up of our work. Audits are evaluated from different perspectives as: a) efficiency of work, b) comments and observations made during the audit, and c) actions taken on audit findings and recommendations.

- Questionnaires to ministries and agencies to provide us with an idea of the recipient's opinion of the quality of our work with respect to scope, focus, access to the auditor, expertise and relevance in the areas examined. The surveys are to be made each third year. The last surveys were carried out 2001 and 1998. Both surveys resulted in good appreciation on almost every aspect. A fact that has been very valuable in discussions with the RRV principal.

Common quality issues for the Financial audit

- An Advisory Audit Committee respectively an Advisory Accounting Committee with senior staff members for professional advice and guidance on audit and accounting.

- A well defined and stratified Reporting Strategy targeting the different decision levels of principals and auditees, namely issuing: a) Formal Audit Opinion in line with Intosai Auditing Standards and IFAC guidelines to the Government and if qualified to a Standing Committee in Parliament, b) an Audit Report with more detailed findings and recommendations when applicable, to the Board of the agency, c) an Audit Memo to the Chief Finance Officer at the agency, if applicable. Once a year RRV issues a consolidated Annual Audit Report to the Government with copies for knowledge to the standing Committees in Parliament summing up major findings and recommendations on both the Financial Audit and the Performance Audit.

- A chartered accountant firm is engaged to follow-up how the TQM audit concept (General Controls of the application on Generally Accepted Auditing Standards (GAAS))
and Rules of Professional Ethics for Accountants (RPEA) in the Policy Paper works. The most important aspects of the General Controls are: a) the auditor's independence versus the client, b) sufficient staffing with adequate qualifications for the audit assignment, c) necessary guidance for the audit team, d) the existence of an inspection programme on the QC/QA for GAAS and RPEA. The Chartered Accounting firm reports to the Assistant Auditor General. This is thus of an external Peer Review type.

**Performance Audit**

The TQM approach for the Performance audit has been designed with due respect for the special character of the RRV focus on Effectiveness audit. More and more interest and resources have been devoted to build in quality in the first place. Here one can use the three audit phases: planning, execution and reporting, as a suitable structure.

**Planning**

To improve the quality of the audit planning RRV performs more substantial studies called 'Area Strategy for XX'. The purpose of such studies, normally 30-70 pages, is to highlight important auditable problems and issues in the area concerned - using the normal audit criteria: materiality and risks. Then to define suitable audit projects, a few, where the expected value added by an Performance audit seems to be the best. These studies also have another function: to legitimise RRV as a knowledgeable actor from whom our interested parties could expect high quality contributions.

In the planning of an individual audit it is compulsory to do a Pre-study to define the audit questions to be studied, describing and motivating the methods to be used for data and information collection and analysis of information, and indicating the possible benefits and risks of such a study. The outcome of this phase - a Pre-study report - forms the basis and the rationale for the Main study.

In all the phases of planning RRV today try to engage, normally as team members, high profile experts in the area concerned with an indisputable expert prestige among the interested parties for a certain study. A relatively new feature is to engage for a second opinion statistical and other research experts on a more permanent basis for a final and independent second opinion on the drafted reports before final decisions.

The outcome of three phases - an Area Strategy, a Pre-study Report and a plan for the Main study are decided upon by the Assistant Auditor General or the Auditor General.

**Execution**

The team leader together with his team members, including the external experts, run the project with formal briefings to the head of unit and the Assistant Auditor General. A quite frequent problem was earlier that the project expanded in directions not foreseen in the audit plan. Today the project leader needs a more formal approval to be able to cut or add to the audit plan. There are also detailed requirements on the client relation during the audit work.

**Reporting**

A quality pillar for the Performance audit is to have clear distinction between facts and observations and hold them apart from assessments and then as the final distinctive part - the recommendations. A general ambition for RRV is that the auditee and the auditors should be able to agree on the facts and observations. If the auditee can agree on the assessment it is
good, not to mention accepting the recommendations. It is, however, possible that an auditee doesn't agree on assessments. Such a situation should be indicated if adequate.

In the reporting phase a contradictory procedure is applied. Here the auditee is asked for comments on all facts, assessments and recommendations made by us. This is, together with the fact that a Performance audit report must include all facts and analyses made to support the findings and recommendations, the two most effective factors encouraging and fostering a good quality. A Performance audit report can be challenged from a quality point of view after several years and if proven right might have serious consequences for all parties involved. Everybody is aware of that. It also prevents ‘bargaining’ on the findings of the reports to get an positive approval by the client.

Relevant objections and criticism made by the client should be handled within the report. An option that has been disregarded by RRV is to give the auditee the possibility to have an own appendix to contradict RRV. The reason why this has not been used is that RRV thinks that it would create an uncertainty among the receivers of the report. In most cases a considerable expertise and time are needed to assess the two different opinions. That would detrimentally affect the propensity to take actions on audit reports. The auditee is, however, asked for a formal answer within six months on their actions on the audit report. And they are of course entitled to go to media with any criticism. This happens but not often. The possibility to approach the RRV principal, the Minister of Finance, with criticism is very seldom used. Probably due to the fact that he could not interfere in anyway even if the criticism would be motivated. If negative comments made by the auditee appears in media, the RRV policy is to not get into a debate in media about the audit reports. This position is motivated by the simple fact that it could create confusion about where RRV actually stands after delivering the report. Interviews with the RRV representatives on audit reports in papers or radio/television are, however, frequent.

The reporting of a Performance audit is most crucial for RRV. Therefore the senior auditors ability to write precise and concise reports are trained by professional media people. The whole media function, where RRV has its own experts, is pivotal for an effective reception of the audit report. Getting the message through and encouraging actions to be taken on Performance audit reports need a good coverage in media.

There is a special model for internal Follow-up on Performance audit reports (findings and recommendations) based on a comparison between the actual with the three preceding years as a part of the RRV dialogue with its interested parties. Among the more important aspects one can find: a) relevance, b) coverage of state commitments, c) acceptance of audit recommendations, and d) professional development.

Common quality issues for the Performance audit

There is a combined Policy Paper and Guideline for the Performance audit giving the platform for the QM. This guideline gives guidance on i.a. the same quality aspects (input quality, process quality and results quality) as mentioned for the Financial audit, but with some more aspects added.

Another feature that is greatly appreciated by the auditors is a database called 'Audit Methods Memory'. Every project must as one measure after closing the external reporting part describe the methods used and the experience of them. A special Audit Quality group scrutinises the draft audit method report. After approval of the group it is then added to the common experience base and searchable in different aspects.
Quality Assurance in the United States General Accounting Office

Introduction
This brief paper summarizes GAO’s approach to quality assurance, which does not focus exclusively on the audit process. Rather, the emphasis on achieving the highest possible quality of work pervades the institutional culture and is found throughout its management policies and practices.

Independence, Integrity and Objectivity
GAO adheres to the independence standards of its Government Auditing Standards. Staff members at all levels must also comply with applicable conflict-of-interest laws and regulations and are responsible for bringing potential conflicts of interest to the attention of superiors. They prepare annual financial disclosure reports which reveal details of the staffer’s income, assets and liabilities and of those in his/her immediate family. These are reviewed by more senior officials, whose own forms are available for public inspection. Staff members must also sign an annual Statement of Independence, and must obtain permission to engage in certain outside activities, including employment. GAO has recently further tightened the Standard for independence. Auditors, and the organizations by which they are employed, are barred from engaging in other significant work for the auditee. For example, if an organization assisted an auditee in constructing its IT system, it may not subsequently be the auditor for that entity. This restriction affects, primarily, private auditing firms that may be engaged in auditing governmental entities.

Human Capital Management
GAO attempts to recruit individuals with outstanding intellectual capacity, technical and interpersonal skills, and leadership capabilities. The Managing Director in each audit area (equivalent to Assistant Auditor General) determines the staff composition needed to meet the objectives in that area. These are referred to central management, which must reconcile them with the available budget resources and decide how many can be hired in each area. To fill the positions, GAO recruits at selected universities, but also hires from other sources.

In the financial management area, GAO typically recruits people with a strong accounting background. In the performance audit areas, the relevant disciplines are much more diverse, including public administration, economics, information technology and many others.

Individuals are selected after interviews with several people at the management level. GAO then provides an orientation program to the new employees. Newly hired people and those transferring from one audit area to another attend courses on the relevant audit methodology and other pertinent subjects.

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42 Paper prepared by Harry Havens, SIGMA expert (received 30 October, 2002).
GAO provides formal classroom training and individual study programs, some of which are available on-line. Much of this is developed and administered by the Center for Performance and Learning. In addition, however, the financial audit groups have developed and present some specialized courses in that area.

All auditors must obtain at least 80 continuing professional education (CPE) credits in each 2-year period, including at least 24 credits directly related to the government environment and government auditing. Compliance is closely monitored.

Staff members are evaluated at least annually by their superiors against published performance dimensions and standards. GAO promotes staff members based on performance and the demonstrated willingness and capability to assume greater responsibility. Vacancies are widely announced, for which individuals may apply. Candidates are assessed by annual selection panels, who make recommendations to the selecting official, typically a Managing Director.

In assigning staff, the objective is to assure that each audit team collectively possesses adequate professional proficiency, while also assuring that the members can further their professional development. Individuals are assigned to audit groups based first on the needs of the group, but with consideration of the individuals’ needs for particular types of experience. The Director of the group assigns the individual to a specific audit, working for an Assistant Director or auditor-in-charge who manages the job.

Each audit team is staffed to have appropriate skills. Financial statement (attestation) audits are always led by a Certified Public Accountant (CPA) who is experienced in performing such audits.

**Audit Performance**

GAO prepares a five-year strategic plan for its work. This work is of three types: congressionally requested, legislatively mandated, and research and development work based on GAO’s basic legislative responsibility.

GAO has a published Congressional Protocol for guiding its relationship with Congress, which includes procedures for negotiating the terms of a request and for confirming the acceptance of a request. The Comptroller General can decline congressional requests if he judges them to be inappropriately political in nature or outside the scope of GAO’s responsibilities.

The decision to initiate an assignment is approved at an Engagement Acceptance Meeting involving GAO’s top management, at which point the participants also agree on the risk level of the assignment, which determines the subsequent level of review of the work.

Primary responsibility for each audit lies with the “first partner”, who is typically at the Director level, immediately below a Managing Director. They plan and supervise the audit, together with assistant directors and auditors-in-charge. After gathering advice from throughout GAO, as appropriate, the planning judgments involved in a financial audit are documented in the Design Matrix, the General Risk Analysis and the Account Risk Analyses.
Relations with the auditee are established through an Engagement Letter and an Entrance Conference in which the audit’s objectives, scope, methodology and timing are set out. Toward the end of an audit, there is an Exit Conference with the auditee to discuss the facts gathered in the audit.

After completing field work, an Audit Summary Memorandum is prepared to describe the audit results and to demonstrate the adequacy of the audit procedures and the audit conclusions. A pre-defined Work Paper Set, Audit Completion Checklist and other tools help assure that all necessary steps were performed. All relevant work papers are subject to at least a primary review and key ones receive a secondary review before report issuance. All products are “referenced” by someone independent of the audit, who traces all facts and figures from the draft product to the work papers.

The first partner approves the report and other supporting documents. A second partner (another Director not involved in the audit or the Managing Director) independently reviews significant matters. For financial statement audits, the second partner must be a CPA with significant experience in the area. Experts from elsewhere in GAO may be asked to review a draft report to help assure the validity of the analysis and the correctness of findings and conclusions.

After completing the internal review process, all draft reports are sent to the auditee for review. Typically, 30 days are allowed for this phase. Any comments by the auditee are analysed and, if warranted, appropriate changes are made in the draft. Any such comments and the GAO analysis are published in the final report, which becomes a public document unless distribution must be restricted for national security reasons.

There are frequent Engagement Review Meetings with the Comptroller General and other top staff to discuss the status and progress of significant audits.

Consultation and Research

There are libraries available throughout GAO to help meet staff members’ needs for professional literature. In addition, there is an Audit Reference Library available on-line. Auditors are encouraged to seek advice from experts on matters that go beyond the knowledge of the members of the audit team. Many of the experts are located with the organization, but GAO staff may also seek outside advice, when necessary.

Monitoring the Quality of Work

The Office of Quality and Risk Management carries out a Quality Control Assessment Program (QCAP) to carry out after-the-fact inspections of selected performance audits and financial related audits. Financial statement (attestation) audits are inspected by a team reporting to the Managing Director in that area. The inspections include review of working papers, tests of functional areas and staff interviews. The results are reported to management and staff, who prepare action plans to deal with the findings, if needed.

GAO has also begun to obtain external Peer Reviews of its audit quality. The first, covering the financial audit area, was completed recently and resulted in a clean opinion. A second, covering the performance audit area, is expected to be done in 2005, covering work performed in 2004.
Quality Controls in the Audit Process (Financial Audit)

Quality Control Procedures within the UK NAO are governed by the UK’s Auditing Practices Board’s Statement of Auditing Standards (SAS) 240 which provides extensive guidance governing individual audits, and whole of office procedures to ensure the quality of our financial audit work.43

A. Real Time Quality Control Practices

Before the start of each audit, assignment directors are required to review the audit resources they have to undertake an assignment and confirm that the audit team is independent and suitable for the task to be undertaken. In addition, on an annual basis all financial audit staff are required to complete an annual code of conduct declaration, and a learning and development record. This confirms that they are ‘fit and proper’ people (in accordance with UK Audit Regulations) to conduct an audit and that they have kept their professional knowledge up to date.

Review is carried out on two levels – a first stage detailed review by an assignment manager, or team leader, and a second stage review of major judgements, conclusions and evaluations by an assignment director. For those assignments deemed to be of high value, high risk, or subject to qualification, a second, independent, director also reviews major decisions and judgements at each stage of the audit from planning to conclusion.

The NAO provides a central technical support service, to provide advice and guidance to audit teams where needed, in accordance with office policies on consultation. Where a qualification of an audit opinion is proposed the central technical team provides an additional layer of review before the opinion is submitted to the Comptroller and Auditor General for certification. Guidance can also be sought within each line unit from the lead Financial Audit Director.

B. Post Audit Quality Review

The UK NAO carries out a ‘cold review’ round annually. This provides assurance to senior management as to the quality of our financial audit work. A sample of about 5% by number and 8-10% by value of audits is reviewed. Each assignment director is covered once on an annual basis, and each manager is covered once every three years. In accordance with SAS 240 separate members of the management board are responsible for audit quality, and technical audit methodology.

An experienced manager and director team carries out reviews. At the end of each review audits are graded. If there are any audits that are deemed to be weak, the account will be

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43 Paper prepared by Mark Babington (UK National Audit Office), SIGMA expert (received 22 October, 2002).
reviewed again in the following year, as will an example of the work of any manager (once) and director (twice) associated with a weak audit.

An annual report is prepared for the NAO management board, and the findings of our cold review round are also disseminated throughout the office so that weaknesses can be addressed during future planning rounds.

The NAO is also subjected to review by the Joint Monitoring Unit, the quality standards monitoring body of the Chartered Accountancy Institutes. Their monitoring procedures incorporate a series of cold reviews and an examination of NAO office procedures designed to ensure the quality of our staff. They produce a report for NAO management, the findings of which are disseminated to staff to ensure these are addressed during future audit rounds.

C. Good Practice

- Regular and timely dissemination of results of review rounds to the whole office to ensure any problems are addressed promptly.
- Independent assessment of the quality of our audit work.
- The cold review process also encourages reviewers to identify areas of good practice, which can be shared with colleagues in future.
- Independent director review and the central technical support team which provides validation of key judgements and conclusions drawn.
UK NAO: Quality Controls in the VFM Audit Process

A. “Real Time” Quality Control Practices and Procedures

1. The objectives of our quality assurance are to:
   - organise vfm our work so that quality assurance is an integral part of it at all stages;
   - evaluate the strengths and weaknesses of vfm outputs and their management in order to learn and apply the lessons for future work;
   - provide senior management with systematic and reliable information about the quality of vfm examinations.

2. Project directors and their teams are responsible for delivering their approved programmes of vfm work to high quality standards. They must determine the most appropriate form of quality assurance depending on the size and complexity of the examination, its sensitivity, its duration and the experience of staff undertaking the work.

Obtaining expert advice and second opinion

3. Action and procedures to provide quality assurance include:
   - consulting expert opinion, either internally or externally, to advise on key aspects of vfm examinations at critical stages especially design, before the crucial decisions are made;
   - sources of expert opinion include, internally, the Technical Advisory Group and externally, specialist consultants and panels of academics and other experts;
   - “hot edits” - these are independent reviews of reports while they are being written to assess whether they are technically sound, the organisation is convincing, evidence is clearly presented, and that generally the report is likely to convey its messages simply and quickly to the reader;
   - subjecting work to review by experienced staff not directly involved in the work.

Building-in quality

4. Good management and review can also promote quality, and assurance can be taken when there is evidence that this is reliable and consistent. This means:
   - assigning staff with the right skills and experience to appropriate study tasks;
   - frequent communication with staff so they all understand their roles and tasks within the aims and context of the examinations;
   - regular discussion with staff to determine what worked well, what was less successful and the reasons, the scope for improvement, and how it might be implemented;
   - documenting key evidence and its interpretation so that there is a good trail to demonstrate how decisions influencing the examination and its conclusions were reached;
   - monitoring study progress and costs to anticipate problems and to intervene early enough with appropriate action and solutions;

44 Paper prepared by Mark Popplewell (UK National Audit Office), SIGMA expert (received 29 November, 2002).
• comprehensive and timely review of work to ensure that all conclusions are soundly based and supported by reliable and sufficient evidence.

**B. Practices relating to Post-Audit Quality Assurance on the Audit Process (‘Cold Reviews’)**

5. There are four types of post study completion reviews: internal evaluations; external evaluations; feedback from the audited body; and team review. No one assessment is key and the aim of the assessments is to enable us to continue to improve our work by learning lessons.

**Internal reviews**

6. The team who carried out the study reviews published reports using a standard form. Assessments cover:
   • presentation and format;
   • technical content and quality;
   • initial impacts;
   • a general assessment.

**External reviews**

7. In order to obtain an independent perspective on the quality of our work, we appoint an external organisation to review our published reports. The external reviewer is usually an academic body recognised as a centre of expertise. The reviewer draws on a panel of academic experts from a range of disciplines. They receive copies of all reports once published. The panel assesses reports against similar criteria used for internal reviews. The external reviewers normally produce two summary reports each year bringing together the key messages arising from their quality assurance reviews.

**Feedback from audited bodies**

8. The views of audited bodies who are subject to our vfm examinations are important, including their perspective on the impact and added value achieved by the study and whether they think the study was well managed and that staff acted professionally. Feedback from audited bodies is requested in a standard format sent to the audited body by the study director after the report is published.

**Team review**

9. Teams carry out a “lessons learned” review once the report is published, to determine:
   • what worked well and why;
   • what was less successful and the reasons;
   • lessons for the future and possible wider application for all vfm examinations.

**Acting on findings**

10. Our central vfm team periodically prepare summary reports for senior management which highlight the lessons learned from quality assurance reviews; the need for action to promote improvements, such as training and guidance; and wider issues for further research and consideration. The key messages arising from quality assurance are communicated to vfm staff through seminars, workshops and guidance.
C. Good practices.

11. Some points to bear in mind with quality assurance:

- Quality assurance is a continuous process and not just a one-off procedure or event after completion of the study.
- Consider at a very early stage in the examination the action you are going to take to promote quality.
- Seek second opinion at key stages to validate, for example study selection, the questions to be examined, design, and methodology.
- Identify critical points in the examination when review is especially required to ensure that the study will meet its aims.
- Hot edits can help to provide constructive comments for improving draft reports and presentation generally. Make sure suggestions are practical though.
- Allow sufficient time for internal and specialist review of draft reports.
- Respond positively to the findings of external quality assurance reviews and feedback from audited bodies and seek clarification if you do not understand their comments or concerns.
- Consider why aspects of the study were more successful as well as those that were less so.
- If a study exceeds its elapsed time or cost budgets, identify the main drivers that resulted in the overrun and consider what might be done next time. The benefits of hindsight can be useful.
- Ensure that the lessons learned from quality assurance reviews are widely communicated through workshops and seminars.
- Above all, adopt a positive approach - quality assurance reviews should not be negative post-mortems but an opportunity to be constructive and to learn from experience.
Quality in the Audit Process

Volume III
Reference Documents

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Bucharest, December 2002
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Part I. Documents of international organisations

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2.1 General Standards in Government Auditing (items 2.1.2.d-e, 2.1.8, 2.1.15, 2.1.19, 2.1.25-2.1.30, 2.1.35)
2.2 Standards with Ethical Significance (items 2.2.1.c-d, 2.2.36)
3. Field Standards in Government Auditing (item 3.0.3.b)
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3.5 Audit Evidence (item 3.5.3)

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Assuring the Quality of Professional Services (pages 21-32)
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Module B.12: Quality Control and Quality Assurance (February 2001)

Contact Committee of Presidents of the SAIs of the European Union (Ad hoc Group on Auditing Standards)

European Implementing Guidelines for the INTOSAI Auditing Standards
Guideline No 26: Documentation (items 2.1.e, 2.1.h, 2.2, 3.8, 3.10)
Guideline No 51: Quality Assurance

Presidents of the SAIs of the Central and Eastern European Countries and the European Court of Auditors

Recommendations concerning the Functioning of Supreme Audit Institutions in the context of European Integration (1999, Prague)
Recommendation 7
Annexes 4, 6, 7, 8
Part II. Documents of national Supreme Audit Institutions

United States General Accounting Office

Government Auditing Standards (July 1999)
Quality Control (items 3.31-3.36)

An Audit Quality Control System: Essential Elements (August 1993)

Office of the Auditor General of Canada

Annual Audit Manual (May 2002 Revision)
8. Quality Management System

Value-for-Money Audit Manual (July 2002 Revision)
9. The Office’s Quality Management System

United Kingdom National Audit Office

Financial Audit Manual (September 1995)
Chapter Ten: Review

NAO Approach to Financial Audit Review (Audit Circular-Financial AC 01/02)

Review of Financial Audit Work (Audit Circular-Financial AC 01/02)

Quality Assurance Cold Reviews
Financial Audit Quality Assurance Cold Review Checklist

Obtaining Feedback from Financial Audit Clients (Audit Circular-Financial AC 11/02)

Standards Assurance Review Procedures (Audit Circular-Financial AC 12/02)

Value for Money Handbook (Spring 1997)
Part Four: Securing Quality in Our VFM Work

Quality Assurance of NAO Value for Money Studies

Quality Review Criteria

NAO Reports: An Invitation to Comment
Value for Money Report Questionnaire

Project Team Questionnaire

Building in Quality (Quality Review of VFM reports 1999-2000)

The Netherlands Court of Audit

Self-evaluation Manual (April 1999)

Manual on Quality Requirements and Instruments (April 1996)

Court of Audit of the Republic of Slovenia

Guideline on Quality Assurance (December 2001)
Part I.
Documents of International Organisations
INTOSAI Auditing Standards

International Organisation of the Supreme Audit Institutions
INTOSAI Standards on Quality Control

2.1 GENERAL STANDARDS IN GOVERNMENT AUDITING

2.1.2 The general auditing standards are that the SAI should adopt policies and procedures to

(...)

(d) Support the skills and experience available within the SAI 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 2.1.15).

(e) Review the efficiency and effectiveness of the SAI's internal standards and procedures (see paragraph 2.1.25).

(...)

2.1.8 The SAI should establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SAI.

(...)

2.1.15 The general standards for SAIs include

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify those skills which are absent; provide a good distribution of skills to auditing tasks and 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 2.1.2d).

The following paragraphs explain the use of skills as an auditing standard.

(...)

2.1.19 Policies and procedures governing supervision of audits are important factors in the performance of the SAI's role at an appropriate level of competence. The SAI should ensure that audits are planned and supervised by auditors who are competent, knowledgeable in the SAI's standards and methodologies, and equipped with an understanding of the specialities and peculiarities of the environment.

(...)

2.1.25 The general standards for SAIs include
The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures (see paragraph 2.1.2e). The following paragraphs explain quality assurance reviews as an auditing standard.

2.1.26 Because of the importance of ensuring a high standard of work by the SAI, it should pay particular attention to quality assurance programs in order to improve audit performance and results. The benefits to be derived from such programs 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.

2.1.27 The SAI 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.

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

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

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

(...)

2.1.35 The SAI should ensure that applicable standards are followed on both pre-audits and post-audits and that deviations from the standards which are determined to be appropriate are documented.

(...)

2.2 Standards With Ethical Significance

2.2.1 The general auditing standards include:

(...)

(c) The auditor and the SAI must possess the required competence (see paragraph 2.2.33).

(d) 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 (see paragraph 2.2.39).

(...)

2.2.36 Since the duties and responsibilities thus borne by the SAI are crucial to the concept of public accountability, the SAI must apply to its audits, methodologies and practices of the highest quality. It is incumbent upon it to formulate procedures to secure effective exercise of its responsibilities for audit reports, unimpaired by less than full adherence by personnel or external experts to its standards, planning procedures, methodologies and supervision.

3. FIELD STANDARDS IN GOVERNMENT AUDITING

3.0.3 The field standards applicable to all types of audit are

(...)

(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 (see paragraph 3.2.1).

(...)

3.2 Supervision and Review

3.2.1 The field standards include

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 3.0.3b).

The following paragraphs explain supervision and review as an auditing standard.

3.2.2 Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of individual auditors.

3.2.3 Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

(a) the members of the audit team have a clear and consistent understanding of the audit plan;
(b) the audit is carried out in accordance with the auditing standards and practices of the SAI;
(c) the audit plan and action steps specified in that plan are followed unless a variation is authorised;
(d) working papers contain evidence adequately supporting all conclusions, recommendations and opinions;
(e) the auditor achieves the stated audit objectives; and
(f) the audit report includes the audit conclusions, recommendations and opinions, as appropriate.

3.2.4 All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgement to the audit task and should ensure that:

(a) all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;

(b) all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and

(c) changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.

3.2.5 This standard operates differently in SAIs organised in a collegiate form. In such a structure, decisions, except those of a routine nature, are taken on a collegiate basis at a level appropriate to the importance of the matter.

Such an entity, as a whole, decides on the scope of the examination, the tests to be undertaken and the methods to be used.

(...)

**3.5 Audit Evidence**

(...)

3.5.3 Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The SAI should ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.
2001 IFAC Handbook
of Auditing and Ethics Pronouncements
ASSURING THE QUALITY OF PROFESSIONAL SERVICES

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Assuring the Quality of Professional Services

Introduction

1. IFAC’s Code of Ethics for Professional Accountants notes that “a distinguishing mark of a profession is acceptance of its responsibility to the public.” The accountancy profession has acquired a reputation for integrity, objectivity, and competence through its many years of service to clients, employers, and the public. Every professional accountant who fails (or is perceived as failing) to comply with professional standards and legal requirements makes it difficult for the profession to maintain its reputation. IFAC’s role is to provide guidance, encourage progress, and promote harmonization. Thus, IFAC believes that member bodies need to demonstrate that there are adequate self-regulatory programs in place to provide reasonable assurance that professional accountants adhere to the highest standards.

2. Regulation of the accountancy profession is carried out cost efficiently and effectively by those dedicated individuals who comprise the profession. It is therefore in the interests of the worldwide accountancy profession, and the public it serves, for member bodies to ensure they carry out and publicize this kind of self-regulatory effort.

3. The duty to adhere to professional requirements rests on the individual professional accountant. However, assessing the extent to which an individual accountant has met this duty is best carried out at the level of the organization for which the professional accountant’s work is performed.

4. In the case of employed professional accountants, the implementation of appropriate quality assurance policies and procedures is ordinarily a matter for the organization employing the professional accountant (the employer). Accordingly, this Statement of Policy does not deal with employed professional accountants.

5. In the case of professional accountants in public practice, the implementation of appropriate quality control policies and procedures is the responsibility of each firm of practicing accountants. The task of encouraging and assisting firms of practicing accountants to maintain and improve the quality of professional services is primarily that of the member bodies in each country. IFAC believes that the member bodies have the responsibility to take appropriate steps to achieve that objective in the legal, social, business, and regulatory environment prevailing within their countries. This Statement of Policy discusses the steps that member bodies can take to enhance quality control within accounting firms.

Objectives

6. IFAC believes that all firms of professional accountants should have quality control policies and procedures for all professional services and that member bodies should ensure that these policies and procedures are subject to external review. Many segments of society when making decisions increasingly depend upon information over which they have no control; they turn to professional accountants for assistance in assessing the credibility of some of that information. In view of the greater degree of reliance that the public places on assurance engagements, it is appropriate for the review of assurance engagements to be more rigorous than the review of other services.

7. It is not possible for IFAC to outline all of the steps needed to establish effective quality control standards and quality review programs. However, IFAC believes that the following objectives have worldwide applicability and that member bodies should strive to achieve them.

   • Member bodies should adopt or develop quality control standards and relevant guidance that require firms of practicing accountants to establish the quality control policies and procedures necessary to provide reasonable assurance of conforming with professional standards in performing services. The nature and extent of a firm’s quality control policies and procedures depend on a number of factors, such as the size

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1 The Code of Ethics for Professional Accountants defines an employed accountant as a professional accountant employed in industry, commerce, the public sector or education.
and nature of its practice, its geographic dispersion, its organization, and appropriate cost/benefit considerations. Accordingly, the policies and procedures adopted by individual firms will vary, as will the manner in which the policies and procedures themselves and compliance with them are documented.

- Member bodies should develop quality review programs designed to evaluate whether firms of practicing accountants have established appropriate quality control policies and procedures and are complying with those policies.
- Member bodies should establish quality review programs designed to evaluate whether firms of practicing accountants have complied with relevant professional standards for assurance engagements.
- Member bodies should require firms of practicing accountants to make appropriate improvements in their quality control policies and procedures, or in their compliance with those policies and procedures, when the need for such improvement is identified. Where firms fail to comply with relevant professional standards, the member body should take appropriate corrective action. Member bodies should also take such educational or disciplinary measures as indicated by the circumstances.

8. As a basic condition, IFAC emphasizes that implementation of an adequate self-regulatory program cannot be effected until firms of practicing accountants in a country are bound by an appropriate code of ethics and also by adequate standards governing accounting principles and engagements to provide professional services. The IFAC Code of Ethics for Professional Accountants, its International Standards on Auditing, and the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC) all provide guidance for such standards.

Establishing Quality Control Standards

9. Member bodies should promulgate or otherwise identify the standards against which it will measure the quality control policies and procedures of firms of practicing accountants. Those standards should set out the objectives of quality controls. It is the responsibility of each firm of practicing accountants to implement policies and procedures that provide reasonable assurance of achieving those objectives. It is also the firm’s responsibility to communicate those policies and procedures to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood.

10. General quality control policies and procedures should cover such areas as:

(a) the qualities, skills and competence of the firm’s personnel;
(b) the assignment of personnel to engagements and their direction and supervision;
(c) the acceptance of new clients and the retention of existing clients; and
(d) the monitoring of quality control procedures.

Appendix 1 sets out the objectives and illustrative examples of general quality control policies and procedures. IFAC believes that they are relevant to all services rendered by a firm of practicing accountants.

Providing Other Quality Control Guidance

11. Member bodies should consider whether firms of practicing accountants in their countries need other assistance to understand the objectives of quality control and to implement appropriate quality control policies and procedures. Assistance can be provided in various forms, depending upon the needs within a country. The following are some examples.

- Mandating Continuing Professional Education (CPE) when it appears that CPE would be effective in assuring that all practicing accountants obtain adequate training. International Education Guideline 2 “Continuing Professional Education” provides further guidance on CPE programs.
- Developing guidelines for comprehensive CPE programs that may be useful to firms in planning, or evaluating the adequacy of, their in-house training.
- Providing CPE programs to firms and sole practitioners that do not have the resources to develop their own internal programs, including programs specifically directed to the implementation of quality control policies and procedures.
- Providing guidelines for the conduct of effective internal inspection programs.
Implementing voluntary programs that enable firms of practicing accountants to obtain an independent, confidential assessment of their quality control policies and procedures, apart from any formal program of quality review.

Establishing a Quality Review Program

12. Member bodies should establish a quality review program. The program should be mandatory for all firms that provide professional services. The program should cover the firm’s quality control policies and procedures for all professional services, and should cover the firm’s adherence to relevant professional standards in respect of assurance engagements. The program may be extended, on a voluntary or mandatory basis, to cover adherence to relevant professional standards in respect of other services. Appendix 2 gives assistance on some of the practical aspects of setting up a quality review program.

13. The first consideration is whether the object of the review program will be the individual professional accountant, or the firm of which the accountant is part. Member bodies may choose to do either, but even where the object of the review program is the individual professional accountant, it will usually be necessary to consider the policies and procedures adopted by the firm of which the accountant is part. When reviewing the firm, the work of all partners conducting assurance engagements may be reviewed, or the work of only some of the partners may be reviewed, with the reviews being increased if the standard is unsatisfactory.

14. The next consideration is the scope of the program itself. All firms may be reviewed over an established period of time, or firms of practicing accountants may be selected for quality review on a test basis (for example, upon a random selection or upon the nature and size of their practices). When the quality review program in a country is carried out on a test basis, IFAC believes that it is important that all firms of practicing accountants should face the possibility of being selected for review.

15. In reaching a decision on the scope of a quality review program, member bodies should consider the following.

- The extent to which all firms of practicing accountants conduct assurance engagements.
- Governmental, regulatory, or media criticisms of the quality of professional services.
- The extent to which proposals for quality review programs appear to be supported by the profession or demanded by others.
- The cost of the program in relation to the financial strength of the practicing profession and of the member body itself.

16. When all firms of practicing accountants in a given country are to have quality reviews, it is possible to control the costs without loss of effectiveness. In particular, the program can be implemented over a reasonable number of years, for example, beginning with firms with more extensive assurance engagements, on whom there may be greater public reliance. During that phase-in period, the member body would continue educational efforts to help firms develop effective quality control policies and procedures, and to prepare for review. At the same time, it would be prudent for the member body to use its best efforts to communicate to government and to the public the extent of this commitment by the profession to maintain and improve the quality of service.

17. Where a quality review of a firm’s assurance engagements is being undertaken, that review should address the firm’s work product as well as its quality control procedures. Quality reviews of other types of work may be limited to a consideration of the quality control policies and procedures.

18. Personal visits to a firm to conduct a quality review should produce the most benefit to the firm and to the public. For this reason, the partners and senior staff members of the firm should be encouraged to participate in a discussion of the review’s findings. Accordingly, this approach should be taken wherever possible and appropriate. The member body should set up a committee to consider the findings, and the firm’s partners should be permitted to make representations to that committee.

19. The next major consideration is whether the reviews are to be conducted by practicing accountants, by non-practicing accountants engaged by the member body, or by its own employees. The services rendered by firms of practicing accountants require a comprehensive knowledge of professional standards and, in many cases, legal, regulatory, and tax requirements. They usually call for knowledge of the client’s business and of matters affecting the industry in which the client operates, such as economic conditions, government regulations, and changes in technology. They may involve special expertise in matters as diverse as, for
example, information processing, hedging transactions, and valuation methods. Practicing accountants would ordinarily be expected to have current knowledge of such matters and, therefore, should be well suited to carry out quality reviews of other firms of practicing accountants. The member body should ensure that the review program used by firms is based upon programs it has approved. It should also adopt reasonable oversight procedures to provide added assurance that quality reviews are carried out in an independent, objective manner.

20. All people conducting reviews should also be instructed in the need to carry out their procedures, whenever possible, in a manner that elicits full cooperation from the firms being reviewed, and to maintain the confidentiality of client information.

21. Where quality reviews are to be carried out by non-practicing accountants engaged by the member body, or by its own professionally qualified employees, it should insure that the individuals involved have a current knowledge of applicable professional and quality control standards and the manner in which firms of practicing accountants implement those standards.

22. The number of alternative approaches that exist make it evident that each member body will have to agree upon the appropriate alternatives. It will also need to publish its program in the form of reasonably detailed standards and procedures. In that connection, IFAC believes that it is important for a successful quality review program to have standards that address at least the following matters.

- Assuring that reviewers receive training in the conduct of reviews.
- Assuring the independence and objectivity of reviewers.
- Assuring that reviewers have the technical skill and knowledge and the specialized experience to perform the review with professional competence.
- Documenting the review procedures followed in a manner that permits an objective assessment of whether the review was performed with due care and in compliance with its standards.
- Reporting the findings of the review in a manner that assists the reviewed firm in identifying and implementing any necessary corrective actions and in making other desirable improvements in its quality control policies and procedures.
- Requiring, where applicable, the imposition of added corrective, educational, or monitoring procedures pursuant to guidelines that assure that firms will be treated fairly and consistently. Examples of such procedures are requirements for changes in quality control policies and procedures, for specified continuing professional education, or for follow up visits by reviewers to obtain assurance that corrective actions planned by the firm have been appropriately implemented.
- Imposing disciplinary measures on firms that either refuse to cooperate in the conduct of the review, fail to take necessary corrective action, or are found to have serious deficiencies that cannot be dealt with in a meaningful way by remedial or educational measures.
- Maintaining the confidentiality of client information.

23. Member bodies establishing a quality review program will also need to develop specific administrative procedures to guide the selection of reviewers, to monitor the progress of reviews, to evaluate the performance of reviewers, and to deal with the resolution of differences of professional opinion on matters related to the review.

24. Finally, the number of tasks enumerated above (and each member body implementing a quality review program will identify many others) makes it evident that careful advance planning, committed members, qualified staff at the member body, and comprehensive training and communications programs are essential to success.
International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

ISAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISA including explanatory and other material contained in the ISA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

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1 Reference may also be made to the International Professional Practice Statement 1 of the International Federation of Accountants “Assuring the Quality of Professional Services.”
Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the quality control:
   (a) policies and procedures of an audit firm regarding audit work generally; and
   (b) procedures regarding the work delegated to assistants on an individual audit.

2. Quality control policies and procedures should be implemented at both the level of the audit firm and on individual audits.

3. In this ISA the following terms have the meaning attributed below:
   (a) “the auditor” means the person with final responsibility for the audit;
   (b) “audit firm” means either the partners of a firm providing audit services or a sole practitioner providing audit services, as appropriate;
   (c) “personnel” means all partners and professional staff engaged in the audit practice of the firm; and
   (d) “assistants” means personnel involved in an individual audit other than the auditor.

Audit Firm

4. The audit firm should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with ISAs or relevant national standards or practices.

5. The nature, timing and extent of an audit firm’s quality control policies and procedures depend on a number of factors such as the size and nature of its practice, its geographic dispersion, its organization and appropriate cost/benefit considerations. Accordingly, the policies and procedures adopted by individual audit firms will vary, as will the extent of their documentation. Illustrative examples of quality control procedures are presented in the Appendix to this ISA.

6. The objectives of the quality control policies to be adopted by an audit firm will ordinarily incorporate the following:
   (a) Professional Requirements:
       Personnel in the firm are to adhere to the principles of independence, integrity, objectivity, confidentiality and professional behavior.
   (b) Skills and Competence:
       The firm is to be staffed by personnel who have attained and maintain the technical standards and professional competence required to enable them to fulfill their responsibilities with due care.
   (c) Assignment:
       Audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the circumstances.
   (d) Delegation:
       There is to be sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality.
   (e) Consultation:
       Whenever necessary, consultation within or outside the firm is to occur with those who have appropriate expertise.
   (f) Acceptance and Retention of Clients:

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2 Refer to the “Code of Ethics for Professional Accountants” issued by the International Federation of Accountants and the requirement on auditors to observe these in ISA 200 “Objective and General Principles Governing an Audit of Financial Statements.”

3 See footnote 2.
An evaluation of prospective clients and a review, on an ongoing basis, of existing clients is to be conducted. In making a decision to accept or retain a client, the firm’s independence and ability to serve the client properly and the integrity of the client’s management are to be considered.

(g) Monitoring:
The continued adequacy and operational effectiveness of quality control policies and procedures is to be monitored.

7. The firm’s general quality control policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented.

Individual Audits

8. The auditor should implement those quality control procedures which are, in the context of the policies and procedures of the firm, appropriate to the individual audit.

9. The auditor, and assistants with supervisory responsibilities, will consider the professional competence of assistants performing work delegated to them when deciding the extent of direction, supervision and review appropriate for each assistant.

10. Any delegation of work to assistants would be in a manner that provides reasonable assurance that such work will be performed with due care by persons having the degree of professional competence required in the circumstances.

Direction

11. Assistants to whom work is delegated need appropriate direction. Direction involves informing assistants of their responsibilities and the objectives of the procedures they are to perform. It also involves informing them of matters, such as the nature of the entity’s business and possible accounting or auditing problems that may affect the nature, timing and extent of audit procedures with which they are involved.

12. The audit program is an important tool for the communication of audit directions. Time budgets and the overall audit plan are also helpful in communicating audit directions.

Supervision

13. Supervision is closely related to both direction and review and may involve elements of both.

14. Personnel carrying out supervisory responsibilities perform the following functions during the audit:
   (a) monitor the progress of the audit to consider whether:
       (i) assistants have the necessary skills and competence to carry out their assigned tasks;
       (ii) assistants understand the audit directions; and
       (iii) the work is being carried out in accordance with the overall audit plan and the audit program;
   (b) become informed of and address significant accounting and auditing questions raised during the audit, by assessing their significance and modifying the overall audit plan and the audit program as appropriate; and
   (c) resolve any differences of professional judgment between personnel and consider the level of consultation that is appropriate.

Review

15. The work performed by each assistant needs to be reviewed by personnel of at least equal competence to consider whether:
   (a) the work has been performed in accordance with the audit program;
   (b) the work performed and the results obtained have been adequately documented;
   (c) all significant audit matters have been resolved or are reflected in audit conclusions;
   (d) the objectives of the audit procedures have been achieved; and
(e) the conclusions expressed are consistent with the results of the work performed and support the audit opinion.

16. The following need to be reviewed on a timely basis:
   (a) the overall audit plan and the audit program;
   (b) the assessments of inherent and control risks, including the results of tests of control and the modifications, if any, made to the overall audit plan and the audit program as a result thereof;
   (c) the documentation of the audit evidence obtained from substantive procedures and the conclusions drawn therefrom, including the results of consultations; and
   (d) the financial statements, proposed audit adjustments and the proposed auditor’s report.

17. The process of reviewing an audit may include, particularly in the case of large complex audits, requesting personnel not otherwise involved in the audit to perform certain additional procedures before issuing the auditor’s report.

Public Sector Perspective

1. This ISA refers to the work of private sector audit firms. Many audits of governments and other public sector entities are carried out by Supreme Audit Institutions (SAIs), other bodies appointed by statute or practicing auditors. The general principles in this ISA on quality control apply equally to SAIs. However, some of the specific policies and procedures may not be applicable (for example, acceptance and retention of clients, SAIs organized on a collegial basis) and there may be additional policies relevant to public sector auditors.

2. Also, in the public sector of some countries, quality control generally has a different meaning to that adopted in this ISA. Quality assurance is the term applied to internal supervision and review procedures whereas quality control is the term applied to external quality reviews.
Illustrative Examples of Quality Control Procedures for an Audit Firm

A. PROFESSIONAL REQUIREMENTS

Policy

*Personnel in the firm are to adhere to the principles of independence, integrity, objectivity, confidentiality and professional behavior.*

Procedures

1. Assign an individual or group to provide guidance and to resolve questions on matters of integrity, objectivity, independence and confidentiality.
   (a) Identify circumstances where documentation as to the resolution of questions would be appropriate.
   (b) Require consultation with authoritative sources when considered necessary.
2. Communicate policies and procedures regarding independence, integrity, objectivity, confidentiality and professional behavior to personnel at all levels within the firm.
   (a) Inform personnel of the firm’s policies and procedures and advise them that they are expected to be familiar with them.
   (b) Emphasize independence of mental attitude in training programs and in supervision and review of audits.
   (c) Inform personnel on a timely basis of those entities to which independence policies apply.
      (i) Prepare and maintain for independence purposes a list of the firm’s clients and of other entities (client’s affiliates, parents, associates, and so forth) to which independence policies apply.
      (ii) Make the list available to personnel (including personnel new to the firm or to an office) who need it to determine their independence.
      (iii) Establish procedures to notify personnel of changes in the list.
3. Monitor compliance with policies and procedures relating to independence, integrity, objectivity, confidentiality and professional behavior.
   (a) Obtain from personnel periodic written representations, ordinarily on an annual basis, stating that—
      (i) They are familiar with the firm’s policies and procedures.
      (ii) Prohibited investments are not held and were not held during the period.
      (iii) Prohibited relationships do not exist, and transactions prohibited by firm policy have not occurred.
   (b) Assign responsibility for resolving exceptions to a person or group with appropriate authority.
   (c) Assign responsibility for obtaining representations and reviewing independence compliance files for completeness to a person or group with appropriate authority.
   (d) Review periodically the firm’s association with clients to ascertain whether any areas of involvement may or may be seen to impair the firm’s independence.

B. SKILLS AND COMPETENCE

Policy

*The firm is to be staffed by personnel who have attained and maintain the technical standards and professional competence required to enable them to fulfill their responsibilities with due care.*
Procedures

Hiring

1. Maintain a program designed to obtain qualified personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function.
   (a) Plan for the firm’s personnel needs at all levels and establish quantified hiring objectives based on current clientele, anticipated growth, and retirement.
   (b) Design a program to achieve hiring objectives which provides for—
      (i) Identification of sources of potential hirees.
      (ii) Methods of contact with potential hirees.
      (iii) Methods of specific identification of potential hirees.
      (iv) Methods of attracting potential hirees and informing them about the firm.
      (v) Methods of evaluating and selecting potential hirees for extension of employment offers.
   (c) Inform those persons involved in hiring as to the firm’s personnel needs and hiring objectives.
   (d) Assign to authorized persons the responsibility for employment decisions.
   (e) Monitor the effectiveness of the recruiting program.
      (i) Evaluate the recruiting program periodically to determine whether policies and procedures for obtaining qualified personnel are being observed.
      (ii) Review hiring results periodically to determine whether goals and personnel needs are being achieved.

2. Establish qualifications and guidelines for evaluating potential hirees at each professional level.
   (a) Identify the attributes to be sought in hirees, such as intelligence, integrity, honesty, motivation and aptitude for the profession.
   (b) Identify achievements and experiences desirable for entry level and experienced personnel. For example:
      (i) Academic background.
      (ii) Personal achievements.
      (iii) Work experience.
      (iv) Personal interests.
   (c) Set guidelines to be followed when hiring individuals in situations such as:
      (i) Hiring relatives of personnel or relatives of clients.
      (ii) Rehiring former employees.
      (iii) Hiring client employees.
   (d) Obtain background information and documentation of qualifications of applicants by appropriate means, such as:
      (i) Resumes.
      (ii) Application forms.
      (iii) Interviews.
      (iv) Academic record.
      (v) Personal references.
      (vi) Former employment references.
   (e) Evaluate the qualifications of new personnel, including those obtained from other than the usual hiring channels (for example, those joining the firm at supervisory levels or through merger or acquisition), to determine that they meet the firm’s requirements and standards.

3. Inform applicants and new personnel of the firm’s policies and procedures relevant to them.
(a) Use a brochure or other means to inform applicants and new personnel.

(b) Prepare and maintain a manual describing policies and procedures for distribution to personnel.

(c) Conduct an orientation program for new personnel.

**Professional Development**

4. Establish guidelines and requirements for continuing professional education and communicate them to personnel.

(a) Assign responsibility for the professional development function to a person or group with appropriate authority.

(b) Provide that programs developed by the firm be reviewed by qualified individuals. Programs would contain statements of objectives and education and/or experience prerequisites.

(c) Provide an orientation program relating to the firm and the profession for newly employed personnel.

   (i) Prepare publications and programs designed to inform newly employed personnel of their professional responsibilities and opportunities.

   (ii) Assign responsibility for conducting orientation conferences to explain professional responsibilities and firm policies.

(d) Establish continuing professional education requirements for personnel at each level within the firm.

   (i) Consider legislative and professional bodies’ requirements or voluntary guidelines in establishing firm requirements.

   (ii) Encourage participation in external continuing professional education programs, including self-study courses.

   (iii) Encourage membership in professional organizations. Consider having the firm pay or contribute toward membership dues and expenses.

   (iv) Encourage personnel to serve on professional committees, prepare articles, and participate in other professional activities.

(e) Monitor continuing professional education programs and maintain appropriate records, both on a firm and an individual basis.

   (i) Review periodically the records of participation by personnel to determine compliance with firm requirements.

   (ii) Review periodically evaluation reports and other records prepared for continuing education programs to evaluate whether the programs are being presented effectively and are accomplishing firm objectives. Consider the need for new programs and for revision or elimination of ineffective programs.

5. Make available to personnel information about current developments in professional technical standards and materials containing the firm’s technical policies and procedures and encourage personnel to engage in self-development activities.

(a) Provide personnel with professional literature relating to current developments in professional technical standards.

   (i) Distribute to personnel material of general interest, such as relevant international and national pronouncements on accounting and auditing matters.

   (ii) Distribute pronouncements on relevant regulations and statutory requirements in areas of specific interest, such as company securities and taxation law, to persons who have responsibility in such areas.

   (iii) Distribute manuals containing firm policies and procedures on technical matters to personnel. Manuals need to be updated for new developments and changing conditions.

(b) For training programs presented by the firm, develop or obtain course materials and select and train instructors.

   (i) State the program objectives and education and/or experience prerequisites in the training programs.
(ii) Provide that program instructors be qualified as to both program content and teaching methods.

(iii) Have participants evaluate program content and instructors of training sessions.

(iv) Have instructors evaluate program content and participants in training sessions.

(v) Update programs as needed in light of new developments, changing conditions, and evaluation reports.

(vi) Maintain a library or other facility containing professional, regulatory and firm literature relating to professional technical matters.

6. Provide, to the extent necessary, programs to fill the firm’s needs for personnel with expertise in specialized areas and industries.

   (a) Conduct firm programs to develop and maintain expertise in specialized areas and industries, such as regulated industries, computer auditing, and statistical sampling methods.

   (b) Encourage attendance at external education programs, meetings, and conferences to acquire technical or industry expertise.

   (c) Encourage membership and participation in organizations concerned with specialized areas and industries.

   (d) Provide technical literature relating to specialized areas and industries.

Advancement

7. Establish qualifications deemed necessary for the various levels of responsibility within the firm.

   (a) Prepare guidelines describing responsibilities at each level and expected performance and qualifications necessary for advancement to each level, including:

      (i) Titles and related responsibilities.

      (ii) The amount of experience (which may be expressed as a time period) generally required for advancement to the succeeding level.

   (b) Identify criteria which will be considered in evaluating individual performance and expected proficiency, such as:

      (i) Technical knowledge.

      (ii) Analytical and judgmental abilities.

      (iii) Communication skills.

      (iv) Leadership and training skills.

      (v) Client relations.

      (vi) Personal attitude and professional bearing (character, intelligence, judgment and motivation).

      (vii) Qualification as a professional accountant for advancement to a supervisory position.

   (c) Use a personnel manual or other means to communicate advancement policies and procedures to personnel.

8. Evaluate performance of personnel and advise personnel of their progress.

   (a) Gather and evaluate information on performance of personnel.

      (i) Identify evaluation responsibilities and requirements at each level indicating who will prepare evaluations and when they will be prepared.

      (ii) Instruct personnel on the objectives of personnel evaluation.

      (iii) Utilize forms, which may be standardized, for evaluating performance of personnel.

      (iv) Review evaluations with the individual being evaluated.

      (v) Require that evaluations be reviewed by the evaluator’s superior.

      (vi) Review evaluations to determine that individuals worked for and were evaluated by different persons.

      (vii) Determine that evaluations are completed on a timely basis.
(viii) Maintain personnel files containing documentation relating to the evaluation process.

(b) Periodically counsel personnel as to their progress and career opportunities.

   (i) Review periodically with personnel the evaluation of their performance, including an assessment of their progress with the firm. Considerations would include the following:
      – Performance.
      – Future objectives of the firm and the individual.
      – Assignment preference.
      – Career opportunities.

   (ii) Evaluate partners periodically by means of senior partner or fellow partner evaluation and counseling as to whether they continue to have the qualifications to fulfill their responsibilities.

   (iii) Review periodically the system of personnel evaluation and counseling to ascertain that:
      – Procedures for evaluation and documentation are being followed on a timely basis.
      – Requirements established for advancement are being achieved.
      – Personnel decisions are consistent with evaluations.
      – Recognition is given to outstanding performance.

9. Assign responsibility for making advancement decisions.

   (a) Assign responsibility to designated persons for making advancement and termination decisions, conducting evaluation interviews with persons considered for advancement, documenting the results of the interviews, and maintaining appropriate records.

   (b) Evaluate data obtained giving appropriate recognition in advancement decisions to the quality of the work performed.

   (c) Study the firm’s advancement experience periodically to ascertain whether individuals meeting stated criteria are assigned increased degrees of responsibility.

C. ASSIGNMENT

Policy

Audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the circumstances.

Procedures

1. Delineate the firm’s approach to assigning personnel, including the planning of overall firm and office needs and the measures employed to achieve a balance of audit manpower requirements, personnel skills, individual development and utilization.

   (a) Plan the personnel needs of the firm on an overall basis and for individual practice offices.

   (b) Identify on a timely basis the staffing requirements of specific audits.

   (c) Prepare time budgets for audits to determine manpower requirements and to schedule audit work.

   (d) Consider the following factors in achieving a balance of audit manpower requirements, personal skills, individual development and utilization—
      (i) Audit size and complexity.
      (ii) Personnel availability.
      (iii) Special expertise required.
      (iv) Timing of the work to be performed.
      (v) Continuity and periodic rotation of personnel.
      (vi) Opportunities for on-the-job training.

2. Assign an appropriate person or persons to be responsible for assigning personnel to audits.

   (a) Consider the following in making assignments of individuals—
(i) Staffing and timing requirements of the specific audit.
(ii) Evaluations of the qualifications of personnel as to experience, position, background, and special expertise.
(iii) The planned supervision and involvement by supervisory personnel.
(iv) Projected time availability of individuals assigned.
(v) Situations where possible independence problems and conflicts of interest may exist, such as assignment of personnel to audits for clients who are former employers or are employers of certain kin.

(b) Give appropriate consideration, in assigning personnel, to both continuity and rotation to provide for efficient conduct of the audit and the perspective of other personnel with different experience and backgrounds.

3. Provide for approval of the scheduling and staffing of the audit by the auditor.
   (a) Submit, where necessary, for review and approval the names and qualifications of personnel to be assigned to an audit.
   (b) Consider the experience and training of the audit personnel in relation to the complexity or other requirements of the audit, and the extent of supervision to be provided.

D. DELEGATION

Policy

There is to be sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality.

Procedures

1. Provide procedures for planning audits.
   (a) Assign responsibility for planning an audit. Involve appropriate personnel assigned to the audit in the planning process.
   (b) Develop background information or review information obtained from prior audits and update for changed circumstances.
   (c) Describe matters to be included in the overall audit plan and the audit program, such as the following:
      (i) Development of proposed work programs for particular areas of audit interest.
      (ii) Determination of manpower requirements and need for specialized knowledge.
      (iii) Development of estimates of time required to complete the audit.
      (iv) Consideration of current economic conditions affecting the client or its industry and their potential effect on the conduct of the audit.

2. Provide procedures for maintaining the firm’s standards of quality for the work performed.
   (a) Provide adequate supervision at all organizational levels, considering the training, ability and experience of the personnel assigned.
   (b) Develop guidelines for the form and content of working papers.
   (c) Utilize standardized forms, checklists, and questionnaires to the extent appropriate to assist in the performance of audits.
   (d) Provide procedures for resolving differences of professional judgment among personnel involved in an audit.

3. Provide on-the-job training during the performance of audits.
   (a) Emphasize the importance of on-the-job training as a significant part of an individual’s development.
      (i) Discuss with assistants the relationship of the work they are performing to the audit as a whole.
      (ii) Involve assistants in as many portions of the audit as practicable.
(b) Emphasize the significance of personnel management skills and include coverage of these subjects in firm training programs.

c) Encourage personnel to train and develop subordinates.

d) Monitor assignments to determine that personnel.
   (i) Fulfill, where applicable, the experience requirements of the relevant legislative, regulatory or professional body.
   (ii) Gain experience in various areas of audits and varied industries.
   (iii) Work under different supervisory personnel.

E. CONSULTATION

Policy

Whenever necessary, consultation within or outside the firm is to occur with those who have appropriate expertise.

Procedures

1. Identify areas and specialized situations where consultation is required and encourage personnel to consult with or use authoritative sources on other complex or unusual matters.
   (a) Inform personnel of the firm’s consultation policies and procedures.
   (b) Specify areas or specialized situations requiring consultation because of the nature or complexity of the subject matter. Examples include—
      (i) Application of newly issued technical pronouncements.
      (ii) Industries with special accounting, auditing or reporting requirements.
      (iii) Emerging practice problems.
      (iv) Filing requirements of legislative and regulatory bodies, particularly those of a foreign jurisdiction.
   (c) Maintain or provide access to adequate reference libraries and other authoritative sources.
      (i) Establish responsibility for maintaining a reference library in each practice office.
      (ii) Maintain technical manuals and issue technical pronouncements, including those relating to particular industries and other specialties.
      (iii) Maintain consultation arrangements with other firms and individuals where necessary to supplement firm resources.
      (iv) Refer problems to a division or group in the professional body established to deal with technical inquiries.

2. Designate individuals as specialists to serve as authoritative sources and define their authority in consultative situations.
   (a) Designate individuals as specialists for filings with legislative and other regulatory bodies.
   (b) Designate specialists for particular industries.
   (c) Advise personnel of the degree of authority to be accorded specialists’ opinions and of the procedures to be followed for resolving differences of opinion with specialists.

3. Specify the extent of documentation to be provided for the results of consultation in those areas and specialized situations where consultation is required.
   (a) Advise personnel as to the extent of documentation to be prepared and the responsibility for its preparation.
   (b) Indicate where consultation documentation is to be maintained.
   (c) Maintain subject files containing the results of consultations for reference and research purposes.
F. ACCEPTANCE AND RETENTION OF CLIENTS

Policies
An evaluation of prospective clients and a review, on an ongoing basis, of existing clients is to be conducted. In making a decision to accept or retain a client, the firm’s independence and ability to serve the client properly and the integrity of the client’s management are to be considered.

Procedures
1. Establish procedures for evaluation of prospective clients and for their approval as clients.
   (a) Evaluation procedures could include the following:
      (i) Obtain and review available financial statements regarding the prospective client, such as annual reports, interim financial statements and income tax returns.
      (ii) Inquire of third parties as to any information regarding the prospective client and its management and principals which may have a bearing on evaluating the prospective client. Inquiries may be directed to the prospective client’s bankers, legal advisers, investment banker, and others in the financial or business community who may have such knowledge.
      (iii) Communicate with the predecessor auditor. Inquiries would include questions regarding the facts that might bear on the integrity of management, on disagreements with management as to accounting policies, audit procedures, or other similarly significant matters, and on the predecessor’s understanding as to the reasons for the change in auditors.
      (iv) Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.
      (v) Evaluate the firm’s independence and ability to serve the prospective client. In evaluating the firm’s ability, consider needs for technical skills, knowledge of the industry and personnel.
      (vi) Determine that acceptance of the client would not violate codes of professional ethics.
   (b) Designate an individual or group, at appropriate management levels, to evaluate the information obtained regarding the prospective client and to make the acceptance decision.
      (i) Consider types of engagements that the firm would not accept or which would be accepted only under certain conditions.
      (ii) Provide for documentation of the conclusion reached.
   (c) Inform appropriate personnel of the firm’s policies and procedures for accepting clients.
   (d) Designate responsibility for administering and monitoring compliance with the firm’s policies and procedures for acceptance of clients.
2. Evaluate clients upon the occurrence of specified events to determine whether the relationships ought to be continued.
   (a) Events specified for this purpose could include:
      (i) The expiration of a time period.
      (ii) A major change in one or more of the following
         – Management
         – Directors
         – Ownership
         – Legal advisers
         – Financial condition
         – Litigation status
         – Scope of the engagement
         – Nature of the client’s business.
      (iii) The existence of conditions which would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.
   (b) Designate an individual or group, at appropriate management levels, to evaluate the information obtained and to make retention decisions.
(i) Consider types of engagements that the firm would not continue or which would be continued only under certain conditions.

(ii) Provide for documentation of the conclusion reached.

(c) Inform appropriate personnel of the firm’s policies and procedures for retaining clients.

(d) Designate responsibility for administering and monitoring compliance with the firm’s policies and procedures for retention of clients.

G. MONITORING

Policy

*The continued adequacy and operational effectiveness of quality control policies and procedures is to be monitored.*

Procedures

1. Define the scope and content of the firm’s monitoring program.

   (a) Determine the monitoring procedures necessary to provide reasonable assurance that the firm’s other quality control policies and procedures are operating effectively.

      (i) Determine objectives and prepare instructions and review programs for use in conducting monitoring activities.

      (ii) Provide guidelines for the extent of work and criteria for selection of engagements for review.

      (iii) Establish the frequency and timing of monitoring activities.

      (iv) Establish procedures to resolve disagreements which may arise between reviewers and engagement or management personnel.

   (b) Establish levels of competence, etc., for personnel to participate in monitoring activities and the method of their selection.

      (i) Determine criteria for selecting monitoring personnel, including levels of responsibility in the firm and requirements for specialized knowledge.

      (ii) Assign responsibility for selecting monitoring personnel.

   (c) Conduct monitoring activities.

      (i) Review and test compliance with the firm’s general quality control policies and procedures.

      (ii) Review selected engagements for compliance with professional standards and with the firm’s quality control policies and procedures.

2. Provide for reporting findings to the appropriate management levels, for monitoring actions taken or planned, and for overall review of the firm’s quality control system.

   (a) Discuss general findings with appropriate management personnel.

   (b) Discuss findings on selected engagements with engagement management personnel.

   (c) Report both general and selected engagement findings and recommendations to firm management together with corrective actions taken or planned.

   (d) Determine that planned corrective actions were taken.

   (e) Determine need for modification of quality control policies and procedures in view of results of monitoring activities and other relevant matters.
Court Audit Policies and Standards

European Court of Auditors
12 Quality control for audit work

12/01 The auditor should implement those quality control procedures which are, in the context of the policies and procedures of the Court, appropriate to the individual audit.

12/02 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 the audit task team leader or, in the case of work carried out by the team leader, the Head of Division. The objective of this review should be to ensure that sufficient, relevant and reliable evidence has been obtained. This review should be evidenced in the working papers. Work initially reviewed by the audit task team leader should be subject to further reviews by the Head of Division and by the responsible Director. These further reviews should also be documented in the working papers. The responsible Director should ensure that a quality control system is in place that operates effectively.

12/03 Each year the Court will decide on the basis of a proposal by the ADAR Group upon a programme of quality assurance reviews to be carried out on completed audits (ie. audits where the resulting assurance report has been adopted by the Court after contradictory procedure) to provide assurance that the audits concerned were carried out in accordance with the Court’s policies and standards.
Audit Manual

European Court of Auditors
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INTRODUCTION

1. One of the three major pillars of the Court’s audit framework, established by the CAPS, within which the audit work is undertaken, is quality management i.e. quality control and quality assurance. The quality of the planning, execution and reporting of audits should be controlled while the work is being executed and a sample of audit tasks should be subject to quality assurance reviews afterwards.

2. The purpose of this module is to provide guidance on the quality management of audit work in the Court. The overall objectives are

- to ensure the quality of ongoing audit work
- and to improve the quality of future audits

by identifying both best practice and areas where improvement is needed, to ensure that appropriate corrective action is taken and to contribute towards the development and improvement of the Court’s working methods.

DEFINITION OF QUALITY MANAGEMENT IN THE COURT

3. Following the classical “planning-implementation-control-review” model, an integrated quality management system can be divided in four distinct phases:

- definition of audit policies, standards and working methods;
- “hot” (real time) quality control reviews and supervision to ensure the application of policies, standards and working methods;
- “cold” (ex-post) quality assurance reviews to monitor compliance with adopted policies, standards and working methods;
- review and modification of policies, standards and working methods, where necessary.

4. ADAR-MET is responsible for monitoring internationally accepted auditing standards and, where those standards are applicable to the Court’s work, for adapting them as necessary in a form appropriate for inclusion in the CAPS and/or the audit manual.

5. “Hot” reviews are those procedures (e.g. supervision, working paper review) that are required by the Court for the implementation of the quality control process during the course of the audit. Responsibility for quality control starts with the individual auditor and

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1 See Dec-C18/96 and CAPS 12/01 and 12/02
then passes through the hierarchy to the audit team leader, the Head of Division and the Director of the Audit Group.

6. “Cold” reviews are the essence of the a posteriori quality assurance function and are undertaken by the Quality Assurance Unit of ADAR (ADAR-QA) on a test basis once audits have been closed (i.e. when the audit report has been adopted by the Court after the contradictory procedure with the audited body has been completed).

7. The process of reviewing and changing Court audit policies and standards and working methods is undertaken by ADAR-MET as part of its ongoing work, taking into account any questions and/or problems arising from quality management procedures. ADAR-QA may make concrete suggestions arising from its reviews, as and when it considers necessary.

8. The overall aim is it to provide an Integrated or Total Quality Management system (TQM) whereby the required quality is built into the audit process from the outset, not inspected into it at a subsequent stage. Appropriate quality control procedures must therefore be in place during the time the actual audit work is carried out. The a posteriori quality assurance only intervenes after the completion of the audit and on a sample basis and can therefore only be seen as a complement to - and not a substitute for - quality control within the audit process.

QUALITY CONTROL

Definition and elements

9. Quality control consists of all measures taken and procedures carried out within the audit process that seek to guarantee the quality of the audit work and of the resulting report. The following elements contribute towards successful quality control within the audit process:

- the recruitment and training (both formal and on-the-job training) of staff, and selection of staff with appropriate professional skills and competence to carry out the tasks concerned;
- the establishment of a framework of policies and standards that define how tasks should be planned, carried out and reported;
- the establishment of procedures to be applied during the execution of audit tasks to ensure that the policies and standards are adhered to and, where applicable, the provision of tools (such as software packages) to assist auditors to follow these procedures;
- the adoption of approved work programmes and plans (APMs and APs) that clearly set out audit objectives, auditing methods to be used, responsibilities, budgets, timetables and resources;
- the preparation of clear and concise documentation of the audit evidence obtained and the maintenance and presentation of this evidence in a manner that facilitates its exploitation;

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2 See Dec 169/97 Final PV and CAPS 12/03
- management and supervision of staff; prompt, timely and effective review and approval at the appropriate level of work in progress, completed tasks, draft sector letters and reports and significant judgements and decisions;

- the “traditional” ADAR participation in the audit process: reviews of a sample of APMs and of sector letters; examination and comments upon draft reports at the time of their readings by the audit groups; ad hoc advice on methodology matters upon demand;

- conducting contradictory procedures with the Commission;

- the critical examination and approval of draft reports and annual report contributions by the Audit Groups and the Court.

Responsibilities

10. The Audit Group Directors have a central role to play in controlling the quality of audit work. In accordance with the Court’s decision, the primary role of the Audit Group Director is to ensure that adequate quality control systems are in place and are operating effectively.

11. However, in order to achieve an audit of high quality all the staff involved in the audit need to be committed to quality control within the audit process. The responsibility starts with the individual auditor and his/her professional commitment to carry out audit work of good quality within the framework adopted by the Court. It then passes on through the hierarchy to those charged with supervising and managing the audit (audit team leader, Head of Division, Audit Group Director) bearing special responsibilities for reviewing and approving the audit work and the resulting reports.

12. Each auditor is obliged to carry out his/her work with due skill and care in accordance with the relevant technical and professional standards recognized by the Court (CAPS and Audit Manual). The audit team leader will normally be responsible for supervision of the audit work and the detailed working paper review. The Head of Division’s responsibility lies in the supervision of the audit work in his/her sector including a working paper review which will normally be more global (review by exception). Finally, the responsibility of the Director is to ensure that an effective quality control system is in place and works accordingly. Further information on the individual responsibilities can be found in Module E.1.

Documentation

13. Good documentation of audit work plays a crucial role in the context of the quality control as it provides the basis for supervision and working paper reviews. Thus, it is important to allow for enough time for good documentation when allocating resources in the audit planning phase.

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3 see DEC-C 18/96 FINAL (PV), point 4, first indent
14. All review work must be documented as must any exchange of information between auditor and reviewer. The audit manual provides several tools (obligatory and non-obligatory) to support the quality control process. The audit planning checklist (see Annex B.5.2) and the audit completion checklist (see Annex B.9.3) must be completed as part of the review work carried out by Heads of Division and/or Directors. Additionally, the audit manual provides other tools that may be used and assist in the quality control process, such as the form “important and outstanding matters for the attention of the reviewer” (see Annex B.10.1) and the “review sheet” (see Annex B.10.2).

QUALITY ASSURANCE

Definition and objectives

15. Quality assurance is a working paper review that occurs after the audit has been completed i.e. where the resulting report has been adopted by the Court after completion of the contradictory procedure with the audited body. This a posteriori working paper review has to be undertaken by somebody independent of the hierarchy responsible for carrying out the audit.

16. Each year the Court will decide, based on a proposal of the ADAR Group, upon a general work programme of quality assurance review to be carried out, specifying, in particular, the non-ADAR resources to be allocated to the function. The objectives of the Court’s quality assurance system are twofold:

- the primary objective is to provide the Court as a whole with assurance that the audit work underlying the audit reports is carried out in accordance with the CAPS and audit manual;

- the secondary objective is to contribute towards improved future audits by identifying both cases of best practice as well as work of inadequate quality, and thereby contributing towards the development and improvement of the Court’s working practices and outputs; the results of the quality assurance reviews can also help ensure the fulfilment by staff at all levels of their responsibilities and to assist staff to identify and obtain the requisite continuous professional training and experience.

17. A posteriori quality assurance reviews only contribute their maximum added value to the Court when they achieve both the primary and the secondary objectives as outlined above. This has implications for the way in which reviews are conducted and reported. The aim is to ensure that quality assurance reviews are carried out in a constructive and positive way. The intention is to highlight not only cases where there was a failure to properly apply procedures but also examples of good practice. When the review uncovers cases where the audit is sub-standard, the reporting process and follow-up must be such as to ensure that appropriate corrective action is taken by the sector for future audit work to overcome the weaknesses identified.
Responsibilities

18. The **quality assurance function** is undertaken by ADAR-QA - operating under the direct responsibility of the ADAR Member - on a sample basis once audits have been closed. The reviews must be sufficiently exhaustive and extensive so as to provide the Court with independent assurance that its audit policies and standards have been complied with.

19. The **specific audit tasks** will be selected independently on the basis of perceived risks. Nevertheless, a Member, Audit Group or the College may, from time to time, request that specific audits are subjected to such review.

20. Each review will consist of two main elements:

- the **first element** is **formal** and seeks to establish whether the audit was planned, executed, documented and reported in accordance with the Court’s audit policies and standards and with the detailed procedures laid down in the audit manual. Particular attention is given in this examination to areas where established procedures were not followed or followed incorrectly, with a view to identifying whether it is necessary to alter these procedures. As well as examining the detailed audit documentation, this part of the review may include discussions with the staff involved in the audit so as to give them the opportunity to explain the difficulties that were encountered and how these were overcome. In addition, this element focuses on the review and approval process to establish whether audit management carried out its tasks effectively and promptly. A particular aim in this part of the review is to determine whether the audit had achieved its objectives within the planned timetable and resource budget;

- the **second element** is of a **qualitative nature** and investigates two questions: firstly, it seeks to establish whether sufficient, relevant and reliable audit evidence was obtained to meet the objectives set for the audit and to support the observations made in the adopted report; secondly, it seeks to determine the reasons underlying any problems in the planning, execution or reporting of the audit and thus to come forward with recommendations for the future.

21. In undertaking its tasks ADAR-QA places particular emphasis on the following, always taking into account the two above mentioned elements, where applicable:

**Planning Phase:**

a) assessment of Preliminary Study (**Annex B.12.1**);
b) assessment of Audit Planning Memorandum and Audit Programme (**Annex B.12.2**);

**Implementation Phase (Annex B.12.3):**

c) verification that the audit was carried out in accordance with the approved Audit Planning Memorandum;
d) assessment of the quality of audit working papers;
e) verification of the application of quality control procedures at all audit stages;
Reporting Phase (Annex B.12.4):

f) verification that audit findings have been communicated to audited bodies;
g) verification that replies of audited bodies have been fully evaluated and taken into account in final report;
h) verification that reported results are in conformity with audit findings;
i) evaluation of the timeliness of reporting results.

Conduct of the review

22. The reviews are carried out in a timely manner so that results can be promptly communicated to the respective audit sectors. The aim is to cause the minimum amount of disruption to the individual audit sectors.

23. Once an audit task has been selected for quality assurance review the relevant files must be made available to ADAR-QA within three to five working days after notification. A full inventory of the files is prepared in all instances, with the responsible ADAR-QA official signing for receipt of the files. The files handed over are kept in secure overnight storage during the review period and are promptly returned to the audit sector once the review has been completed. ADAR-QA ensures that the relevant Head of Division/Team Leader signs for the return of the files.

Communication and Reporting

24. Once the review has been completed the results are communicated to the sector concerned as quickly as possible. The observations to be made are formulated in as constructive and balanced a manner as possible, taking due account of the difficulties and constraints faced by the sector in carrying out the audit.

25. In the first instance, preliminary results are communicated to the responsible Director and Head of Division and through them to the responsible auditors, in order to allow that observations of the audit hierarchy and the audit team are taken into account before a final review report is formulated.

26. The detailed report is then presented to the responsible Member, the Director and the Head of Division. This detailed final report is confidential. While care should be taken to safeguard the confidential nature of the report, it is important to ensure that the responsible auditors have sight of it.

27. At the end of year a summary report, containing a synopsis of the principal review findings will be presented by ADAR to the Court for information. This latter report will contain recommendations for improvements where considered necessary.
ANNEXES

B.12.1 Quality Assurance Checklist for Evaluation of the Preliminary Study

B.12.2 Quality Assurance Checklist for the Audit Planning Memorandum and the Audit Programme

B.12.3 Quality Assurance Checklist for the Implementation of Approved Audit Task

B.12.4 Quality Assurance Checklist for Reporting Audit Findings
QUALITY ASSURANCE CHECKLIST FOR EVALUATION OF THE
PRELIMINARY STUDY

(Module B.12, paragraph 21)

A detailed Preliminary Study is required for each selected audit (see Module B.4 paragraph 55). For recurrent audits it should be enough to follow the provisions in Module B.4 paragraphs 4-8 although it might prove under exceptional circumstances necessary to carry out a detailed Preliminary Study. Normally, a preliminary study should provide management with the basis for deciding whether a proposed audit should be undertaken as originally planned. Accordingly, it should be prepared after having collected and analysed sufficient information and having conducted a risk assessment on the proposed audit area. The principal sources of information are likely to be the responsible Commission services as well as the Court’s own audit files related to previous audits in the audit field.

Audit sector:

Task in work programme: Year: Task number:

Audited entity and financial year concerned:

Checklist prepared by (initials and date):

Checklist reviewed by (initials and date):
QUALITY ASSURANCE CHECKLIST FOR EVALUATION OF THE PRELIMINARY STUDY

<table>
<thead>
<tr>
<th>Key Issues to be Evaluated</th>
<th>Included:</th>
<th>Observation/WP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes/No</td>
<td>Ref</td>
</tr>
<tr>
<td><strong>A)</strong> Has the relevant information as outlined at Annex B.4.1, of the audit manual been obtained in respect of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - legal framework?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - previous audits of the Court and reports of other bodies?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - activities?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 - general organisation of the activity/audited area?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 - organisation of the finance and accounting functions?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 - any other relevant information?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>B)</strong> Has financial information been collected related to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - EU total commitments during preceding five years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - EU total payments during preceding five years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - analysis of commitments/payments per Member State?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>C)</strong> Have appropriate analytical procedures been used:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - to identify any relevant ratios?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - to identify any trends or deviations from predicted amounts?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>D)</strong> Has all relevant non-financial information been collected and fully exploited:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - in respect of targeted population for the measure?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - in respect of applications received, approvals, rejections and principal reasons for such rejections?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - in respect of performance indicators related to approved applications?</td>
<td></td>
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</tbody>
</table>
### Key Issues to be Evaluated

<table>
<thead>
<tr>
<th>Included:</th>
<th>Observation/WP</th>
</tr>
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<tbody>
<tr>
<td>Yes/No</td>
<td>Ref</td>
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<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>E)</strong></td>
<td>Has a preliminary assessment of inherent and control risk been made (see <strong>Annex B.4.2</strong>)?</td>
</tr>
<tr>
<td><strong>F)</strong></td>
<td>Have the key elements of the internal control system been identified and assessed?</td>
</tr>
<tr>
<td><strong>G)</strong></td>
<td>Have the essential features of the control environment been identified and assessed (see <strong>Annex B.4.3</strong>)?</td>
</tr>
<tr>
<td><strong>H)</strong></td>
<td>Has an evaluation been made of:</td>
</tr>
<tr>
<td>1</td>
<td>the audit evidence necessary to fulfill the audit objectives set (see <strong>module B.2</strong>)?</td>
</tr>
<tr>
<td>2</td>
<td>the sources of that evidence?</td>
</tr>
<tr>
<td>3</td>
<td>the most appropriate audit procedures to obtain the required audit evidence?</td>
</tr>
<tr>
<td><strong>I)</strong></td>
<td>Have materiality thresholds and degree of confidence been established for the audit?</td>
</tr>
<tr>
<td><strong>J)</strong></td>
<td>Has an assessment been made of the resources necessary to undertake the audit? Do those estimates appear reasonable, both in terms of time and staff grades, taking into account the scale and complexity of the audit task?</td>
</tr>
<tr>
<td><strong>K)</strong></td>
<td>Has the preliminary study been reviewed and approved by the responsible Head of Division?</td>
</tr>
<tr>
<td><strong>L)</strong></td>
<td>Has the responsible Director reviewed and approved the Preliminary Study?</td>
</tr>
<tr>
<td><strong>M)</strong></td>
<td>Has approval been given by responsible Member/Audit Group?</td>
</tr>
</tbody>
</table>
QUALITY ASSURANCE CHECKLIST FOR THE AUDIT PLANNING MEMORANDUM AND THE AUDIT PROGRAMME

(Module B.12, paragraph 21)

The Audit Planning Memorandum builds on the information contained in the Preliminary Study. It should be prepared by the team leader responsible for the audit task and should outline, in as succinct a manner possible, the scope and conduct of the audit. It should contain all necessary information to allow the responsible Member to take a decision on the proposed audit. The standard contents of an APM are outlined in Annex B.5.1. The Audit Programme should contain a detailed description and timetable of the different phases of the audit. Since it provides the basis for implementing the audit and for ensuring that quality control procedures can be applied, it is important that the Audit Programme contains at least the elements outlined in Annex B.5.3. Because the audit manual contains detailed checklists covering the form and contents of both APMs and Audit Programmes, the quality assurance evaluation will concentrate on the application of those checklists to particular audit tasks being reviewed.

Audit sector:

Task in work programme: Year: Task number:

Audited entity and financial year concerned:

Checklist prepared by (initials and date):

Checklist reviewed by (initials and date):
## QUALITY ASSURANCE CHECKLIST FOR THE AUDIT PLANNING MEMORANDUM AND THE AUDIT PROGRAMME

<table>
<thead>
<tr>
<th>Key Issues to be Evaluated</th>
<th>Included: Yes/No</th>
<th>Observation/WP Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Does the APM contain adequate and relevant details as outlined in <strong>Annex B.5.1.</strong> of the audit manual, including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1  - summary of key elements?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2  - the audit field?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3  - tentative materiality threshold?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4  - audit evidence required?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5  - resources required?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6  - timetable?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B) Has the audit planning checklist (<strong>Annex B.5.2.</strong>) been completed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C) Are the responses given and observations arising from the audit planning checklist comprehensive and coherent?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D) Has the audit planning checklist been reviewed and approved by the responsible Head of Division?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E) Have any queries raised during the review stage been investigated and resolved?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F) Has the APM and the audit checklist been approved by the Head of Division and the Director?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G) Has the APM been approved by the responsible Member?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H) Has an audit programme, detailing the nature, timing and extent of planned audit procedures been prepared and approved by the Head of Division and the Director (see <strong>Annex B.5.3.</strong>)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I) Where appropriate, has a revision to the APM and audit programme been prepared and duly approved?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
QUALITY ASSURANCE CHECKLIST FOR THE IMPLEMENTATION OF
APPROVED AUDIT TASKS

(Module B.12, paragraph 21)

In many respects this is the most critical phase of the quality assurance review in that it
seeks to verify whether the approved programme was implemented, and whether the audit
evidence obtained is appropriate, is sufficient to support the audit observations made and is
of the required quality in terms of relevance and reliability. Sufficiency relates to the extent
of audit procedures performed, while appropriateness relates to the nature and timing of the
audit procedures. **Module B.2.** contains general instructions concerning audit evidence. In
particular, this phase will involve a review of the audit working papers relating to the tests
carried out at each stage of the audit and will seek, inter-alia, evidence of the
implementation of quality control procedures.

Audit sector:

Task in work programme: Year: Task number:

Audited entity and financial year concerned:

Checklist prepared by (initials and date):
Checklist reviewed by (initials and date):
## QUALITY ASSURANCE CHECKLIST FOR THE IMPLEMENTATION OF APPROVED AUDIT TASK

<table>
<thead>
<tr>
<th>Key Issues to be Evaluated</th>
<th>Included: Yes/No</th>
<th>Observation/WP Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Have all phases of the audit as planned and approved been carried out?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B) Are valid explanations available for the non-implementation of any phases of the audit?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C) Where significant deviations from the approved audit have taken place has appropriate approval been granted?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D) Are the staff resources used for the audit largely in line with those planned in terms of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - total time used;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - grades of staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - mission expenses?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E) Have material deviations from budgeted staff resources been fully justified?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F) In terms of providing effective audit evidence in respect of each audit objective set, have appropriate - audit techniques; - audit procedures been employed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G) Where relevant, have computer-assisted audit techniques been employed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H) Have the tests of controls envisaged in the APM been performed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I) Have analytical procedures envisaged in the APM been performed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J) Have substantive tests as envisaged in the APM been performed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>K) For sound financial management audits, have adequate and appropriate tests been undertaken concerning:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - economy of measures,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - efficiency of the measures,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - effectiveness of the measures? (see annex B.1.4, Pages 6-7)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:** Where appropriate use separate VFM checklist
<table>
<thead>
<tr>
<th>Key Issues to be Evaluated</th>
<th>Included: Yes/No</th>
<th>Observation/WP Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>L) Are sampling methods used in accordance with the instructions contained in the audit manual and are they deemed appropriate? (see annex B.8.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M) Have all queries which have arisen during the audit been fully investigated and resolved?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N) Do adequate working papers exist relative to each phase of the audit, notably:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - evaluation of system of internal control,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - audit of routine transactions,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - tests of controls,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 - analytical review,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 - substantive tests,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 - audit of computer-based applications?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>O) Do all tests of transactions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - clearly indicate the audit objective?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - adequately explain the nature and extent of audit work completed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - provide an overall conclusion as to the results of audit work?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P) Are all working papers appropriately cross-referenced?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q) Has the audit completion checklist (B.9.3) been completed, approved and duly evidenced?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R) Are all responses given and observations arising from the audit completion checklist comprehensive and coherent?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S) Have Quality Control procedures been implemented and duly evidenced?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T) For long-duration (exceeding 1 year) audit tasks, has a mid-term review/quality control review been undertaken to confirm the continuing relevance of the audit tasks.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U) Have all queries raised during the quality control review been investigated and resolved?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
QUALITY ASSURANCE CHECKLIST FOR REPORTING AUDIT FINDINGS

(Module B.12, paragraph 21)

For all audit tasks it is necessary to arrive at a conclusion, based on the objectives set, and to report the results to the auditee in a timely manner, account being taken of the internal procedures adopted by the Court. To this end it is first necessary to conduct a thorough review and interpretation of audit results. Where the audit involves visits to Member States it is important to communicate facts and findings to the responsible national authorities as soon as possible after the completion of the missions, as provided in the Court’s procedures concerning sector letters. Once the audit has been completed an appropriate audit report, to take the form of a draft Special Report, a contribution to the Annual Report or any other appropriate format, is to be prepared and presented for the consideration of the responsible Audit Group and, in due course, of the Court.

Audit sector:

Task in work programme: Year: Task number:

Audited entity and financial year concerned:

Checklist prepared by (initials and date):

Checklist reviewed by (initials and date):
# QUALITY ASSURANCE CHECKLIST FOR REPORTING AUDIT FINDINGS

<table>
<thead>
<tr>
<th>Key Issues to be Evaluated</th>
<th>Included: Yes/No</th>
<th>Observation/WP Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) For critical audit objectives, have the audit findings been evaluated and classified under:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 legality/regularity perspective,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 sound financial management perspective</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B) Have all audit findings been evaluated in terms of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 materiality,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 systematic/isolated weaknesses,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 significant/unusual accounting, auditing and reporting matters,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 economy, efficiency and effectiveness of the measures?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C) Have sector letters been sent promptly to the Member States after missions?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D) Have replies been received to sector letters within the time limit set in the sector letter? If not, have reminders been sent in accordance with the Court=s instructions?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E) Have replies been analyzed and taken into account in the preparation of the final report?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F) Does the final report cover all the audited areas identified in the APM? If not, what explanations are offered for omissions and what impact did these omissions have on the final report?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G) Are the observations and conclusions presented in the report supported and documented so as to ensure the accuracy of stated facts and the correctness/completeness of working papers?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H) Are all observations included in the report of sufficient significance or are some items of minor importance more appropriate for inclusion in sector letters only?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key Issues to be Evaluated</td>
<td>Included: Yes/No</td>
<td>Observation/WP Ref</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------</td>
<td>------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>I) Have all observations contested by the Commission during the contradictory procedure been duly investigated and, if retained, fully justified?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J) Does the report take due account of all significant events that have occurred subsequent to the audit?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>K) Have all significant frauds and/or irregularities detected (or suspected) during the course of the audit been notified promptly to the appropriate authorities and have they been followed up by the audit team? (Ref. to Court instructions Staff Notice 05/2000).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>L) Are descriptions contained in the report limited to a strict minimum for the purposes of allowing the reader to understand the objectives, scope and context of the audit and all the observations and related comments?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M) Are all technical terms and abbreviations fully explained?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N) Have permanent files been updated to take account of the results of the audit?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>O) Have all material items requiring subsequent follow-up by the audit sector been duly noted?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P) Has a debriefing of the audit team taken place to help assure improved service in the future by repeating successes and eliminating defects observed during the audit and thereby making more efficient use of the Court’s resources?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
European Implementing Guidelines for the INTOSAI Auditing Standards

Contact Committee of Presidents of the SAIs of the European Union
(Ad hoc Group on Auditing Standards)
2. The benefits of adequate documentation

2.1. Adequate documentation helps the Supreme Audit Institutions (SAI) to improve its efficiency and effectiveness in that it:

(e) shows compliance with Auditing Standards and Guidelines, and with the internal procedures of the SAI;

(h) facilitates review, supervision and quality assurance (see below).

2.2. Adequate documentation is particularly important for review, supervision and quality assurance. This is because it:

(a) helps the reviewer to:

. ascertain whether the audit objectives have been achieved;
. ensure that delegated work has been properly performed;
. assess the judgements made by the auditor during the course of the audit and identify areas where additional work may be necessary to obtain evidence required to reach conclusions or make recommendations;
. carry out the tasks of reviewing audit working papers and supervising audit staff more efficiently and effectively.

(b) provides the basis for independent quality assurance reviews (see Guideline \(\text{N}^\circ 51\) "Quality Assurance").
3. The content of working papers

(...)

3.8. In order to facilitate review, and in particular, to assist the reviewer in finding and evaluating the audit evidence that supports conclusions, recommendations and reports it is essential that working papers are cross-referenced backwards and forwards. These cross-references should clearly show the source and destination. It is to be noted that good cross-referencing requires clear and logical initial referencing of all working papers.

(...)

3.10. It should be clear from the examination of a completed set of working papers who they were reviewed by, when, and what was the outcome of the review. Notes of reviewers indicating agreement, incomplete or unclear items should be retained. These are essential for use by higher level reviewers.

(...)

3. The content of working papers

(...)

3.8. In order to facilitate review, and in particular, to assist the reviewer in finding and evaluating the audit evidence that supports conclusions, recommendations and reports it is essential that working papers are cross-referenced backwards and forwards. These cross-references should clearly show the source and destination. It is to be noted that good cross-referencing requires clear and logical initial referencing of all working papers.

(...)

3.10. It should be clear from the examination of a completed set of working papers who they were reviewed by, when, and what was the outcome of the review. Notes of reviewers indicating agreement, incomplete or unclear items should be retained. These are essential for use by higher level reviewers.
1 Reference to the INTOSAI Auditing Standards

1.1 Assuring the quality of audits carried out by Supreme Audit Institutions (SAIs) and thus ensuring compliance with the INTOSAI Auditing Standards can be seen as a two-stage process. At the first level, it is necessary for SAIs to adopt policies and procedures designed to ensure that audit tasks are carried out to an acceptable level of quality. At the second level, it is recommended that SAIs carry out higher level quality assurance (Q.A.) reviews of audit tasks to establish that these policies and procedures are adhered to within the SAI, and that they are having the desired effect of ensuring that work is carried out to an acceptable level of quality.

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

1.3 So that these policies and procedures can be adhered to by the staff of the SAI, it is important that they are promulgated (e.g. via an Audit Manual) and that staff receive appropriate training.

2 Quality Assurance Reviews

2.1 Whilst the policies and procedures outlined above provide the basis for achieving the desired level of quality, and thus adherence with the INTOSAI Auditing Standards, it is not usually sufficient just to put these policies and procedures in place. It is usually also necessary to obtain assurance that they are being adhered to and that they are achieving their objective. Paragraph 118 of the INTOSAI Auditing Standards (para. 118) states that:
"The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures."

2.2 This Standard is further explained (paragraph 121) as follows:

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

2.3 The objective of independent quality assurance reviews is to provide an assessment of the overall quality of work within the SAI. This is different to the policies and procedures referred to in paragraph 1. above which provide control over the quality of individual audits.

2.4 In certain European Community SAIs, the collegiate decision-making process operates as a quality assurance mechanism over the outputs of the SAI.

2.5 Frequently SAIs will decide to establish a distinct quality assurance function to assist its College or Auditor General in this area. Commonly found elements of such a function are described at ANNEX 1.
The following are commonly found as elements of internal quality assurance:

* staff carrying out Q.A. reviews are suitably qualified and experienced (they may be either employed full-time in quality assurance, or on short-term secondments from other parts of the SAI);
* staff carrying out Q.A. reviews are independent of the audits being reviewed;
* staff carrying out Q.A. reviews have the power to select audit tasks for review;
* procedures are established for the selection of all audits to be reviewed, which will ensure an appropriate coverage of all the activities of the SAI over a set period of time; all tasks of the SAI must potentially be subject to review (re. the reviewer must have full knowledge of the activities of the SAI);
* procedures are established to determine the nature, extent, frequency and timing of the Q.A. reviews;
* procedures are established to resolve disagreements which may arise between Q.A. reviewers and audit staff;
* staff carrying out reviews have right of access to all relevant internal documents and to the staff who prepared them or managed the task;
* staff carrying out reviews normally have the duty to report and make recommendations in a timely manner to the SAI's senior management, and senior management normally has the duty to respond to these;
* audit staff can request that a Q.A. review is carried out at any stage of an audit task;
* publication of an Annual Report - (normally) made available to all audit staff.

In certain cases, and particularly when the SAI uses temporary secondments to carry out internal quality assurance reviews, the SAI may decide to develop and use standard checklists of objectives that the reviewer must achieve to ensure the consistency and completeness of the reviews carried out.
Recommendations
concerning the Functioning of SAIs
in the context of European Integration

Presidents of the SAIS of the CEEC and the ECA
Chapter 3: Managing an Audit Institution

Sub-chapter 3.1: Organisation

**Recommendation 7:**
Supreme Audit Institutions should ensure that their human and financial resources are used in the most efficient way to secure the effective exercise of their mandate. To this end, SAI management will need to develop and institute appropriate policies and measures to help guarantee that the SAI is competently organised to deliver high-quality and effective audit work and reports.

It is the objective of an SAI to provide audit work of the highest quality. As mentioned in the first chapter, this is not just the result of defining a solid legal base. On the basis of its mandate, the SAI management should develop and implement flexible instruments in the form of regulations and procedures on a wide range of subjects to ensure that the SAI functions as an organisational unit. Topics to be covered are: management rights and obligations, the decision-making process, the structure of the SAI (description, reporting, function and job descriptions), administration of the SAI and financial management, personnel policy, code of ethics, personnel representation, audit policies and procedures, etc. SAI management should develop these instruments and ensure their dissemination to all personnel and their effective and consistent application, monitoring and amendment of them on a timely basis. “Managing” an organisation is a complex exercise; the following paragraphs develop in further detail those aspects related to the management of an audit (cf. Annex 6).

Effective and efficient management and control of the resources and activities of an SAI is a prerequisite for the preparation and production of high quality and effective auditing work and reports. Ensuring that the quality of auditing work is acceptably high is of critical importance for the SAI as an institution. It is a clear requirement of all internationally accepted auditing standards and in particular a key requirement of the INTOSAI Auditing Standards. The SAI should develop, implement and monitor policies, procedures and systems for ensuring the quality of its regularity and performance audit work. These policies, procedures and systems will be designed to ensure that all auditing work is carried out in accordance with the prescribed auditing standards and European Implementing Guidelines, and with the SAI auditing manuals and detailed technical guides.

These policies, procedures and systems should be transparent, strictly implemented and effectively communicated to staff in such a way as to provide a reasonable level of assurance that they are understood and are being followed. Annex 7 provides some of the details of the main areas where quality control policies, procedures and systems will be necessary.
Appropriate internal control should be applied to individual audits to ensure compliance with designated auditing standards and with related auditing manuals and technical guides. Work delegated to assistants will require supervision, direction and control to provide reasonable assurance that such work is being performed correctly. A formal process of review of this work should be set out in auditing manuals. The extent of these internal and quality control procedures will depend on the responsibilities of the actual staff carrying out tasks, but the basic provisions for the direction, supervision and review of the audit process is set out in Annex 4.

The SAI has an obligation to set a good example to public sector institutions by following and promoting through its work high basic principles for the proper conduct of public business. Standards of behaviour in public service should remain high. Support and leadership should be provided to uphold and enforce the proper behaviour and responsibility of officials and institutions. The seven main principles of proper public behaviour are:

- integrity;
- objectivity;
- accountability;
- openness;
- honesty;
- leadership;
- selflessness.

These principles are explained in Annex 8.
Annex 4:
AUDITING POLICY AND STANDARDS

1. General and Professional
   • Independence
   • Competence
   • Due care
   • Ethics and conduct
   • Objectives of the SAI audit
   • Quality control
   • Training
   • Suspected fraud and error
   • Other

2. Field of Operations
   • Planning, including materiality
   • Internal control - risk assessment
   • Audit evidence and documentation
     - Audit sampling
     - Analytical review - relevant, reliable and sufficient audit evidence
   • Compliance with laws and regulations
   • Using the work of other auditors and experts
   • Form and content
   • Regularity and performance audits
   • Materiality assessment

3. Reporting
   • Form and content
   • Regularity and performance audits
   • Audit opinions

4. A separate standard for specific matters relating to performance audits may be necessary
Annex 6:
PURPOSE AND SCOPE OF AUDIT MANAGEMENT

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

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

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

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

- the work has been performed in accordance with the audit programme;
- the work performed and the results obtained have been adequately documented;
- any significant audit matters have been resolved or are reflected in audit conclusions;
- the objectives of the audit procedures have been achieved; and
- the conclusions expressed are consistent with the results of the work performed and support the audit opinion.
Also to be reviewed on an appropriate basis will be:

- the overall audit plan and the audit programme;
- the assessments of inherent and control risks, including the results of control tests and the ensuring modifications, if any, to the overall audit plan and the audit programme.
- the documentation obtained from substantive procedures and the conclusions drawn therefrom;
- the accounts themselves, any proposed audit adjustments and the draft report.

It is also important in the context of the above that audit work files carry evidence that a review has taken place.
Annex 7:

MAIN AREAS FOR QUALITY CONTROL POLICIES

- **Professional standards**
  Staff adhere to the principles of independence, integrity, objectivity, confidentiality and professionalism. There should be a code of ethics and conduct.

- **Skills and competence**
  Staff attain and maintain the high technical standards and professional competence required to enable them to fulfil their responsibilities (link to training need assessment and development of an in-house training function).

- **Client relations**
  Staff need to retain integrity and assure the SAI’s independence while serving audit clients properly.

- **Work assignment**
  Audit work is assigned to staff who have the necessary technical training and proficiency required in the particular circumstances.

- **Delegation, direction, supervision and review**
  Sufficient direction, supervision and review of work at all levels is carried out in order to provide adequate confidence that the work performed meets appropriate standards.

- **Consultation with external experts**
  To be arranged if the SAI itself does not have the necessary expertise;

- **Monitoring**
  The continued adequacy and operational effectiveness of quality control policies and procedures are monitored, perhaps by a special group.

The formulation and implementation of detailed practices and procedures to fulfil all of these policies will take substantial effort and will need to be implemented over a period of time. Solutions that fit the SAI’s needs at the time will have to be considered and then kept under review. A careful assessment of priorities and of the ability of the SAI to accommodate any changes will have to be made.
Annex 8:
THE SEVEN PRINCIPLES OF PUBLIC SERVICE

Selflessness
Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family or friends.

Integrity
Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity
In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability
Holders of public office are accountable to the public for their decisions and actions and should submit themselves to whatever scrutiny is appropriate to their office.

Openness
Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when clearly demanded by the wider public interest.

Honesty
Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership
Holders of public office should promote and support these principles by leadership and example.

These principles apply to all aspects of public service and are for the benefit of all who serve the public in any way.
Part II.
Documents of National SAIs
Government Auditing Standards
Quality Control

3.31 The fourth general standard is:

Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

3.32 The internal quality control system established by the audit organization should provide reasonable assurance that it (1) has adopted, and is following, applicable auditing standards and (2) has established, and is following, adequate audit policies and procedures. The nature and extent of an organization's internal quality control system depend on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its audit offices, the nature of its work, its organizational structure, and appropriate cost-benefit considerations. Thus, the systems established by individual organizations will vary, as will the extent of their documentation.

3.33 Organizations conducting audits in accordance with these standards should have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed. The external quality control review should determine whether the organization's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed.

[NOTE 4: Audit organizations should have an external quality control review completed (that is, report issued) within 3 years from the date they start their first audit in accordance with these standards. Subsequent external quality control reviews should be completed within 3 years after the issuance of the prior review.]

3.34 An external quality control review under this standard should meet the following requirements.

a. Reviewers should be qualified and have current knowledge of the type of work to be reviewed and the applicable auditing standards. For example, individuals reviewing government audits should have a thorough knowledge of the government environment and government auditing relative to the work being reviewed.

b. Reviewers should be independent (as defined in these standards) of the audit organization being reviewed, its staff, and its auditees whose audits are selected for review. An audit organization is not permitted to review the organization that conducted its most recent external quality control review.

c. Reviewers should use sound professional judgment in conducting and reporting the results of the external quality control review.

d. Reviewers should use one of the following approaches to selecting audits for review: (1) select audits that provide a reasonable cross section of the audits conducted in accordance with these standards or (2) select audits that provide a reasonable cross section of the organization's audits, including one or more audits conducted in accordance with these standards.

e. This review should include a review of the audit reports, working papers, and other necessary documents (for example, correspondence and continuing education documentation) as well as interviews with the reviewed organization's professional staff.

f. A written report should be prepared communicating the results of the external quality control review.
3.35 External quality control review procedures should be tailored to the size and nature of an organization's audit work. For example, an organization that performs only a few audits may be more effectively reviewed by emphasizing a review of the quality of those audits rather than the organization's internal quality control policies and procedures.

3.36 Audit organizations seeking to enter into a contract to perform an audit in accordance with these standards should provide their most recent external quality control review report to the party contracting for the audit. Information in the external quality control review report often would be relevant to decisions on procuring audit services. Audit organizations also should make their external quality control review reports available to auditors using their work and to appropriate oversight bodies. It is recommended that the report be made available to the public.

[NOTE 6: The term "report" does not include separate letters of comment.]
An Audit Quality Control System: Essential Elements

United States General Accounting Office
An Audit Quality Control System: Essential Elements
Government audits, evaluations, and investigations assess the efficiency, effectiveness, and accountability of government agencies and their programs. These assignments provide information, unbiased analysis, and recommendations that the organization's customers and stakeholders use to make informed decisions.

This guide is intended to reinforce the Government Auditing Standards on quality control; to provide helpful hints for use by federal, state, and local audit organizations in designing or improving their systems; and to ensure consistent quality products that can be relied on by the organizations' customers and stakeholders.

This guide describes the approaches presently being used by GAO. While the General Policies/Procedures Manual and the Communications Manual provide guidance on the various facets of doing our work, this guide pulls together in one place the essential elements of GAO's quality control system.

Today's total quality management environment offers excellent opportunities to reassess and continue to improve the quality control system that helps to provide customers and stakeholders the service to which they are entitled.

Key questions that should be considered in assessing an audit organization's quality control systems effectiveness include the following. Are we:

- Doing the right jobs?
- Doing the jobs right?
- Getting results?
- Achieving consistent quality?

These questions are pertinent regardless of the audit organization's role, mission, size, or constituency. A
good system should also provide the audit organization with performance indicators and feedback from its customers, attesting to the consistency of quality work.

Werner Grosshans
Assistant Comptroller General for Policy
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## Abbreviations

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<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>CM</td>
<td>Communications Manual</td>
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<td>GPPM</td>
<td>General Policies/Procedures Manual</td>
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<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>NALGA</td>
<td>National Association of Local Government Auditors</td>
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<td>NSAA</td>
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<td>OIGs</td>
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The Need for an Appropriate Quality System

Government Auditing Standards require each organization to have an appropriate quality system in place. The quality assurance system should provide reasonable assurance that the organization (1) is following applicable Government Auditing Standards and (2) has established and is following appropriate policies and procedures.

The Government Auditing Standards quality control standard, the fourth general standard, states:

"Audit organizations conducting government audits should have an appropriate quality control system in place and participate in an external quality control review program."

The Importance of Audit Quality

A high-quality job greatly increases the probability that audit results will be relied on and recommended improvements will be seriously considered and implemented. The organization's reputation for consistent high-quality work helps ensure that decisionmakers will more readily and more assuredly accept findings and implement recommendations.

Reputations are built over time by producing consistent, high-quality work. A hard-earned reputation is on the line with each product.

To maintain and continue to build excellence requires total commitment on the part of every member of the team and the organization.

Challenges to findings and recommendations can be expected. As an organization increasingly deals with tougher and more sensitive issues, challenges to its work increase.

---

1This guide uses the word "audit" to include audits, evaluations, inspections, and investigations. It uses the words "auditor" or "staff" to include the range of skills and disciplines employed in such work.
It is not unusual for various constituencies to believe that they would be better off if results could be disproved or called into serious question. A successful challenge demonstrating minor errors or inconsistencies may call into question the quality of work supporting the principal finding or recommendation.

Regardless of the reason for the challenge, it can be successfully refuted by demonstrating that findings, conclusions, and recommendations are warranted and supported.

An effective quality control system is the basis for ensuring that the results will meet customers' needs time after time and withstand challenges directed at them.

Involvement of Top Management

The quality control system should be rooted in top management's expectation of and insistence on quality and the principles, policies, and procedures by which it can be achieved and will be evaluated.

For example, the following establishes basic goals and expectations that are a sound basis for GAO's quality planning and performance:

"We seek to achieve honest, efficient management and full accountability in government programs and operations. We serve the public interest by providing policymakers with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the security and well-being of the American people.

"Commitment to quality is the single most important principle governing our work."

The Comptroller General and other top GAO managers participate in the early direction of work to
be done and in major decisions at key points in assignment planning and performance.

Communicating System Guidance

The quality control system should define principles, policies, and procedures that will achieve the consistent quality of work that the organization expects.

System guidance should establish what is expected at each phase of an assignment, leaving room for initiative and creativity on how it is done.

It should be readily available to staff at all levels. For example, GAO maintains the General Policies/Procedures Manual (GPPM) and the Communications Manual (CM) to give guidance on achieving audit quality. Each chapter has a succinct policy summary, followed by procedures to be used in complying with the stated policies.

In addition, GAO publishes more detailed guidance on technical subjects. Technical guidance publications are normally referred to as “Gray Books.” A list of these appears in appendix I.

GAO's guidance material is accessible either in hard copy or in electronic mode.

Purpose of This Guide

An assignment can go wrong at any stage. It can be ill-conceived, improperly directed, poorly planned, badly implemented, and its results can be ineffectively communicated. For a variety of reasons, it can fail to meet its customers' needs.

An appropriate quality control system identifies or flags those factors that could jeopardize the quality of an audit and establishes processes or procedures that promptly identify and correct problems before they
Chapter 1
Overview

occur. For example, faulty assignment design could be detected during referencing or in a report review stage, but that is far too late to deal effectively with the problem. At that point, little more can be done than to write around the problem, salvaging what is at best a bad situation. To be most effective and to reduce assignment cost, design flaws must be detected in the assignment planning phase or early in the data collection and analysis phase to allow for appropriate intervention and redirection.

The purpose of this guide is to provide helpful hints for use by federal, state, and local audit organizations in designing their systems to ensure consistent quality products that can be relied on by customers and stakeholders.

It raises key questions that managers and staff should be able to answer at key stages of the assignment.

Key Questions

Figure 1.1 illustrates key questions that an appropriate quality control system should address and the remainder of this guide's chapters attempt to address these key questions.
Selecting those jobs that will make a contribution—doing the right job. Each job requires resources that could have been used on another job. Most audit organizations have "must do" jobs. They also have considerable latitude in using the rest of their resources to seek a balanced portfolio—based on needs, capability, and resources. In exercising that latitude, staff should be able to answer questions such as: Is the job selection a wise one? Does it respond appropriately to a request or to user needs? Does the
job help build staff capability? Are the benefits of the job greater than could have been obtained if other work were done? How do you know? (See ch. 2.)

- Ensuring the quality of each assignment—doing the job right. Doing a job right requires efficient use of resources and high effectiveness. Key questions include the following: Are assignment objectives clear and responsive to customer needs? Is the assignment scoped to meet objectives? Is the methodology appropriate? Is job planning adequate? Are staff motivated and well-supervised? Are assignment results effectively communicated? (See ch. 3.)

- Accomplishing intended results. Audit work is performed for a wide variety of reasons—to accomplish a range of objectives. Most jobs seek results that improve the auditee's operation. The right job done the right way provides the best opportunity to get desired results—the bottom line for the auditor and the audit organization. Were the results of our work used? Did we have a beneficial impact? Did we make the difference our work sought? If staff can answer those questions positively, they are providing the quality service that stakeholders can expect every time. (See ch. 4.)

- Demonstrating consistent quality. Care is taken to build quality into job selection, planning, performance, reporting, and followup. Individual jobs are given a final quality check before they go out the door. But how well have all those policies, procedures, and processes actually worked? Are you satisfied that they were followed, fit together, and accomplished intended results? Can we satisfy peers that the organization’s work is of high quality, meeting applicable professional standards? (See ch. 5.)
Chapter 2

Doing the Right Job

Purpose

To do the right job requires planning—long range and day to day.

This chapter gives guidance for developing a planning system that should be in place to help an organization determine what jobs should be done immediately and what jobs should be done in the future. It should show how the mosaic fits together to achieve longer-range objectives.

What Are the Right Jobs?

There is no shortage of good jobs. But with limited resources, each job that is done prevents another from being done. Good jobs should give way to better ones.

Audit organizations must meet many requirements. Decisions must be made on what to do first and over time. Many factors influence those decisions. A good planning system can help ensure good choices.

Key Factors in Planning

While audit organizations share the need to plan, no single planning system likely meets the needs of each. But answering some key questions can help develop quality plans:

- What are the interests and/or needs of the legislative (or other) body that the audit organization reports to? How effective are planning efforts in meeting longer-range legislative requirements and in addressing current issues as they arise?

- How good is the framework within which plans are developed? Does the planning system provide a good basis for making choices within and among programs for which the organization has auditing responsibility?
In all but the smallest audit organizations, work focuses on many governmental programs and subprograms and on a range of objectives to make audits better and cost less. Sorting this out within a framework makes cross-comparisons easier and helps to focus what should be done.

- What is the planning horizon? How far does planning reach? A longer-range perspective helps in setting significant audit objectives or issues to be addressed that may be beyond the reach of individual assignments and are attainable only by a series of related jobs.

- Within available resources, how are individual assignments selected to best meet multiyear objectives? Is there a vehicle for integrating “must do” jobs to help meet longer-range objectives?

A Framework for Planning

Responsibilities included in mission statements are broad; planning to meet them requires a sharper focus. Planning works best when it is focused within a framework. Governmental programs or subprograms could provide that focus. Should each program or subprogram be a planning area within which economy, efficiency, effectiveness, accountability, and other objectives are sought? Should the framework encourage cross-cutting issues? Does it permit work that evaluates management and accountability across programs to be arrayed and evaluated in relation to other planning objectives?

The planning framework and areas it comprises could vary. However, the one selected should represent top management’s judgment of how best to address the areas of responsibility.
Once approved, planning areas will likely be the focus of work for a considerable period. While an approved plan is an achievement, it should not be viewed in concrete; instead, it should change when managers consider it necessary.

Multiyear Plans

A good framework provides planning focus—helping to determine the most productive jobs in a planning area—and getting the most out of "must do" jobs. Planning works best when it covers a period of years in which longer-range objectives can be sought. Individual assignments—with their own current accomplishments—can be planned as building blocks to broader, more significant accomplishments.

The length of a multiyear planning cycle depends on the area that it covers, e.g., when programs are volatile, a shorter planning period is more appropriate. But even when the areas include volatile programs, planning beyond a single year is beneficial. The objectives sought by assignment building blocks need time to develop.

Key Steps

Key steps in multiyear planning include the following:

- Understanding the Area—An Overview. To plan for an area, the planner should know a great deal about it. He or she should be able to answer questions such as:

  - What programs and subprograms does it include? What are their objectives?

  - What are the national goals to which the programs contribute? What is their contribution and how do they relate to those of other program contributors?

  - How are the programs viewed by the legislature, the agency, the public, and other stakeholders?
Chapter 2  
Doing the Right Job

- What are the present and foreseeable issues?

- What are the economic, technological, political, and social trends?

- What is the dollar significance of the programs?  
  What is the potential for savings?

- What effect do the programs have on people?

- Do potential problems of stewardship or accountability exist?

- Setting Objectives. Analyzing the planning area, along lines suggested by the overview, will likely suggest a large number of worthy objectives—with the potential for significant accomplishments. Although the potential for accomplishment may seem virtually limitless, available resources are not. A good multiyear plan can sort out alternative objectives and prioritize those that offer the greatest benefit given available resources.

- Developing Strategy. How should each objective included in the multiyear plan—culled out from other possible objectives—be approached? What strategy should be employed? Will building blocks be used? What is the role of each? How do they relate to each other? Is there work that must be done? Can mandatory jobs be designed to help meet other planned objectives?

The strategy provides a roadmap for assignment planning. It identifies principal building blocks to achieve longer-range objectives.

- Providing a Basis for Measurement. How will you know when planned objectives are accomplished? Have significant results been identified and will progress be tracked and measured against them?
Chapter 2
Doing the Right Job

Does the plan clearly establish what will happen when objectives are reached? Are checkpoints built into the process to help correct the course when things are not going as planned?

Cooperative Development

Responsibility for multiyear planning should be clearly defined. Getting the input of all who can make a contribution should also be unequivocal. The needs and interests of the legislature should be appropriately included.

Does the plan have all the input needed to ensure that it has an organizationwide perspective? Is it based on a high level of subject matter knowledge and expertise? As appropriate, have legislative staff, agency officials, outside experts, stakeholders, think tanks, and interest groups contributed to the richness, vitality, and usefulness of the plan?

Top Management Involvement

Approved multiyear plans represent major organizational decisions about resource usage for an extended period. They set basic directions.

Top management involvement is essential. This normally includes (1) providing guidance on plan development, (2) setting resource levels for each planning area after considering the needs of all planning areas, (3) reviewing plan proposals and approving them, and (4) evaluating progress and proposed updates.

Updating the Plans

Effective plans provide the overall necessary direction for the audit team. However, as time passes,
the plans should be reviewed. As part of this assessment, the progress and the overall contribution of the work should be examined. Any significant factors requiring changes to the plans or the overall strategy should be identified. If necessary, resources may be shifted.

Shorter-Term Planning

Individual assignments should logically flow from the multiyear plan and contribute to the mosaic structure. The shorter-term work plan identifies the specific assignments that the unit plans to perform and the resources they plan to use.

Assignments that the organization decides to undertake should constitute a balanced portfolio, including jobs the organization must do, those it selects to meet established multiyear objectives, and those it sees as targets of opportunity. Targets of opportunity are jobs which were not included in the multiyear plan that offer immediate payoff. These assignments represent the organization's judgment on the best use of available resources to meet the various objectives.

In considering jobs, staff should ask questions such as:

- Will the proposed job meet user needs? Does it fit into the organization’s priorities? Is it part of a longer-range plan? How does it contribute to the plan’s objectives? Why is this job the best choice? What benefits will it achieve?

- Will expected benefits exceed likely costs? At this stage, knowledge about job costs and benefits will probably be limited. But with limited resources available, jobs that are most likely to achieve the greatest benefits should receive priority.
Chapter 2
Doing the Right Job

- How sensitive is the job? What is the climate in which its findings and recommendations will be judged? By and large, assignments are performed to meet particular user needs and to obtain results. Some matters, however, are so significant that they must be pursued regardless of unyielding opposition or great sensitivity. That kind of decision should be made before the job is begun.

- Is the job “doable?” A job’s viability should be considered as the job is planned.

If a job is not doable, it may be possible to modify its objectives and still realize significant, worthwhile results. But a job should not be initiated or kept alive with the hope that things will fall into place later.

- Could another organization do the job? If there is a choice, an audit organization should do those jobs for which it is most clearly suited.

In larger audit organizations, work plans can help alert field offices to upcoming work. They help to communicate planned work throughout the organization, encouraging cooperation and avoiding duplication.

The GAO Example

GAO has broad audit, evaluation, and investigative authority covering federal agency operations, activities, and functions and those that are federally assisted. It also has legislatively defined responsibility to perform congressionally requested work. A high percentage of GAO’s work is done in response to specific requests of congressional committees and members.

Appendix II illustrates GAO’s planning system.
### Chapter 3

**Doing the Job Right**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>This chapter illustrates ways the quality assurance system can help in</th>
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<tr>
<td></td>
<td>• designing the job to meet significant objectives.</td>
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<td></td>
<td>• implementing the design effectively, and</td>
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<td>• preparing the product to obtain desired results.</td>
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| Job Design | The reasons for the job—its objectives—and the way it will be done are set by job design. In large measure, the job's success depends on the quality of the assignment's design. While changes can and should be made when they are needed as work progresses, they may be avoided or at least minimized by quality plans. |

| Setting Objectives | Objectives are the questions or issues that the audit will address. Clearly defined objectives are a must. Without such clarity, the scoping, planning, and performing become more difficult, if not impossible. It is during the assignment design that objectives should be focused. |
|                    | If they are vague or excessively broad at the start of work, time and money can be wasted by inappropriate methodology, scope, and resultant redirections. |
|                    | A useful approach is to state assignment objectives as questions and subquestions. This approach |
|                    | • helps preclude the perception of prejudged outcomes,          |
|                    | • fosters discipline and precision,                            |
|                    | • facilitates clarity,                                        |
|                    | • helps focus data gathering activities,                      |
|                    | • helps establish underlying logic,                          |
|                    | • helps in segmenting work,                                   |
|                    | • guides design, and                                          |
|                    | • helps structure the presentation of assignment results.      |
Scoping

Scoping an assignment normally involves matters such as the number of sites or field locations to be visited, time frames to be covered, and the type and depth of work needed to ensure that assignment objectives are accomplished and that all applicable audit standards are met.

In establishing assignment scope, the team should consider questions such as:

- What elements of a finding are required? Is disclosing a particular condition enough or is it necessary to establish cause and effect? Will it be necessary to evaluate the condition against criteria?
- Will assignment findings relate only to the cases reviewed or will it be necessary to generalize them to a larger universe?
- What are the relevant sources of data? Who/what holds the data (people, data tapes, files)? Will the data be available? Are they likely to be reliable?
- What kind of information will be required? For example, will a judgmental sample be acceptable, or will a statistically-projectable random sample be required?
- When will work results be required?

Determining scope may require tradeoffs. For example, a more narrow scope may result in a less powerful message. But it may be the best that can be done considering available resources and time. Is the more narrow scope acceptable?

Establishing Methodology

Designing a job requires selecting the methodologies to be used in collecting, verifying, and analyzing data. A wide variety of methodologies exist, and the choice can be critical. You cannot choose what you do not know about. Staff must learn what methodological tools are available. They must know what methodologies can be used for what purposes and the
strengths and weaknesses of each. They need to answer questions such as:

- What kinds of comparisons are required?
- Which methodology best meets assignment objectives?
- How will data be analyzed?
- Will the results that it produces be persuasive and meet applicable audit standards?
- Can it be done in the time available?
- Does its application require expertise or skills that are not available to the audit team? Can they be obtained from elsewhere in the audit organization or through the use of outside consultants or experts?

Testing

Before the more time-intensive data collection and analysis phase of the job begins, testing of sample transactions of key systems to ensure that the systems work as designed should be performed. More extensive testing will generally be performed during implementation.

Testing helps to establish the extent to which systems and data sources can be relied on to meet assignment objectives.

Through testing, staff should be able to answer questions such as:

- Is the system(s) working as intended?
- Have agency self-evaluations disclosed system weaknesses that affect planned work?
- To what extent can agency internal controls be relied on?
- Is the agency complying with laws and regulations that affect assignment objectives?
- If the work of others or computer-processed data is to be used, can it be relied on?
Staff should also pretest the reliability and validity of data collection instruments. Models to be used by the assignment design should be verified and validated by testing.

Testing of data sources and methodologies helps to determine whether the planned design will be excessively costly or time-consuming to operate.

**Detailed Job Planning**

The job plan makes the design operational. Points that should be covered include the following:

- Will the selected methodology used meet objectives?
- Has the task analysis identifying the steps needed to accomplish objectives been done?
- Has the source, the type of data to be collected, and the method of analysis been chosen?
- Has the work been segmented?
- Have individual responsibilities been assigned?
- Does the work sequencing and established time frames meet customer needs?
- Have key decision points and management progress assessments been established?
- Have adequate supervision and monitoring been built into the plan?
- Have applicable auditing standards been considered and are steps sufficient to address them?
- Will the requester or auditee be kept apprised of progress through periodic briefings?
- What type of auditee comments (oral or written) are most appropriate?
- How will assignment results be communicated?

An assignment plan should address these questions and will guide staff on what should be done at each stage as well as how it is to be done.
Chapter 3
Doing the Job Right

Job Staffing

Highly skilled and well-trained staff are essential to effective assignment performance. Staff should have the range of skills collectively needed to meet assignment objectives. Depending on objectives, this could include auditors, accountants, financial specialists, social science analysts, attorneys, and evaluators as well as experts in a wide range of disciplines (e.g., transportation specialists, engineers, natural resource managers, psychologists, economists, actuaries, physical and computer scientists, mathematicians, and statisticians). Few audit organizations will have staff with all these disciplines and expertise in house, but they should be available through contracting when needed for a particular assignment.

Effective Implementation

With the course set by the assignment design, the next step is for staff to do the work—to collect and analyze data. The design was carefully developed and tested. It should work—but will it? Were there unforeseen problems? What effect do they have on assignment success?

Do team members really understand what they need to do? Do they know why it is important? Are they motivated to do it right?

Progress Monitoring—Course Correction

Staff should follow the plan but not as if it is in concrete. Requesters' or auditees' needs should be kept in focus at all times. Team members should be alert for changing priorities—be proactive and not simply reactive. Assignment objectives should be renegotiated and the assignment plan changed when necessary to meet those needs.

High-quality performance includes proper supervision and reassessments of the continued appropriateness of objectives and progress made to achieve them. Answers to these questions would serve the team
well: Is progress on schedule? Should the methodology be changed or should objectives be redefined in cooperation with the requester? Is the evidence being collected reliable, competent, and sufficient? Should the questions that are being asked be modified to better accomplish objectives? Do data access problems require special attention?

Performance quality is a shared responsibility. Staff evaluate their own performance and progress on a day-to-day basis. The auditor-in-charge or evaluator-in-charge oversees the assignment and keeps abreast of progress and problems in meeting milestones. Problems should be revealed promptly to permit the team to address and resolve them. Scheduled progress assessments with the team by supervisors or managers who have assignment responsibility are helpful to keep assignments in focus and address problems that arise and could derail the plan.

For example, such meetings could be scheduled at the following points:

- At the start of the assignment. Agreement at that time helps define objectives and provides an understanding of the charge—what is to be accomplished?
- When the assignment moves from design to implementation. Is there a reportable message? Has the assignment been well thought out and planned? Are the scope and methodology adequate to achieve assignment objectives and meet requesters' or auditees' needs? Is the assignment still worth the expected resource investment? Questions such as these should be answered before extensive resources are used to gather and analyze additional data.
- When enough work has been done to assess how well the plan is working and whether assignment objectives are being met. In GAO, this meeting is held...
when one-third of the calendar days between the completion of job design and the estimated date for message agreement have elapsed. It reviews progress and determines whether modifications should be made in assignment scope, methodology, or resources.

- When fieldwork has been completed. The assignment's message should have been considered throughout the life of the assignment. It is developed early in the assignment but is constantly refined as additional evidence is gathered. A message conference promotes agreement on the message consistent with the evidence, the product type, timing, and format that best meets requester's or auditee's needs.

**Motivation and Supervision**

Job success is highly dependent on the team's commitment—both collectively as a team and individually as a team member. Assignment design sets the course. Assignment progress reviews and plan modifications help stay the course. However, they do not guarantee desired results; they do not ensure that results will be achieved.

Fundamental to quality performance is a motivated team which understands how their work relates to overall assignment objectives. Team members and supervisors should ask themselves questions such as: Am I enthused about the job? Do I respect other team members, am I willing to communicate, and am I prepared to listen to others' views? Am I doing the segments that I am best qualified for? Did I, as supervisor, consider the staff's interests and strengths in assigning tasks? Were task descriptions clear? Did I and team members ask questions when necessary for a complete understanding of expectations?

Am I and team members demonstrating personal pride and professional care? Am I and others
requesting help and asking questions when necessary and making suggestions where possible?

Is the team's supervisor getting firsthand knowledge of work being done—praising good performance and providing guidance when needed? Are team members receptive to guidance and counsel? Is the team's supervisor objective and fair in appraising performance? Are team members receptive and open-minded?

Product Preparation

All the hard work and contributions of motivated staff during the design, data collection, and analysis phases culminate in the assignment's product. The product is the part of the assignment that is perhaps most visible. It is the primary vehicle for obtaining desired results.

Developing the product's message is a continuing process. It begins with assignment initiation and should be modified as facts are gathered and analyzed. Tentative findings and conclusions should be tested against accumulated evidence and discussed with the auditee to get valuable input and to validate both correctness and completeness. Even recommendations should be discussed with the auditee to help ensure that they are doable and will achieve desired results.

When all or most of the evidence is in, the team and managers should meet to reach agreement on the product's message, timing, and format. This can be done formally in a message conference or more informally on simpler issues. The basic purpose of reaching such agreements is to get everyone's buy-in and keep surprises to a minimum. Such action should also facilitate timely reporting. The team and managers directly responsible for the assignment
should be able to respond affirmatively to questions such as:

- Are the findings and recommendations based on competent, reliable, and sufficient evidence?
- Are they responsive to assignment objectives?
- Were all applicable auditing standards followed?
- Is the message clear, coherent, and persuasive?
- Can the recommendations be implemented?
- Will they correct the situation identified?
- Have the auditees' views been adequately considered?
- Has the requester been informed of the overall message so that no surprises occur when the product is issued?

Final Quality Checks

At this point in the life of an assignment, those responsible for it are convinced of its quality. Is that enough for the organization? Two other quality tests—an independent verification of the evidence supporting the product (referencing) and product review—can help ensure quality.

Referencing

GAO uses a process called referencing to provide an objective look at the support for the product—a careful evaluation of the evidence. It requires that the person performing this careful evaluation—the referencer—be independent, objective, and experienced. Referencers should have analytical ability and a thorough knowledge of applicable standards and audit organization policies and procedures.

Based on their review, referencers should be able to answer questions such as:

- Have the workpapers received appropriate supervisory review?
• Are facts and figures correctly reported as determined by satisfactory evidence in the workpapers or by independent mathematical or other checks?
• Are findings adequately supported by the facts in the workpapers?
• Do conclusions and recommendations flow logically from the findings?
• Was the report coordinated with key officials within the audit organization (e.g., in GAO the Assistant Comptrollers General for Policy and Planning and Reporting, the Office of the General Counsel, the Chief Economist, and the head of other organizations may have an interest in the subject matter)? Were their comments adequately addressed and documented?
• Have the auditee's views been accurately reported and are points made in rebuttal accurate and adequately supported?
• Has a qualified person who is not involved in the assignment examined highly technical data? Are the results of that examination documented in the workpapers?

Prints, questions, and suggestions made by the referencer may disclose flaws that cannot be permitted in a high-quality product. They should be documented and carefully reviewed by the team leader and, where necessary, by higher level managers. Action taken on the referencer's comments should also be documented.

The referencer should also be alert to pertinent evidence in the workpapers that either contradicts or calls into question facts or statements in the report (negative assurance). Such observations should be noted for management consideration.

Product Review

Product review is a quality check to provide assurance that
higher level managers are satisfied with the overall quality of the product;
the message is sound, addresses the objectives, and meets the customers' needs;
the message is consistent with prior positions (if not, did the appropriate officials approve the change);
key units of the audit organization had an opportunity to review the product and agreed with the message; and
the auditee's views are appropriately reflected and key differences have been adequately addressed.
### Purpose

Recommendations are made with expectations of getting prompt corrective actions that achieve desired results.

The quality control system should provide a sound basis for getting prompt and satisfactory action from recommendations. Key elements for enhancing such action include:

- high-quality recommendations,
- commitment,
- effective monitoring and followup, and
- special attention to key recommendations.

This chapter provides guidance on this important aspect of audit effectiveness. How to Get Action on Audit Recommendations (GAO/OP-9.2.1) discusses the subject in greater detail and includes case studies.

### High-Quality Recommendations

The report demonstrates the problems in need of action, presents the needed corrective action, and identifies who can take it. High-quality recommendations pinpoint needed changes.

In developing recommendations, the team should consider questions such as:

- Is it clear why a change is needed, why current conditions should not be allowed to continue, and what the underlying cause of the problem is?
- Does the recommendation include specific actions that should be taken and results that should be achieved?
- Is the recommendation convincing?
- Will it correct the root cause of the problem?
- Have alternatives been adequately considered?
- Is the recommendation feasible and cost-effective?
- Is it clear who should take the corrective action?
Commitment

Commitment is believing in the recommendation and in its importance. Individual members of the team can test their commitment by answering questions like: Am I willing to devote the extra effort to demonstrate the merits of implementing the recommendation? Do I fully understand the environment in which the recommendation will be received and evaluated? Has the team explored options and alternatives to achieving intended results without sacrificing the goals being sought? Have we created a climate of helpfulness and cooperation that generates respect and confidence? Have I made the commitment to work with the audited agency to ensure successful implementation of the recommendation?

Staff commitment to results is heightened when

- management emphasizes results as a major objective (measuring outcomes, not outputs);
- tangible results are highlighted and identified as successful outcomes;
- followup is emphasized as a significant and valued responsibility;
- appraisal and award/reward systems recognize and reinforce the value of audit outcomes and reward accomplishments and proactive, innovative, and creative approaches in achieving desired outcomes; and
- training programs reinforce these values and encourage staff to prepare action plans to get recommendations accepted and effectively implemented.

Monitoring and Followup Systems

Monitoring and followup systems should answer two key questions:

- What improvements were made as a result of the work?
- Did those improvements achieve the desired result?
Determining actions that were taken on recommendations require active status monitoring of recommendations. Individual responsibilities should be defined and ground rules established that describe minimum required actions, documentation required, and the like. They should leave room for staff initiative to tailor followup actions to particular recommendations and the results they seek.

How far should staff go in verifying not only that action was taken but, more importantly, that it achieved desired results? Staff should be able to answer questions such as: Are implementation plans and time frames consistent with recommended actions? Have the steps to carry out the planned actions been adequately documented? Are the auditees' estimates of dollar savings or other benefits reasonable?

Generally, some limited testing of the implementation would be expected to ensure it is working as intended. For key recommendations, these tests are essential.

Special Attention to Key Recommendations

While all recommendations should be aggressively pursued, some are so significant that added steps are needed to get them implemented:

- The significance of a recommendation should be communicated to the auditee as early as possible during an assignment.
- Key recommendations should be identified and highlighted in reports.
- If action on a key recommendation is not progressing, this should be communicated to auditee management.

The head of an audited organization cannot be expected to focus on every recommendation;
therefore, the auditor must carefully choose those matters that deserve this special attention.
Chapter 5

Demonstrating Consistent Quality

Purpose

The foregoing chapters give guidance on how to build and use a system that promotes quality in assignment, selecting, planning, performing, reporting, and following up. This chapter helps determine whether the quality control system has resulted in consistent quality throughout the organization measured by outcomes rather than outputs. It also discusses peer reviews and how they can help provide valuable feedback and ensure consistent quality.

Internal Quality Reviews

How consistent is quality among products and product types within and among organizational units? Does the quality control system help ensure that quality is maintained each time, every time?

Answering these questions requires reviewing and testing policies and procedures. It also requires assessments of the quality of individual audits after they have been issued. Over time, all organizational units should be reviewed and their products tested. Reviewers should be independent of the unit being reviewed.

This postaudit quality review provides top managers with an independent assessment of the extent to which the organization complies with Government Auditing Standards and its own policies and procedures.

In reviewing compliance with Government Auditing Standards and policies and procedures, questions should be answered such as:

- Are policies and procedures consistent with Government Auditing Standards?
- Are policies clearly stated and are they doable? Do they cover key matters on which guidance would be helpful?
Chapter 5
Demonstrating Consistent Quality

- Are policies unnecessarily prescriptive or do they leave room for using initiative and objectivity in meeting assignment objectives?
- Are policies and procedures readily accessible by staff?
- Have staff been adequately trained in the organization's policies and procedures?
- How is compliance with policies and procedures assessed?

Reviewing individual assignments provides valuable feedback to managers on how well selected organizational units consistently achieve the expected quality. The number and type of assignments selected for testing should provide a reasonable basis for making this assessment. In reviewing individual assignments, questions should be answered such as:

- Was the team collectively qualified for the tasks required? Did individual staff members meet applicable continuing professional education requirements?
- Do the workpapers indicate any unresolved questions concerning external or personal impairments to independence?
- Was there adequate evidence that a determination was made of applicable standards and that they were complied with?
- Were assignment objectives clear and responsive to requesters' or auditees' needs? Was the assignment scope adequate? Was methodology appropriate? Were data sources, methodology, and data collection instruments tested? Was a detailed audit plan prepared?
- Was the assignment plan effectively implemented? Were deviations from the plan consistent with Government Auditing Standards and appropriate to assignment objectives? Were the workpapers adequately documented, summarized, indexed, and reviewed?
• Was there evidence that supervision was timely, adequate, and responsive to staff needs and professional development?
• Was the reliability of computer-processed data established when their use was significant to assignment objectives?
• Was the reliability of significant data supplied by others appropriately established?
• Were applicable internal controls identified, tested, and appropriately relied on?
• Was compliance with laws and regulations applicable to assignment objectives appropriately tested?
• Were findings and conclusions supported in the workpapers and was the evidence relevant, competent, and sufficient?
• Were auditees' positions on findings and recommendations obtained and appropriately handled in report development and presentation?
• Was the report timely?
• Did the report meet Government Auditing Standards and organizational policies and procedures, assignment objectives, and requesters' or auditees' needs?
• Did conclusions follow reasonably from the findings?
• Were recommendations responsive to the root cause of deficiencies detected? Were they clearly doable and cost-effective?
• Was there adequate evidence that the facts in the report were independently referenced? Were referencee's questions appropriately handled?
• Was the report reviewed for logic and consistency of positions taken?

Audit Effectiveness

An effective quality control system needs to do more than ensure the quality with which work was performed. It also needs to determine what the work accomplished and how the result was viewed by customers and stakeholders.
Chapter 6
Demonstrating Consistent Quality

This can be done by system approaches such as:

- **Surveys of customers and stakeholders.** Did they consider the work to be timely and responsive to their needs? Did they find it convincing and useful? Were they able to use the results—implement the recommendations? Do they believe that the recommendations achieved their intended results?

- **Recommendation tracking and reporting systems.** Is there a system in place to follow up on all recommendations and to determine what action was taken with respect to them? How were implementing actions and their results tested? Was special attention given to key recommendations? Were accomplishments reported and major contributors identified?

- **Performance measurement and award/reward systems.** Do those systems measure and emphasize outcomes or do they give inordinate emphasis to factors such as report production?

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### Peer Review

The fourth general Government Auditing Standards states:

"Audit organizations conducting government audits should . . . participate in an external quality control review program."

The following are some organizations that help audit organizations comply with Government Auditing Standards:

- **The President's Council on Integrity and Efficiency (PCIE).** PCIE publishes standards and detailed guidance for conducting reviews of the audit operations of the Offices of the Inspector General (OIGs). It operates a peer review program for the OIGs.

- **The National State Auditors Association (NSAA).** Peer reviews are conducted by NSAA in accordance with
policies and procedures developed by the NSAA Peer Review Committee and approved by NSAA members. The program is administered by the National Association of State Auditors, Comptrollers, and Treasurers.

- National Association of Local Government Auditors (NALGA). NALGA has prepared a guide to help auditors meet the requirements of Government Auditing Standards. The NALGA Peer Review Committee responds to questions about the guide and helps to identify potential reviewers. The committee receives reports issued using the NALGA guide and will serve as a mediator or arbitrator of unresolved disputes between an audit organization and a review team.

- The Institute of Internal Auditors (IIA). IIA will arrange peer reviews using Government Auditing Standards or its own standards.

- The American Institute of Certified Public Accountants (AICPA). AICPA has defined requirements for the peer review of member firms. The AICPA “Peer Review Manual” includes guidelines covering audit engagements of state or local governmental entities, including those receiving federal financial assistance. The guidelines include questions for use when the engagement is subject to Government Auditing Standards.
## Listing of GAO's Technical Guidance Publications (Gray Books)

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<tr>
<td>AFMD-2.1.2</td>
<td>Critical Factors in Developing Automated Accounting and Financial Management System (Jan. 1987)</td>
</tr>
<tr>
<td>AFMD-4.1.0</td>
<td>Establishing Government Auditing Standards (Aug. 1990)</td>
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<td>AFMD-4.1.1</td>
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<td>Assessing Compliance With Applicable Laws and Regulations (Dec. 1989)</td>
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<td>Evaluating Internal Controls in Computer-Based Systems: Audit Guide (June 1981)</td>
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<tr>
<td>OP-4.1.6</td>
<td>An Audit Quality Control System: Essential Elements (Aug. 1993)</td>
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1Gray books include more detailed guidance on technical subjects that are included in the GPPM and the CM.

2Under revision.
<table>
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<td>OP-8.1.3</td>
<td>Assessing the Reliability of Computer-Processed Data (Sept. 1990)</td>
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<tr>
<td>IMTEC-8.1.5SW³</td>
<td>Quick Reference for Automated Audit Guide (Dec. 1992)</td>
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<td>How to Get Action on Audit Recommendations (July 1991)</td>
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<td>PEMD-10.1.2</td>
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<td>Developing and Using Questionnaires (July 1986)</td>
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<td>Case Study Evaluations (Nov. 1990)</td>
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<td>PEMD-10.1.10</td>
<td>Prospective Evaluation Methods: The Prospective Evaluation Synthesis (Nov. 1990)</td>
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³Software to accompany GAO/IMTEC-8.1.4.
### Appendix I
**Listing of GAO's Technical Guidance Publications (Gray Books)**

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<tr>
<td>PEMD-10.1.11</td>
<td>Quantitative Data Analysis: An Introduction (June 1992)</td>
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<td>IMTEC-11.1.1</td>
<td>Preparing, Documenting, and Referencing Microcomputer Data Base Applications (Apr. 1991)</td>
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<td>Preparing, Documenting, and Referencing Lotus Spreadsheets (Nov. 1987)</td>
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<td>How to Avoid a Substandard Audit: Suggestions for Procuring an Audit (May 1988)</td>
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<tr>
<td>AFMD-12.19.5A</td>
<td>Financial Audit Manual (June 1992)</td>
</tr>
<tr>
<td>OGC-15.1.1^2</td>
<td>Guidance on Employee Ethics and Conduct (June 1986)</td>
</tr>
<tr>
<td>OSI-16.1.2</td>
<td>Investigators' Guide to Sources of Information (Jan. 1992)</td>
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<tr>
<td>OCE-17.1.1</td>
<td>Discount Rate Policy (May 1991)</td>
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</tbody>
</table>
Legislatively Defined Role

The Budget and Accounting Act of 1921 gave GAO broad authority and responsibility to audit federal agencies and to report on all matters related to the receipt, disbursement, and use of public money.

Through amendments to the 1921 act and other GAO-specific legislation, GAO audits federally assisted programs and government corporations to:

- determine the extent to which accounting and financial reports fully disclose the financial operations of departments and agencies;
- assess whether financial transactions have been conducted in accordance with laws, regulations, or other legal requirements;
- evaluate whether public funds have been economically and efficiently administered and expended;
- assess the extent to which programs are achieving their intended purposes; and
- ensure consistent operation of financial accounting systems and the application of accounting principles, standards, and procedures.

While granting the Comptroller General broad discretion to decide which programs to audit, the Congress retained the right to request specific GAO assistance. GAO has legislatively defined responsibility to respond to the requests of House and Senate Committees and to Joint Committees having jurisdiction over programs and activities.

As a matter of policy, GAO assigns equal status to requests from Ranking Minority Members and to requests from committee chairs. To the extent practical, GAO also responds to individual members’ requests. At present, about 80 percent of GAO’s resources are used in response to congressional requests.
The Touchstone for Planning

In carrying out its legislatively defined responsibilities, GAO establishes quality as a driving force.

The following is the mission statement on which its planning and performance is based:

"We seek to achieve honest, efficient management and full accountability throughout government. We serve the public interest by providing members of the Congress and others who make policy with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the security and well-being of the American people.

"Commitment to quality is the single most important principle governing our work."

Planning Framework

To fulfill its comprehensive audit responsibilities, GAO's planning framework has a wide-ranging perspective. It fosters jobs that (1) make individual programs work better and cost less; (2) highlight those things that work best in particular programs or management areas so that they can be considered for application in others; and (3) determine whether programs are overlapping, duplicative, working at cross-purposes, or effectively contributing to defined national goals.

GAO's planning framework is built around issues and issue areas. Typically, an issue area is a functional or major responsibility area that affects a major segment of American society and is tied to large government expenditures. An issue, on the other hand, is a significant topic or question of national importance within an issue area.

Currently, GAO's planning is built around 36 issue areas. They evaluate effectiveness, economy, efficiency, and accountability of federal programs in
Appendix II
Doing the Right Job  The GAO Example

areas such as income security, energy, environmental protection, health, work force quality, etc.

Issues and issue areas are redefined or changed when necessary to respond to congressional needs, new government initiatives, or when GAO's managers believe that other alignments would provide better results.

Multiyear Plans

GAO managers develop multiyear plans for each issue area. Depending on the issue area, plans normally cover 2 to 3 years.

Key Steps

In developing the plan, GAO managers do the following:

- Identify the most significant issues the Congress and the country will face during the planning period, determine what contribution GAO can make, and identify the level of GAO resources that can reasonably be applied to each.

For example, GAO's Medicare and Medicaid issue area could focus its planning on issues such as:

- How can Medicare payment methods be changed to improve the incentives to provide cost-effective care? (Medicare Payment Methods)

- What alternative financing and delivery models would suggest ways to improve access and reduce cost growth? (Alternative Financing and Delivery Models)

- Determine realistic objectives for each issue. Objectives focus on expected results. Those results could be program improvement, savings, agency efficiency, or assistance to the Congress in making a
key decision. They are focused on external action by an agency or the Congress to achieve particular results.

For example, an objective of the Medicare Payment Methods Issue could be to improve Medicare’s existing payment reforms to encourage additional savings.

- State the anticipated results of accomplishing each objective. GAO defines anticipated results as the specific contributions or measurable results it expects to achieve and the time when they are expected to occur. Taken together, they constitute the accomplishment of an objective. The specific impact on an agency or program is the focus for anticipated results.

- Develop the strategy to be followed in planning assignments. Strategy is the approach, plan of action, or method needed to meet issue objectives and anticipated results.

For example, a strategy for the Medicare Payment Methods Issue could be to perform studies to (1) monitor the implementation of payment reforms for physicians and hospitals and (2) determine whether payments are appropriate in the parts of Medicare not already covered by major reforms. The strategy also includes the major efforts, such as econometric modeling of cost growth in hospitals.

Cooperative Development

In preparing a multiyear plan for an issue area, managers and staff get a wide range of input to ensure that it has GAO-wide perspective and is based on a high level of subject matter knowledge and expertise. The views of key congressional committee staff representing both majority and minority parties and the agency are particularly important.
Appendix II
Doing the Right Job—The GAO
Example

For planning conferences, participants are encouraged to freely exchange ideas, thereby adding to the quality of the plans. Participants could include GAO staff, congressional representatives or staff, agency officials, and outside experts.

Top Management Participation

The Comptroller General and other top GAO managers provide initial guidance and continuing oversight of issue area planning and performance. They take the following actions:

- Conduct sessions to discuss new issue area plans and provide guidance for planned issues and objectives.
- Review and approve issue area plans.
- Allocate resources to carry out the objectives of approved plans.
- Conduct a weekly review of incoming congressional requests, all new assignments, and assignments moving into data collection and analysis or product preparation phases. Among other objectives, this review considers consistency with issue area planning.
- Discuss individual assignments of particular complexity, interest, or sensitivity.

Annual Updates

Because events may significantly affect even the best of plans, GAO reviews and updates its multiyear plans annually. The updates (1) promote accountability by comparing performance and results with plans and (2) keep plans current.

The effort involved in preparing an update is typically less extensive than for new plans. However, this effort should include a discussion of GAO's principal customer needs and major efforts designed to meet them. Updates assess what has been achieved to date for each issue as well as needed additions, deletions, or plan revisions.
Appendix II
Doing the Right Job—The GAO
Example

If reevaluation of an issue area establishes the need for redirection or for extensive changes, a new plan—rather than an update—is prepared.

GAO defines major jobs to be done during the period and assigns priorities. It ensures that individual jobs are consistent with issue area objectives and are within assigned resources.

This process alerts GAO's field offices to potential work and helps to communicate planned work throughout GAO, encouraging coordination and avoiding duplication.
Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th & G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling
(202) 512-6000 or by using fax number
(301) 258-4066.
Quality Management System (QMS)

Elements of Our Quality Management System (QMS)

8.1 The Office established the elements of its Quality Management System (QMS) based on existing standards of the American Institute of Certified Public Accountants, guidance for developing Quality Control Systems in Public Accounting published by the CICA (1993), input from a major public accounting firm regarding "best" practices in managing quality of annual audits, and input and advice from its senior annual audit practitioners. The QMS is made up of the following elements:

- **Audit Management** — The steps that must be undertaken to conduct a quality audit in accordance with generally accepted auditing standards, applicable legislation and Office policies, practices and procedures;

- **People Management** — The way in which we help staff achieve our goal of conducting quality audits, developing their full potential as professionals and contributing towards developing a highly motivated audit organization;

- **Continuous Improvement** — The creation of an audit culture that constantly seeks to improve itself and provide more value added to Canadians and our audit entities.

8.2 These elements, their related criteria and key instruments employed in the QMS, as it applies to our annual audit practice, are described in table at the end of this section.

Reasonable Assurance

8.3 The Office’s Quality Management System is designed to provide “reasonable” assurance, in light of the likelihood and magnitude of potential risks, that it conducts annual audits in accordance with applicable legislative requirements, professional standards and Office policies. Reasonable assurance recognizes that the cost of managing risks should not exceed the benefits likely to be derived.

8.4 As such, reasonable assurance involves a satisfactory level of confidence under given considerations of cost, benefits and risks — it does not mean absolute assurance of all aspects of quality for each individual audit.
Ongoing Improvement of the Quality Management System

8.5 Continuous improvement activities are part of every quality management system. A continuous improvement process will ensure that our quality management system continues to evolve to reflect the current environment within which the Office operates.

8.6 A continuous improvement process typically contains six activities that operate in an interactive manner: various forms of review to assess product or process quality; identification and documentation of lessons learned; development of an inventory of improvement initiatives; practice improvement studies to propose reinforcements to approaches; formal documentation of standards and expected practices; and development initiatives to build staff awareness of new standards and expectations. These activities apply equally to all elements of the Office’s Quality Management System.

Key Elements of the Annual Audit Practice
Quality Management System

<table>
<thead>
<tr>
<th>Quality Management Element</th>
<th>This element of the Office’s Quality Management System should provide reasonable assurance that</th>
<th>Key Instruments Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Authority</td>
<td>The Office only undertakes audits where it has the authority to do so and, in those limited circumstances in which the Office can exercise discretion in accepting an engagement, they pose no undue risk to the Office.</td>
<td>– <em>Auditor General Act</em>  &lt;br&gt; – <em>Financial Administration Act</em> and Entity Specific Legislation  &lt;br&gt; – Annual Audit policies and guidance  &lt;br&gt; – Legal Services team advice and support</td>
</tr>
<tr>
<td>2. Independence, objectivity and integrity</td>
<td>Personnel are free of any obligation or interest in their audit entities; personnel are honest and candid at all times with due regard for confidentiality of the audit entities’ affairs; and personnel maintain an impartial state of mind when carrying out audits.</td>
<td>– <em>Auditor General Act</em>  &lt;br&gt; – Office Code of Conduct  &lt;br&gt; – Annual Audit policies and guidance  &lt;br&gt; – Conflict of interest declarations/re-certification and related guidance  &lt;br&gt; – Legal Services team advice and support  &lt;br&gt; – TB Conflict of Interest and Post Employment Code for the Public Service</td>
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</table>
### 3. Conduct of the audit

<table>
<thead>
<tr>
<th>The Office has in place an appropriate audit methodology, recommended procedures and practice aids which are intended to result in efficient audit approaches that produce sufficient, appropriate audit evidence at the appropriate time in order to allow the Office to meet its reporting responsibilities.</th>
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</thead>
<tbody>
<tr>
<td>Communication of matters of significance takes place throughout the audit process between audit teams and management of the audit entities.</td>
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<tr>
<td><strong>Annual Audit policies and guidance Office</strong></td>
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<tr>
<td><strong>Methodology for Annual Audits (Guide 25)</strong></td>
</tr>
<tr>
<td><strong>Predetermined Audit Documentation (PADs)</strong></td>
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<tr>
<td><strong>Software support tools (APEX, PW Controls and IDEA)</strong></td>
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<tr>
<td><strong>Functional Responsibility Leader for the Annual Audit Practice to provide advice</strong></td>
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<tr>
<td><strong>Methodology review and update mechanisms for Annual Audit policies, methodology and guidance</strong></td>
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</table>

### 4. Consultation

<table>
<thead>
<tr>
<th>When dealing with complex, unusual or unfamiliar issues, audit teams refer to authoritative literature and seek the assistance of Office specialists and/or individuals from outside the Office with appropriate competence, judgement, and authority.</th>
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<tbody>
<tr>
<td><strong>Annual Audit policies and guidance</strong></td>
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<tr>
<td><strong>Financial Instruments, Information Technology and Legal Services teams to provide advice and support</strong></td>
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<tr>
<td><strong>Centralized financial statement review function</strong></td>
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<tr>
<td><strong>Independent Advisory Committee</strong></td>
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<tr>
<td><strong>Predetermined Audit Documentation (PADs) and library resources including electronic databases</strong></td>
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</table>

### 5. Security, access, and file retention

<table>
<thead>
<tr>
<th>Personnel have security clearance appropriate for the nature of documentation that they will be required to access; there are appropriate restrictions on the access to audit files (electronic and hard copy) and related audit reports; and audit files are retained for an appropriate length of time.</th>
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<tbody>
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<td><strong>Security policies and guidance</strong></td>
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<td><strong>Security review and update mechanisms</strong></td>
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<td><strong>Security Officer in place</strong></td>
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<td><strong>Security clearance procedures</strong></td>
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### People Management

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<tr>
<th>6. Resourcing</th>
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<tr>
<td><strong>Audit team</strong>&lt;br&gt;Audit team possesses the required qualifications and competencies to enable them to carry out audits.</td>
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<tr>
<td>Personnel assigned to specific engagements have the appropriate degree of technical training and proficiency to carry out the work.</td>
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<td>Annual Audit Scheduling Co-ordinators</td>
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<td></td>
<td>Centralized Human Resource function</td>
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<th>7. Leadership and supervision</th>
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<td><strong>Managers</strong>&lt;br&gt;Managers provide an appropriate level of leadership and direction and foster an environment in which all team members are encouraged to perform to their full potential and to ensure that audits are properly carried out.</td>
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<td>Personnel are properly supervised and coached in their work.</td>
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<td>Office Mentoring Program</td>
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<th>8. Performance management</th>
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<td><strong>Personnel</strong>&lt;br&gt;Personnel receive timely and constructive feedback on their performance.</td>
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<td>Personnel have access to counseling, guidance and monitoring to help them manage and develop their careers.</td>
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<td>Centralized Human Resource function</td>
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<td></td>
<td>Performance Management System including assignment and annual objectives and appraisals</td>
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<td>Counseling, guidance and monitoring processes</td>
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<td>Promotion processes</td>
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<tr>
<th>9. Professional development</th>
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<tr>
<td><strong>Personnel</strong>&lt;br&gt;Personnel undertake professional development through such means as on-the-job training, formal courses, self-directed studies, and internal and external assignments.</td>
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</table>
### Chapter 8 – Quality Management System (QMS)

| 10. Respectful workplace | Personnel demonstrate and encourage in others those behaviours that lead to a respectful workplace which develops highly skilled, motivated and productive people who contribute to fulfilling the mission of the Office. Personnel respect and value diversity in the Office. | • Human Resources policies and guidance including Discrimination and Harassment Policy and Health and Safety Policy <br>• Centralized Human Resource function <br>• Official Languages Act and Employment Equity Act <br>• Justice Canada mediation program <br>• Harassment coordinators |
| Continuous Improvement | The Office carries out internal reviews of its Annual Audit Practice to assess the extent to which its practice meets these Quality Management Criteria for the Annual Audit Practice. | • Practice review policy and program <br>• Internal audit |
The Office's Quality Management System

Context

9.1 The Office has always maintained a very high level of excellence and credibility in its work. Parliamentarians, stakeholders, taxpayers, and the media have, on many occasions, complemented the Office on the quality of its work.

9.2 In the past, the Office’s quality control system has relied heavily on dialogue and co-operation, in addition to the formal control instruments. This quality control system has evolved continuously over the past decade, in response to changing perceptions of risks, reduced budgets, and increasing diversity of our audit base.

9.3 Overall, the process has served us well, but significant changes to our practice have required that the Office build on its existing strengths in ensuring product quality. This fact was explicitly recognized and underlies one of the key strategies in the January 1998 Strategic Framework, i.e. to “implement a coordinated and efficient Quality Management System for all Office products”. The development of a quality management system for all our products is therefore the next logical step in our continuous improvement journey to ensure that our products enjoy the same level of excellence as in the past.

Principles of quality management

9.4 Quality management systems are based on a number of principles. The key ones are:

- quality is built into the production process rather than relying on post-production audits or checklists;

- responsibilities for each player in the control process are clearly defined and properly communicated;

- controls respond to key risks in a timely manner. Too many controls results in no control;

- an efficient control process;
• controls are built in a cascade, with an appropriate mix of external, corporate, group, team and individual controls;

• controls are results-focussed; and

• practitioners participate in the continuous evolution of the control framework.

9.5 The Strategic Framework encompasses the Office’s quality management framework. The framework is continuously evolving and is regularly updated to reflect the current environment within which the Office operates. The Strategic Framework is built upon a number of guiding principles that call for, among other things, quality products, leadership in the management of people, continuous learning and growth, co-operation and teamwork, and valuing the talents of all our people.

9.6 In developing the Strategic Framework and its guiding principles, the Office recognized that no set of rules or controls can cover every circumstance that arises in the course of carrying out an audit, and emphasis is placed on the exercise of sound professional judgment. A key challenge for the Office quality management system has been to provide the right balance between required control steps and the amount of professional judgment that practitioners can exercise. On the one hand, we need flexibility and discretion for practitioners on the other hand we also want to manage key risks through compliance and documentation of key control steps.

9.7 Figure 5 shows the key elements — audit management, people management and continuous improvement — of the Office’s Quality Management System.

9.8 Figure 6 depicts the key steps in the Office’s present VFM audit process control framework.

9.9 The key requirements of the Office’s quality management system are contained in the VFM Audit Control File. If you are using the Office's Intranet site, click on the following icon to view these requirements.

Ongoing improvement of the quality management system

9.10 Continuous improvement activities form part of every quality management system. A continuous improvement process will ensure that our quality management system continues to evolve to reflect the current environment within which the Office operates.
9.11 A continuous improvement process typically contains six activities that operate in an interactive manner: various forms of review to assess product or process quality; identification and documentation of lessons learned; development of an inventory of improvement initiatives; practice improvement studies to propose reinforcements to approaches; formal documentation of standards and expected practices; and development activities to build staff awareness of new standards and expectations. These activities apply equally to all elements of the Office’s quality management system.

9.12 It is important that our VFM work results in reports of high quality and that it makes a difference for Canadians. Our continuous improvement activities ensure that we continue to build on our already strong focus on quality in our VFM products.
## Key Elements of the Office’s VFM Quality Management System

<table>
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<tr>
<th>Quality Management Element</th>
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<td><strong>Audit Management</strong></td>
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</table>
| 1. Authority               | The Office only undertakes audits where it has the authority to do so. It also accepts engagements when asked to do so under Section 11 of the *Auditor General Act* as long as they do not pose undue risk to the Office. | • *Auditor General Act*  
• *Financial Administration Act*  
• VFM standards and guidance  
• Legal Services team advice and support |
| 2. Independence, objectivity and integrity | Personnel are free of any obligation or interest in their audit entities; personnel are honest and candid at all times with due regard for confidentiality of the audit entities’ affairs; and personnel maintain an impartial state of mind when carrying out audits. | • *Auditor General Act*  
• Code of Professional Conduct of the Office  
• VFM standards and guidance  
• Conflict of interest declarations/re-certification and related guidance  
• Legal Services team advice and support  
• *Treasury Board's Conflict of Interest and Post Employment Code for the Public Service* |
| 3. Conduct of the audit    | The Office has in place an appropriate audit methodology, recommended procedures and practice aids to promote compliance with VFM audit standards and expected practices | • Panel of Senior Advisors  
• Executive Committee  
• External Audit Advisory Committee  
• Second AAG  
• VFM standards and guidance  
• Software support tools  
• Functional responsibility leaders (FRLs)  
• Methodology review and update mechanisms for VFM methodology |
| 4. Consultation            | When dealing with complex, unusual or unfamiliar issues, audit teams refer to authoritative literature and seek the assistance of Office specialists and individuals | • VFM standards and guidance  
• Audit Advisory Committees  
• Information Technology, Legal Services and FRLs advice and support |
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<td><strong>5. Personnel Security, access, and file retention</strong></td>
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<td>Personnel have security clearance appropriate for the nature of documentation that they will be required to access; there are appropriate restrictions on the access to audit files (electronic and hard copy) and related audit reports; audit files are kept in a secure manner at all times; and are retained for an appropriate length of time.</td>
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</table>
| • VFM standards and guidance  
• Security policies and guidance  
• Security review and update mechanisms  
• Security Officer in place  
• Security clearance procedures  
• Government Security Policy |
| **6. Resourcing** |
| Audit teams possess the required qualifications and competencies to enable them to carry out audits. Personnel assigned to specific engagements have the appropriate degree of technical training and proficiency to carry out the work. |
| • VFM standards and guidance  
• Human Resources policies and guidance  
• Centralized Human Resource function |
| **7. Leadership and supervision** |
| Managers provide an appropriate level of leadership and direction and foster an environment in which all team members are encouraged to perform to their potential and to ensure that audits are properly carried out. Personnel are properly supervised and coached in their work. |
| • VFM standards and guidance  
• Human Resources policies and guidance  
• Office Mentoring Program |
| **8. Performance management** |
| Personnel receive timely and constructive feedback on their performance. Personnel have access to counseling, guidance and monitoring to help them manage and develop their careers. |
| • VFM standards and guidance  
• Human Resources policies and guidance  
• Centralized Human Resource function  
• Performance Management System including assignment and annual objectives and appraisals |
<table>
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<tr>
<th>Part Four - Quality Management</th>
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<th>9. Professional development</th>
<th>Personnel selected for advancement are competent and fully qualified to fulfil the responsibilities that they will be called upon to assume.</th>
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<th>10. Respectful workplace</th>
<th>Personnel demonstrate and encourage in others those behaviours that lead to a respectful workplace which develops highly skilled, motivated and productive people who contribute to fulfilling the mission of the Office.</th>
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</thead>
<tbody>
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<th>11. Practice review</th>
<th>The Office carries out internal reviews of its VFM Practice to assess the extent to which its practice meets these Quality Management Criteria</th>
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<td>Practice review policy and program</td>
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<td>Internal audit</td>
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Overview of the VFM Audit Process Control Framework

- Overview Report (Optional)
  - Survey Report (examination plan)
    - Internal Methodology Meeting
    - External Advisory
      - Submission and Approval by the Report Steering Committee
  - Outline Chapter
    - PX Draft
      - Transmission Draft for sign-off
      - Departmental Responses
    - Review Checklist - AAG approval
      - Review Checklist - DAG approval
      - Review Checklist - Publication approval
      - Report Production Checklist
      - Self Assessment Checklist
  - (optional)
  - Publication
    - Accountability Report
    - Practice Review

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Financial Audit Manual

United Kingdom National Audit Office
Financial Audit Manual

Chapter Ten: Review

Introduction

1 This chapter provides the National Audit Office policies and guidance on the review of financial audit work. It covers first and second stage review by management, standards assurance reviews, quality control reviews and the review of contracted-out audits. The objective of the policies contained in this chapter is to ensure that our financial audit work supports the opinion given and meets the requirements of Auditing Standards.

2 The policies and guidance in this chapter have been written so as to ensure compliance with applicable Auditing Standards, in particular SAS 240, Quality control for audit work.

Review by management

FAP 10.1 All audits undertaken by the National Audit Office will be subject to at least two levels of review before we sign our audit certificate.

3 All our audit work requires a combination of compliance with laid down procedures and the exercise of judgement. Review is an internal control which ensures that more than one level of judgement is brought to bear on the work carried out and the conclusions reached. It is concerned with both the quality and the efficiency of the audit and should confirm that:

i. the original planning assumptions remain appropriate, taking account of significant events occurring after the approval of the audit plan;

ii. the audit team have properly implemented the audit plan and have performed the audit in accordance with National Audit Office policies and Auditing Standards;

iii. the working papers adequately document the work performed by the audit team, particularly in areas where we have exercised professional judgement, and provide the basis for the conclusions expressed in the certificate or report;

iv. the amounts and assertions disclosed in the financial statements are in agreement with the working papers, which in turn, are consistent with the client's accounting records;

v. the financial statements are clearly expressed and accord with Government Accounting and other applicable regulations and accounts directions;

vi. the certificate is clearly expressed, conforms to relevant Auditing Standards and is appropriate in the circumstances;

vii. the financial statements and the certificate have been discussed with appropriate client officials;

viii. any significant matters which have arisen have been brought to the attention of the client's management, board of directors, or audit committee.
First stage review

**FAP 10.2** The Assignment Manager has prime responsibility for compliance with National Audit Office policies and Auditing Standards. To ensure compliance the Assignment Manager should review all working papers in support of the audit and evidence this review.

The Assignment Manager may delegate first stage review to a Supervisor but retains overall responsibility.

4 The reviewer evidences the review by initialling and dating each working paper, although this does not necessarily mean examining each working paper to the same depth. The level of scrutiny depends upon the nature of the account area, its materiality, the entity risk and the complexity of audit judgements involved. The review also covers work performed by National Audit Office specialists such as statisticians and computer auditors. Further guidance on performing first stage review is given in FMM A3, Review.

5 The first stage reviewer comments on any matters already identified on the Summaries of Matters for Attention forms and adds any further points that require consideration by the Assignment Director. In each case the reviewer recommends appropriate action. Submission of the forms should not be left until completion of the working papers if the matters for attention are important enough to warrant early Assignment Director involvement.

6 The Assignment Manager also reviews permanent files at the end of each audit to ensure that obsolete material has been removed, new material included and existing material updated. This review is evidenced on each permanent file.

Second stage review

**FAP 10.3** The Assignment Director should perform a review of the working papers in sufficient detail to be satisfied that:

i. the audit has been conducted in accordance with Auditing Standards, and National Audit Office policies;

ii. the journals and working papers contain sufficient and appropriate evidence to support the certificate and/or report on the financial statements, particularly in areas where significant audit judgement has been used;

iii. the proposed certificate or report is appropriate and supported by the audit evidence.

In addition the Assignment Director should review all working papers prepared by the Assignment Manager.

7 The extent of the Assignment Director's review is a matter of judgement and will vary depending upon the experience and knowledge of the audit team, the
complexity of the audit and the director's assessment of risk to the C&AG and the National Audit Office. As a minimum it will normally include:

- the audit plan;
- examination, certification and report journals;
- the summaries of matters for attention and lead schedules on all working paper files;
- ensuring audit programmes have been completed and signed off;
- the evidence supporting all significant audit judgements;
- correspondence with the client;
- all original documentation produced by the Assignment Manager.

8 The Assignment Director evidences the review by initialling and dating all working papers examined. The Assignment Director bases the review on discussion with the Assignment Manager as to how we have responded to key risks identified at the planning stage with the objective of ensuring that we have obtained sufficient appropriate evidence to enable us to express an opinion.

**Standards assurance reviews**

9 A standards assurance review is a pre-certification review conducted by a manager or director who is independent of the audit team. The review focuses on key areas of professional judgement.

<table>
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<tr>
<th>FAP 10.4</th>
<th>A standards assurance review should be carried out on all financial audits where:</th>
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<tr>
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<td>- the approved audit plan identifies particular sensitivity, or significant audit risks;</td>
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<td>- the Assignment Director recommends that:</td>
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<td>- the audit certificate should be other than unqualified or an adverse opinion should be given;</td>
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<td>- an explanatory paragraph is required to add emphasis to a particular matter;</td>
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<td></td>
<td>- there should be a substantive report where a report is not normally required.</td>
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| FAP 10.5 | An Assignment Director should request a standards assurance review in circumstances other than those indicated above, where significant or difficult judgements have been made. |

| FAP 10.6 | The reviewer should report the results of the review to the Assignment Director. The Assignment Director may not sign the certification journal until all matters raised by the reviewer have been satisfactorily resolved. |

10 Standards assurance reviews are intended to focus on those audits where there is a significant risk to the C&AG and the National Audit Office. They help minimise this risk by ensuring audit judgements are subject to peer review before certification.
11 Whenever a standards assurance review is carried out the working papers should include evidence of the review, the opinion of the reviewer on all significant issues and confirmation that the C&AG can properly issue the certificate in the form in which it is drafted.

12 When carried out a standards assurance review is always carried out prior to certification. The C&AG will not sign his audit report if any material issues raised have not been cleared by the reviewer.

13 These reviews are not a substitute for any other procedure. The Assignment Managers and Directors are entirely responsible for the quality of work performed and for advising the C&AG on the opinion that he may express.

Resolution of Differences

14 If the reviewer disagrees with the Assignment Director both should meet with the Unit AAG to resolve the problem to the reviewer's satisfaction. If agreement is not reached then the Unit AAG will decide. Once agreement is reached the working papers are signed by those responsible for the decision.

Quality control reviews

| FAP 10.7 | Quality control reviews will be undertaken each year to an extent sufficient to provide the C&AG with an assurance that sufficient and appropriate evidence has been collected and evaluated and that the financial audits of the National Audit Office comply with professional standards and office policies. |
| FAP 10.8 | The reviews will be undertaken by knowledgeable and experienced staff independent of the audit being reviewed. |
| FAP 10.9 | The reviews will be conducted in a constructive manner and reports arising from them should deal only with significant matters and include recommendations for improvement, not just criticism of performance. |

15 A quality control review is a post-certification review conducted by a manager or director who is independent of the audit team. The review focuses on key areas of professional judgement and compliance with National Audit Office policies.

16 We undertake quality control reviews to ensure that audit work meets National Audit Office policies, complies with the relevant Auditing Standards and that sound judgements have been made. Each Unit AAG appoints a director and a team of managers who have responsibility for performing reviews on a sample of completed audits in accordance with guidelines issued annually by Unit A. These guidelines will cover the scope of each year's review and the audits that will be reviewed. Unit AAGs can commission additional reviews.
17 Each review determines whether:

- the audit has been properly planned and identified risks have received adequate attention;
- sufficient work has been performed to support the C&AG's opinion on the regularity of the expenditure and income disclosed in the financial statements;
- our conclusions on areas of judgement are explained in and supported by the audit working papers;
- any other opinion given, whether in the C&AG's certificate or otherwise, is fully supported and documented in the examination journal and working papers;
- the financial statements or other financial information on which the C&AG reports, are presented in accordance with Government Accounting and other relevant regulations;
- the wording of the certificate or report is appropriate in the circumstances and conforms to relevant Auditing Standards and Practice Notes;
- the working papers meet the requirements of Auditing Standards in respect of documentation.

18 In the event of a disagreement between the reviewer and audit management, both should meet with the Unit AAG to resolve the problem to the reviewer's satisfaction. If agreement is not reached, then the same procedure as for standards assurance reviews should be followed. This is set out in paragraph 15.

19 A report on all reviews undertaken will be presented by the review team to the Unit AAG and copied to the AAG of Unit A. A summarised report will be presented to the C&AG each year.

20 The reviewer should be knowledgeable about Government Accounting, other applicable regulations, Auditing Standards and Practice Notes and should be approved to carry out quality control work by the Unit AAG.

**Review of contracted-out audits**

| FAP 10.10 | The Assignment Director should obtain sufficient evidence that the scope and quality of the audit work performed by the contractor is adequate for the C&AG's purposes and consider any findings of the contractor. |

21 Standard contracts require firms to carry out first and second stage review procedures and these steps will not be duplicated by the National Audit Office. The Assignment Director will ensure that:

i. the audit partner, by his review, has confirmed that the planned approach has been followed, that the required level of assurance has been obtained from the audit work and that all significant matters for attention have been resolved, or alternatively that a qualified opinion is proposed;

ii. errors have been evaluated and taken into account when reaching an opinion on the financial statements;

iii. specific consideration has been given to any regularity issues and that non-material, but significant, irregularities have been identified for inclusion in the C&AG's report.
A checklist to assist in review of contracted-out audits is included in FMM A3, Review.
NAO Approach to Financial Audit Review

United Kingdom National Audit Office
NAO Approach to Financial Audit Review

Introduction

1. All financial audit work must be carried out with due regard for audit quality. This is recognised by the existence of a dedicated Auditing Standard issued by the Auditing Practices Board, the *revised SAS 240 Quality Control for Audit Work*. The key aspects of SAS 240 (revised) relevant to the review process are summarised at Annex A, within the overall requirement that:

   "Audit engagement partners should ensure that audit work is directed, supervised and reviewed in a manner that provides reasonable assurance that the work has been performed competently." (*SAS 240.10*)

2. The purpose of this paper is to set out the key principles applicable to the conduct of the review of financial audit work undertaken by the National Audit Office. Compliance with the principles and practice of review set out in this paper is essential in ensuring that the NAO meets its obligations under the Auditing Standards.

3. To date the NAO financial audit review process has been in two parts:
   - first stage review, which is conducted primarily by the Assignment Manager but can be delegated in some circumstances, and
   - second stage review conducted by the Assignment Director.

   In setting out the proposed guidance on the conduct of financial audit review we have dropped the terminology of ‘first’ and ‘second’ stage review in favour of the terminology adopted in the *SAS 240 (revised)*, which refers to detailed review and overall review as performed by the engagement partner. Apart from ensuring a more direct read across to the guidance in the Auditing Standard, this will hopefully encourage financial audit staff to reconsider the purpose, scope and timing of financial audit review.

4. In addition to meeting the requirements of *SAS 240 (revised)*, the introduction of the National Audit Office’s computerised audit support software package, Team 21, also requires that the principles and practice of financial audit review should be compatible with this audit tool. The different method of audit working that Team 21 involves are reflected in the specific review practices.

5. This paper covers the following aspects of financial audit review:
   - The objective of financial audit review;
   - The principle of review;
   - Review in the financial audit quality assurance process
   - The responsibilities for review;
   - The Audit Supervisor’s review
   - The Assignment Manager’s detailed review;
   - The Assignment Director’s overall review; and
   - Standards Assurance Reviews.

6. For each section, general principles and practices are stated, together with specific points relevant to their application in the Team 21 environment.
The objective of financial audit review

7. Financial audit review is a quality control process that ensures that more than one level of judgement is brought to bear on the work carried out and the conclusions reached. The overall objective of the review process is to check that the appropriate audit opinion is being given on the financial statements by confirming that:
   - an audit plan has been prepared that takes account of risk and materiality based on an understanding of the audit client and its business(es). The plan sets out how and when the audit will be conducted and how sufficient appropriate audit evidence is obtained to enable conclusions to be drawn to support the audit opinion;
   - the fieldwork has been performed in accordance with the approved audit plan and have resulted in sufficient appropriate audit evidence being obtained to determine with reasonable confidence that the financial statements are free from material misstatement and irregularity;
   - the planning assumptions remain appropriate, taking account of any significant events occurring after the approval of the plan;
   - all material or potentially material matters or issues arising during the audit have been satisfactorily addressed; and
   - the audit has been carried out in accordance with Auditing Standards and the National Audit Office’s financial audit policies and procedures.

The principle of review

8. All audit opinions, financial statements, working papers 1, management letters and other communications of substance are to be reviewed by someone other than the person who prepared them (the preparer).

1 In Team 21 the term working paper covers the procedure summary (audit programme), procedure steps (test results), supporting documents (including any hard copy documents) and exceptions.

Review and the financial audit quality assurance process

9. Review is only one aspect of the financial audit quality assurance process. Direction and supervision are equally important elements in securing audit quality and all three are closely linked.

10. Direction involves ensuring that all members of the audit team have the appropriate skills to undertake the assignment, are aware of their responsibilities, the nature of the client’s business and accounting and auditing issues that may arise. Audit planning is an important means of providing direction to audit staff. Assignment Directors play a key role in the development of the plan and are responsible for the approval of the audit planning strategy prior to the commencement of audit work.

11. Supervision includes considering the progress of the audit, ensuring that the audit work is being carried out in accordance with the audit plan and that significant issues arising during the audit are being addressed.

12. Effective direction and supervision will help to ensure that quality is built into audit processes from the outset and will in turn facilitate efficient and effective review.

The responsibilities for review

13. For all financial audits, the responsibilities for review are as follows:
   - The Audit Supervisor is responsible for supervising the work of any assistants during the audit and for ensuring that the audit is adequately documented. This includes the responsibility for ensuring the work is
performed in accordance with the approved plan and is adequately documented. The Audit Supervisor may also undertake detailed review under delegated arrangements (see paragraph 24).

- The Assignment Manager is responsible for ensuring that a detailed review is performed (see paragraphs 18 to 26 below).
- The Assignment Director is responsible for carrying out an overall review (see paragraphs 27 to 34 below).

14. For all audits where the approved plan identifies particular sensitivity or significant audit risks, or where the Assignment Director is recommending that the audit certificate should be qualified, an independent Financial Audit Director should perform a standards assurance review (see paragraphs 35 to 37 below).

15. Effective review demands that each member of the audit team fully understands their responsibilities precisely as well as the roles of other members of the audit team. All members of the audit team are responsible for presenting the results of their work to a sufficient standard to enable the next member in the review hierarchy to complete their role efficiently and effectively.

The Audit Supervisor's review

16. The Audit Supervisor will usually review the audit work performed by the audit examiners as well as complete the main sections in the audit file, such as the procedure summary and lead schedule (NAO 940) for each audit area, before presenting the completed audit file to the Assignment Manager.

17. The Assignment Director is ultimately responsible for ensuring that all material and potentially material matters or issues raised during the audit are satisfactorily resolved.

The Assignment Manager's detailed review

18. The Assignment Manager's detailed review is concerned with both the quality and the efficiency of the audit, and entails a review of:

- the audit plan;
- the results of audit procedures;
- the financial statements; and
- the recommended audit opinion.

19. The detailed review should confirm that:

For the audit plan

- the priorities identified by the Assignment Director and the audit team have been incorporated in the plan;
- the proposed approach is consistent with Auditing Standards and will meet the objectives of the audit in an effective and efficient manner; and
- the attention of the Assignment Director is drawn to any matters that require resolution before the start of audit fieldwork or that require resolution by the Assignment Director during the audit.

For the results of audit procedures

- the work has been performed in accordance with National Audit Office financial audit policies and Auditing Standards and in accordance with the audit plan;
• the planning assumptions remain appropriate, taking account of any significant events occurring after the approval of the audit plan that have caused approved amendments to be made;
• the work performed is adequate in the light of results obtained and has been adequately documented, particularly in areas where professional judgement has been exercised;
• that appropriate consultations with the Assignment Director and the Financial Audit Support Team have taken place and that the results of such consultations have been documented, and that all significant matters have been raised for further consideration with the Assignment Director;
• the objectives of the audit procedures have been achieved; and
• the conclusions are consistent with the work performed.

For the financial statements
• the amounts disclosed in the financial statements are in agreement with the audit working papers, which in turn, are consistent with the client's accounting records;
• the financial statements have been properly prepared in accordance with the relevant financial reporting framework, including any applicable legislation, the Resource Accounting Manual and Government Accounting and other applicable regulations and accounts directions; and
• the financial statements are consistent with any other information published with them and our understanding of the clients business.

For the proposed opinion
• the certificate is clearly expressed, conforms to relevant Auditing Standards and is appropriate in the circumstances; and
• the memorandum summarising significant decisions made during the audit.

20. The Assignment Manager is also responsible for ensuring that the audit files and examination journal contain an accurate summary of the audit and that all significant matters arising are recorded in the lead schedules.

21. The Assignment Manager should ensure that relevant audit control documentation (the Examination and Certification Journals and the relevant audit planning, audit completion and disclosure checklists) has been satisfactorily completed. This includes the completion of the Executive Summary and account area lead schedules. There may be no need to prepare lists of review points provided that the working papers are otherwise complete and, in particular, record the reasoning on all significant matters which require the exercise of judgement and clearly evidence the extent and timing of the review process. The reviewer is responsible for ensuring that questions raised and points made during the review (Coaching Notes in Team 21) have been answered satisfactorily and documented in the working papers before the account is certified.

22. The Assignment Manager’s detailed review involves the consideration of the results of the audit procedures as they are recorded in audit working papers and ensuring that these are satisfactory. It also involves the more difficult task of identifying those aspects of the audit procedures that should be recorded in the audit documentation but are not. Some general considerations that all staff engaged in review, or in preparing work for review, may wish to bear in mind when conducting their review of audit files are set out in Annex B.
23. The review of audit working papers can be undertaken at various stages through the audit where this aids efficiency. The reviewers should however bear in mind that an important aspect of review is to consider the audit documentation as a whole, to ensure the completeness of the audit documentation but also to consider the consistency of the audit documentation with other information in the file. Reviewers should always remain alert to potential inconsistencies in the audit documentation and be prepared to conduct more in-depth review procedures or make further enquiries of the audit team where such inconsistencies arise.

24. The Assignment Manager may, in consultation and with the agreement of the Assignment Director, delegate aspects of the detailed review to an Audit Supervisor. In deciding whether to delegate review the Assignment Manager and Assignment Director will consider:
   - the skills and experience of the Audit Supervisor;
   - the nature and complexity of the audit and the client; and
   - the assessment of audit risk.

25. The Assignment Manager will continue to be responsible for ensuring that the objectives of review have been met in accordance with the basic principle of review but will not duplicate the work of the Audit Supervisor. Subject to the minimum requirements set out in paragraph 19, the extent of the Assignment Manager’s detailed review of evidence recorded in support of individual audit tests and procedure steps is left to their judgement. In making such an evaluation the Assignment Manager will consider, among other things, the complexity of the audit, our previous experience with the client and the experience of the Audit Supervisor. Assignment Managers cannot review their own work.

26. It is important that the results of the Assignment Manager’s review are available to the Assignment Director, and the Assignment Manager should also consider whether further explanation of the audit or the documentation for the benefit of the further reviews.

The Assignment Director’s overall review

27. The Assignment Director should consider the quality of the audit by performing an overall review of working papers. This review should be sufficient to ensure that the working papers contain sufficient appropriate evidence to support the conclusions reached and for the audit report to be issued. The Assignment Director cannot delegate the overall review to the Assignment Manager or any other member of the audit team.

28. Although the review need not cover all working papers, in performing the overall review the Assignment Director will consider the following:
   - the financial statements;
   - notes of all significant exceptions or matters arising recorded in the Executive Summary and in the individual account area NAO 940s (to satisfy himself/herself that detailed review has been completed);
   - all critical areas of judgement, and the quality of audit evidence relating to high risk areas;
   - the continuing appropriateness of the going concern basis;
   - overall analytical review;
   - letters of representation;
   - the post balance sheet events review;
• any working papers prepared by the Assignment Manager;
• the proposed audit opinion;
• the information issued with the financial statements; and
• any other areas which the Assignment Director considers important.

29. The extent of the review of working papers is left to the Assignment Director's judgement. In making such a judgement, the Assignment Director will consider, among other things, the complexity of the audit, our previous experience of the client, and the experience of the audit staff and Assignment Manager along with his own involvement in the audit (e.g. in dealing with closing issues with the client).

30. Provided that there is an effective Assignment Manager review, the Assignment Director's overall review will focus on the financial statements and the audit completion documentation. In these circumstances, the Assignment Director needs only review the detailed audit working papers if alerted to examine matters brought to his or her attention by the completion or detailed review documentation.

31. The Assignment Director will as a minimum evidence the performance of his review by "signing-off":
• The individual account area NAO 940s;
• The Executive Summary, as the memorandum summarising significant decisions made during the audit;
• by adding an appropriate minute the Examination Journal; and
• by initialling the opinion paragraph in the audit certificate on the certification journal;

32. The Assignment Director may at his or her discretion "sign-off" individual working papers reviewed.

33. Any matters requiring further action should be recorded in review notes (coaching notes in Team 21). The Assignment Director is responsible for ensuring that these matters are satisfactorily resolved prior to the issue of the audit opinion.

34. The Assignment Director should also ensure any that significant matters which have arisen are brought to the attention of the appropriate level of client management, and the audit committee.

Standards Assurance Reviews

35. A Standards Assurance Review is an independent review performed for all audits where the plan identifies particular sensitivity or significant audit risks, or where the Assignment Director is recommending that the audit certificate should be qualified. It entails a review of the financial statements, the proposed audit opinion and selected working papers at the reviewer's discretion to provide additional assurance that the audit objectives have been achieved.

36. A Standards Assurance Review is performed by a Financial Audit Director other than the Assignment Director. The independent reviewer should be familiar with the auditing and reporting practices used and sufficiently objective not to be unduly influenced by the views of the Assignment Director.

37. The benefits of a Standards Assurance Review can best be realised when the independent reviewer is designated as early as possible in the audit. This means that they are available for consultation at the audit planning stage, review of any interim work and consultation on various accounting and auditing matters as they arise during the conduct of the audit.
ANNEX A:
SAS 240 requirements in respect of the review process

(1) Direction, supervision and review

SAS 240.10 states that:

"Audit engagement partners should ensure that audit work is directed, supervised and
reviewed in a manner that provides reasonable assurance that the work has been performed
competently."

Direction of audit staff involves them being informed of their responsibilities, the nature of the
entity's business, accounting or auditing problems that may arise, and the overall audit plan.
Audit staff are encouraged to raise any questions they may have with more experienced
team members.

It is particularly important that the objectives of the work to be performed are understood by
junior audit staff who possess limited audit experience and may draw inappropriate
conclusions as a result of misunderstandings. Appropriate team-working and training, assist
junior audit staff in clearly understanding the objectives of the work they have been assigned.

Audit planning is an important means of providing direction to audit staff. Audit engagement
partners are responsible for the prompt approval of the audit plan and the audit programme
and any subsequent changes thereto. SAS 200 'Planning' requires an overall audit plan to be
prepared as well as an audit programme, describing the nature, timing and extent of planned
audit procedures. The audit plan sets out the supervision and review responsibilities,
including those of the audit engagement partner and other quality control processes specific
to the audit engagement.

Supervision is closely related to both direction and review and includes:

(a) considering the progress of the audit;
(b) considering whether audit staff have the competencies necessary to perform the audit
work expected of them and sufficient time to carry out their work, whether they
understand their instructions and whether the work is being carried out in accordance
with the overall audit plan and audit programme;
(c) addressing significant accounting and auditing questions raised during the audit,
assessing their significance and modifying the overall audit plan and audit programme as
appropriate; and
(d) identifying matters for further consideration during the audit.

Work performed by audit staff is reviewed by other more senior audit staff or the audit
engagement partner. Reviewers consider whether:

(a) the work has been performed in accordance with the firm’s procedures and in
accordance with the audit programme;
(b) the work performed is adequate in light of the results obtained and has been
adequately documented;
(c) significant audit matters have been raised for further consideration;
(d) appropriate consultations have taken place and the results of such consultations have
been documented;
(e) the objectives of the audit procedures have been achieved; and
(f) the conclusions are consistent with the results of the work performed.

Audit engagement partners perform an overall review of working papers. The review is
sufficient for them to be satisfied that the working papers contain sufficient appropriate
evidence to support the conclusions reached and for the auditors’ report to be issued.
Although the review may not cover all working papers, it covers:

(a) all critical areas of judgement, especially any relating to difficult or contentious matters
identified during the audit;
Audit engagement partners document the extent of their review and its timing so as to demonstrate that it was completed before the auditors' report was signed. The audit engagement partner reads the auditors' report, the financial statements and the information issued with the financial statements.

Where questions or points are raised in writing during the review of working papers they need not be retained at the end of the audit provided that the working papers are otherwise complete and, in particular, record the reasoning on all significant matters which require the exercise of judgement.

(2) Independent review

SAS 240.11 states that:
"Firms should ensure that an independent review is undertaken for all audit engagements where the audited entity is a listed company. In addition, firms should establish policies setting out the circumstances in which an independent review should be performed for other audit engagements, whether on the grounds of the public interest or audit risk."

SAS 240.12 states that:
"The independent review should take place before the issue of the auditors’ report in order to provide an objective, independent assessment of the quality of the audit. Firms’ policies should set out in detail the manner in which this objective is to be achieved."

The independent review is performed by one or more independent partners having sufficient experience and authority to fulfil the role. Where sole practitioners and small firms identify audit engagements requiring independent review, a suitably qualified external consultant may perform the role of independent partner and conduct the independent review. In such circumstances, appropriate arrangements are made to safeguard client confidentiality.

The independent review involves consideration of the following matters in order to assess the quality of the audit:

(a) the objectivity of the audit engagement partner and key audit staff and the independence of the firm. This normally includes a review of the summary of factors that could be perceived as threatening either the audit team’s objectivity or the independence of the firm, as set out above;

(b) the rigour of the planning process including the analysis of the key components of audit risk identified by the audit team and the adequacy of the planned responses to those risks;

(c) the results of audit work and the appropriateness of the key judgements made, particularly in high risk areas;

(d) the significance of any potential changes to the financial statements that the firm is aware of but which the management of the audited entity has declined to make;

(e) whether all matters which may reasonably be judged by the auditors to be important and relevant to the directors, identified during the course of the audit, have been considered for reporting to the board of directors and/or the audit committee (or their equivalents); and

(f) the appropriateness of the draft auditors’ report.

The independent review does not involve a detailed review of all audit working papers, nor does it affect the responsibilities of the audit engagement partner. Its purpose is to provide an independent assessment of the quality of the audit, including the key decisions and
significant judgements made. The extent of the review depends on the complexity of the engagement, the risks associated with the audit and the experience of the audit engagement partner and the audit staff.

The independent partner is involved sufficiently early to allow for all material matters identified during the review process to be dealt with properly. Towards the end of the audit the independent partner considers the adequacy of proposed disclosures in the financial statements relating to significant matters identified during the course of the audit. In all cases, the independent review is completed before the issue of the auditors’ report. The scope and conclusions of the independent review are documented.

Where independent partners have undertaken the independent review of the audited entity for a number of years, firms recognise the risk that their objectivity may become impaired. Firms’ policies provide for the replacement of independent partners where their objectivity might be impaired, for this or any other reason.

SAS 240.13 states that:
"Firms should establish procedures for dealing with conflicting views regarding important matters between audit staff, between audit staff and the audit engagement partner, and between the audit engagement partner and the independent partner."

The procedures established by firms for dealing with conflicting views between audit staff, between audit staff and audit engagement partners, and between the audit engagement partner and the independent partner are normally built into the consultation procedures set out above. Firms’ procedures deal with the resolution of issues at an early stage and contain clear guidelines as to the successive steps to be taken thereafter. Firms’ procedures also require documentation of how issues are concluded. Firms employing external consultants in the capacity of independent partner make arrangements for the possibility of disagreements; such arrangements might, for example, include consultation with another practitioner or a professional body.

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ANNEX B:
Financial Audit Detailed Review – Issues to Consider

The following list sets out some of the issues that the reviewer may wish to consider when conducting a detailed review of the audit working papers. The list is not intended to be exhaustive. When reviewing the audit documentation the reviewer should always focus on the audit areas of greatest materiality and audit risk.

Financial Statements

- Do they agree with the lead schedules (including any late adjustments)?
- Do they present the account figures in a logical manner?
- Do they reflect our knowledge of the clients business?
- Has the up to date accounts disclosure checklist been completed satisfactorily?
- Do the financial statements comply with the relevant disclosure requirements?

Quality Control

- Is there an up to date letter of engagement?
- Has the overall conclusion on the file been completed, for sign off by the Assignment Director?
- Have the audit planning and completion questionnaires been properly completed?
- Have the objectives and conclusions against each audit procedure step been properly signed off?
- Have the lead schedules and account area summaries (NAO 940) been properly completed and signed-off?

Planning
- Have all the points raised at the planning stage of the audit been adequately documented?
- Have all issues identified during planning been properly addressed in the audit file?
- Do the proposed audit procedures take account of the materiality and degree of risk of the amounts involved?
- Has the extent of computer involvement in the audit been considered?
- Has the level of testing been properly determined?
- Is there a clear linkage between the assessed risks and the audit procedures?

Professional Judgement
- Has materiality, including materiality by context and nature, properly assessed?
- Is the risk of misstatement associated with an account balance / assertion properly assessed?
- Is the audit evidence in support material balances/specific risks of misstatement sufficient and appropriate?
- Where assurance is being taken from management’s high-level monitoring procedures, has sufficient appropriate evidence been gathered (and documented) to corroborate the design effectiveness and operation of these controls?
- Have the clients accounting systems been documented and assessed as to their adequacy for the basis for preparing financial statements?
- If sample sizes have been overridden during the audit, is this reasonable?

Efficiency
- Are all audit procedures relevant to the true and fair/regularity opinion?
- Are all analyses on the audit file:
  i. necessary?
  ii. consistent with the final analysis required on the financial statements?
- Have all potential sources of assurance (eg. internal audit, management’s own review of the financial statements) been taken into consideration in determining the extent of audit procedures?

Analytical Procedures
- Have explanations been provided for all major variations identified by analytical procedures and any other figures in the accounts?
- Are there any apparent anomalies in the financial statements?

Audit Evidence
- Is there adequate evidence of the work performed?
- Are the levels of testing adequate?
- Is the audit work sufficient? ie, does it cover all relevant financial statement assertions:
  i. existence, valuation and ownerships of assets;
  ii. existence, valuation and completeness of liabilities;
  iii. occurrence, measurement and regularity for expenditure;
  iv. completeness, measurement and regularity of income?
• Is there sufficient audit evidence to support late adjustments to the accounts?
• Do the working papers contain adequate conclusions?
• Have all errors been evaluated?
• Are we relying on unsubstantiated management representations included in the letter of representation?

**Common Problem Areas**
- Does the audit file adequately document the audit procedures in the following areas:
  a. ownership of land and buildings;
  b. existence of fixed assets, particularly amounts brought forward from previous years
  c. the reconciliation of the general ledger with the fixed asset register.
  d. existence of stock
  e. reliance on third party evidence;
  f. cut-off
  g. recoverability of old debts;
  h. auditing the bank reconciliation;
  i. completeness of creditors and accruals;
  j. review of the need for, and adequacy of, provisions;
  k. adequacy of post balance sheet events review;
  l. adequacy of going concern review
  m. completeness of income?

**Audit Administration**
- Has all relevant standing information been reviewed and updated?
- Has output information been updated on RMS?
- Has the audit fee been invoiced?

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**ANNEX C:**
**Assignment Manager's Detailed Review - Evidencing Requirements**

As a minimum the evidencing of the detailed review will cover the following documentation at the key stages of the audit:

*For the audit plan*
- The Audit Strategy Memorandum [Audit Planning Memorandum];
- The audit risk assessment;
- The evaluation of controls;
- The assessment of materiality;
- The proposed audit approach (for Team 21, including the detailed procedure steps); and
- The audit planning checklist (NAO112).

*For the results of audit procedures*
- Each account area audit programme test and the overall audit programme; and
- The account area summary form NAO 940, ensuring that:
• clear recommendations are made in respect of all significant matters arising; and
• Positive conclusions are made for each account area.

For the financial statements
• The accounts disclosure checklist (NAO 113).

For the proposed opinion
• the audit completion checklist (NAO 114).

For client communications
• the draft management letter paragraphs

In Team 21, the reviewer will evidence their review by “signing-off” the account area procedure summary, each procedure step and exception. The Assignment Manager will evidence the completion of the detailed review by the Team 21 “signing-off” to confirm that all audit work is complete, all necessary KIVs have been cleared, and that the entire audit been reviewed and signed off as appropriate to allow certification.
Review of Financial Audit Work
REVIEW OF FINANCIAL AUDIT WORK

Introduction
1. This audit circular is for the attention of all Financial Audit staff.
2. It provides guidance to financial auditors on how to meet the requirements of the revised SAS 240 Quality Control for Audit Work. The issue of this circular and attached paper NAO Approach to Financial Audit Review is also intended to fill a perceived gap in the standard guidance available to our financial auditors.

Background
3. The overall requirement of the revised SAS 240 Quality Control for Audit Work with regard to the review process is as follows:
   "Audit engagement partners should ensure that work is directed, supervised and reviewed in a manner that provides reasonable assurance that the work has been performed competently" (SAS 240.10)
4. Audit 21 places the emphasis on building quality into our audit work through all of the key stages of the audit, rather than trying to "inspect" quality in post-hoc as part of the review process. Review processes remain, however, a crucial means of ensuring that the appropriate audit opinion is given on a set of financial statements.
5. Chapter 10 of the NAO Financial Audit Manual provides guidance on review, based upon the original SAS 240. In response to the issue of the revised SAS, Unit D (FAST) and the Financial Audit Development Group considered current guidance available to the Office in the area of review and agreed to develop additional material. The development of this material also coincides with the implementation of Team21, and reflects the review parameters which have been built into Team21. The guidance has been distributed in draft form to Senior Management and financial audit directors. It was also discussed at the recent Senior Management Financial Audit Conference.

New Guidance on Review
6. The paper NAO Approach to Financial Audit Review sets out detailed guidance for all financial audit staff. The paper covers all aspects of the review process, from its fundamental objectives through to the review roles of individuals involved in the audit process. Annexes to the guidance provide relevant extracts from the SAS, and provide pointers as to how the detailed (or first stage) review should be carried out and evidenced. Our objective in putting forward this additional guidance on review is to provide a reference point to staff undertaking review work, particularly those who are new to the role. The guidance should engender consistent application of the fundamental principles of review across the office as a whole to ensure that we comply fully with the requirements of the revised SAS 240.

Conclusion
7. Appropriate training materials are under development to support this guidance. Details will be issued in due course. In the meantime, all financial auditors should familiarise themselves with the guidance, and should consider what changes, if any, are required to current working practices in order to ensure full compliance.
8. Any queries regarding the application of this circular and associated guidance should be addressed to the FAS Team on extension 7282, e-mail Z3-FAST.

Mike Suffield
Director, Financial Audit Policy and Support
6 February 2002
Quality Assurance Cold Reviews

United Kingdom National Audit Office
Quality Assurance Cold Reviews

FINANCIAL AUDIT QUALITY ASSURANCE REVIEW CHECKLIST

Guidance notes for reviewers

1. Financial Audit Policy (FAP) 10.7 requires that quality control reviews should be undertaken each year to provide the C&AG with an assurance that sufficient and appropriate evidence has been collected and evaluated and that the NAO’s financial audits comply with professional standards and office policies. And FAP 10.9 notes that such reviews should be “conducted in a constructive manner and reports arising from them should deal only with significant matters and include recommendations for improvement, not just criticism of performance.”

2. Each review should consider whether:
   - The audit has been properly planned and identified risks have received adequate attention;
   - Sufficient work has been performed to support the C&AG’s opinion on the regularity of the expenditure and income disclosed in the financial statements;
   - Our conclusions on areas of judgement are explained in and supported by the audit working papers;
   - Any other opinion given, whether in the C&AG’s certificate or otherwise, is fully supported and documented in the examination journal and working papers;
   - The financial statements or other financial information on which the C&AG reports are presented in accordance with Government Accounting and other relevant regulations;
   - The wording of the certificate or report is appropriate in the circumstances and conforms to relevant Auditing Standards and Practice Notes;
   - The working papers meet the requirements of Auditing Standards in respect of documentation.

3. The Financial Audit Manual and the Audit 21 approach are not prescriptive with regard to standard documentation, but this does not diminish the need for good documentation and review of documentation remains the basis of our cold review quality assurance procedures. The Quality Assurance Review Checklist is, however, concerned with the overall quality and reliability of the
audit evidence aided by compliance with APs, through the effective application of Audit 21. In considering the satisfactory execution of these policies the QA reviewer should focus on the soundness of judgements made at various stages of the audit and how well they are recorded. In particular the reviewer should be concerned primarily about the quality and sufficiency of documented audit evidence and whether key risks have been properly addressed rather than about the form of documentation (for example, whether the standard NAO forms were completed).

4. The questionnaire is, therefore, a checklist for the reviewers to ensure that they consider all key areas in the audit to help them obtain an independent view as to whether sufficient reliable audit evidence was obtained to support the opinions given. The questionnaire should not be taken to imply a mechanical or routine process, and the questions are pitched at a high level – thought needs to be given to the underlying procedures that would allow a ‘Yes’ answer to each question. To assist the reviewer in this respect annex 1 to the questionnaire provides a number of more detailed questions that might be considered when completing the checklist.

**Reporting the results of QA reviews**

5. Following completion of the questionnaire, including specific conclusions on various aspects of planning, fieldwork, completion and management and review, each audit should be given an overall assessment from the following categories:

- ‘A’ satisfactory in all significant respects
- ‘B’ some significant departures but audit opinions sound
- ‘C’ significant departures and opinions at risk

It is not intended that reporting the results of individual cold reviews should be rigidly regimented. Review teams (AMs and directors) should consider to what extent the questionnaire and conclusions should be supplemented by additional notes or other documentation, bearing in mind:

- the review itself should be properly documented;
- comments or suggestions that may help audit teams better apply the principles of ‘Audit 21’, or otherwise improve future audits, should be provided.
6. Provisional review findings should be made available to the assignment director and manager who should be given the opportunity to discuss them with the review team before finalisation. This process should be appropriately time limited from the outset – in normal circumstances the assignment personnel should be allowed 5 working days to consider the provisional findings and a two hour meeting with the review team. However, the review team may, at their discretion, increase these time limits for particularly complex or difficult audits/reviews. And this finalisation process will not preclude earlier discussion between reviewers and reviewed to clarify facts or to aid the reviewer’s understanding of the assignment.

7. The reviewers should aim to obtain the agreement of the relevant assignment director and manager to any findings. However it is recognised that occasionally this may not be possible and any disagreements, extenuating factors etc., that the assignment personnel wish to be noted should be recorded.

8. A suggested format for the recording of findings and the assignment director/manager comments thereon is given at Annex 2 to the questionnaire. This should also be used to record any suggestions of the reviewer for ways in which the efficiency of the audit or its value added could be enhanced. Reviewers should also note any comments or recommendations regarding how well the principles of ‘Audit 21’ appear to have been applied on the audit.

9. After discussion of provisional findings with the assignment director and manager, and completion of the director review of the QA review, the finalised review papers should be submitted to FAST, and copied to the assignment manager. FAST will, in due course, notify the results of the reviews to the relevant AAGs – but, if individual AAGs require, a copy of the finalised review papers may be submitted to them at the same time as to FAST.

**Time Budget**

10. As a guide, it is anticipated that the time taken to complete a review, including writing up and discussing the report with the assignment director and manager should not usually exceed 21 manager hours and 3 director hours, except in the case of very large jobs.
This checklist, when completed, must not be copied or otherwise circulated without the prior approval of the Unit Financial Audit Director.

Account

Year end

Assignment Director

Manager

Supervisor

Other Personnel

Total Audit Hours

QA review Director

Manager

Date of Review
## FINANCIAL AUDIT QUALITY ASSURANCE REVIEW CHECKLIST

<table>
<thead>
<tr>
<th></th>
<th>PLANNING - Understanding the business, understanding the accounting and internal control systems, determining materiality, assessing material risks and designing audit procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Did the team obtain a comprehensive understanding of the client’s business and operations, in terms of:</td>
</tr>
<tr>
<td></td>
<td>• The external environment</td>
</tr>
<tr>
<td></td>
<td>• The framework of authorities</td>
</tr>
<tr>
<td></td>
<td>• The overall control framework</td>
</tr>
<tr>
<td></td>
<td>[Tools - NAO 900 and NAO 900 Workbook]</td>
</tr>
<tr>
<td></td>
<td>Were appropriate preliminary analytical procedures used to help understand the business and identify areas of potential risk?</td>
</tr>
<tr>
<td></td>
<td>[FMM T5]</td>
</tr>
<tr>
<td>A1</td>
<td>Did the team obtain a comprehensive general understanding of the client’s information systems environment and the risks to financial reporting posed by the client’s use of IT?</td>
</tr>
<tr>
<td></td>
<td>Was the need for IT specialist assistance considered?</td>
</tr>
<tr>
<td></td>
<td>[Tools - NAO 905, NAO 906]</td>
</tr>
<tr>
<td>A2</td>
<td>Have the team considered the key control procedures and management’s monitoring activities within discrete applications?</td>
</tr>
<tr>
<td></td>
<td>[Tool - Review of Application Controls NAO 910 series]</td>
</tr>
<tr>
<td>A3</td>
<td>Have we considered materiality in our audit planning, taking account of the key drivers of the client business?</td>
</tr>
<tr>
<td></td>
<td>Was materiality set at an appropriate level?</td>
</tr>
<tr>
<td></td>
<td>[FMM T2]</td>
</tr>
</tbody>
</table>
| A6 | Have we carried out an assessment of the risks arising from the activities of the client, considering the likelihood of their occurrence, their potential impact and management’s response? Have we identified appropriate management controls that address the identified risks and considered the implications for our audit approach of any residual audit risk?  

[Tools - NAO 920, NAO 925] |

| A7 | Have the results of our understanding of the business and our risk assessment been properly applied in determining an audit approach that focuses on specific risk factors while providing an acceptable level of assurance across the financial statements as a whole?  

For instance, does the approach consider for each account area:  

- the various elements of the population at an appropriately disaggregated level  
- each financial statement assertion  
- an appropriate use of controls assurance from higher level (monitoring) and mitigating controls (having carried out walk-through tests as appropriate)  
- an appropriate use of comparative and modelling analytical procedures, or other substantive procedures  

[FMM T1, Audit Guides] |

| A8 | Has the audit approach as set out in the audit plan been properly reflected in detailed audit programmes?. |

Has there been appropriate quality control in the planning process? |
<table>
<thead>
<tr>
<th>A10</th>
<th>Overall conclusion on planning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conclude as to whether the planning process was:</td>
</tr>
<tr>
<td></td>
<td>(i) Timely</td>
</tr>
<tr>
<td></td>
<td>(ii) Comprehensive</td>
</tr>
<tr>
<td></td>
<td>(iii) Appropriately documented</td>
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<tr>
<td></td>
<td>(iv) Performed and reviewed by suitably qualified staff</td>
</tr>
<tr>
<td></td>
<td>(v) Based on sound judgements</td>
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<tr>
<td></td>
<td>Compliance</td>
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<td>---</td>
<td>-------------</td>
</tr>
<tr>
<td>B</td>
<td>FIELDWORK - Performing audit procedures and evaluating results</td>
</tr>
<tr>
<td>B1</td>
<td>If placing reliance on controls, have we tested them, ensuring that there is evidence to confirm their operation over the whole period?</td>
</tr>
<tr>
<td>B2</td>
<td>If placing reliance on substantive analytical procedures, was an expectation value calculated at the outset, and the reliability, independence and quality of relevant supporting data assessed?</td>
</tr>
<tr>
<td>B3</td>
<td>If placing reliance on tests of detail, have we identified and tested across the entire population and evaluated the impact of any errors found?</td>
</tr>
<tr>
<td>B4</td>
<td>Have we evaluated the results of the different audit procedures for each account area to able to conclude whether the requisite level of assurance can be taken?</td>
</tr>
<tr>
<td>B5</td>
<td>Have we combined the results of our different test evaluations to be able to conclude whether or not there could be material misstatement or irregularity?</td>
</tr>
<tr>
<td>B6</td>
<td>Has there been appropriate quality control in the fieldwork process?</td>
</tr>
<tr>
<td>B7</td>
<td>Overall conclusion on fieldwork</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------</td>
</tr>
<tr>
<td></td>
<td>Conclude as to whether the fieldwork was:</td>
</tr>
<tr>
<td></td>
<td>(i) Timely</td>
</tr>
<tr>
<td></td>
<td>(ii) Complete</td>
</tr>
<tr>
<td></td>
<td>(iii) Performed and reviewed by suitable qualified staff</td>
</tr>
<tr>
<td></td>
<td>(iv) Appropriately documented and summarised</td>
</tr>
<tr>
<td></td>
<td>(v) Supportive of the judgements made</td>
</tr>
<tr>
<td>C</td>
<td><strong>COMPLETION - Overall review and reporting</strong></td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>C1</td>
<td>Have we performed an overall review of the financial statements?</td>
</tr>
<tr>
<td>C2</td>
<td>Have we reviewed the statement on the system of internal financial control?</td>
</tr>
<tr>
<td>C3</td>
<td>Has the assignment director reviewed the other information that is to be published with the financial statements? (SAS 160)</td>
</tr>
<tr>
<td>C4</td>
<td>Have we carried out a review of subsequent events?</td>
</tr>
<tr>
<td>C5</td>
<td>Have we obtained written management representations?</td>
</tr>
<tr>
<td>C6</td>
<td>Has the audit been appropriately summarised?</td>
</tr>
<tr>
<td>C7</td>
<td>Have we reported to management at the conclusion of the audit?</td>
</tr>
<tr>
<td>C8</td>
<td>Has there been appropriate quality control in the completion process?</td>
</tr>
<tr>
<td>C9</td>
<td>Overall conclusion on completion</td>
</tr>
</tbody>
</table>

Conclude as to whether the completion was:

(i) Timely

(ii) Comprehensive

(iii) Performed and reviewed by suitably qualified staff

(iv) Appropriately documented and summarised

(v) Supported the audit opinion
<table>
<thead>
<tr>
<th></th>
<th>MANAGEMENT, REVIEW AND OTHER MATTERS</th>
</tr>
</thead>
</table>
| D1 | Has the assignment director documented a Financial Audit Risk Assessment covering the capability, objectivity and independence of the NAO team assigned to the audit, bearing in mind the quality and integrity of the client management and any specialist skills required, and including (for our non-statutory / agreement audits) appropriate pre-engagement investigations?  

*[AC 16/01 applicable 2001/02 year ends]* |
| D2 | Have appointment procedures been reconsidered at the completion of the audit in respect of our non-statutory (agreement) audits?  

*[AC 16/01 applicable for 2001/02 year ends]* |
| D3 | Was there a current engagement letter, agreement letter or memorandum of understanding covering the assignment. |
| D4 | Have suitable staff been allocated to the assignment? |
| D5 | Have sufficient first and second stage reviews been carried out? |
| D6 | Has a standards assurance review been carried out where required?  

*[FAPs 10.4, 10.5 and 10.6 and AC 17/01 (AC 17/01 applicable for 2001/02 year ends)]* |
| D7 | Has proper consideration been given to any further applicable NAO Financial Audit Policies not explicitly covered under the above steps, e.g. with regard to Fraud (Financial Audit Manual Chapter 12), Using the work of others (Chapter 11) and Contracted out audits (Chapter 10). |
Has proper consideration been given to the potential for money laundering and the adequacy of the client’s procedures to prevent / detect such activity.

Overall Conclusion on management and review
Conclude as to whether the management and review process was:

(i) Timely
(ii) Comprehensive
(iii) Appropriately documented
(iv) Performed by suitable qualified and experienced staff
(v) Supportive of the audit and management judgements made and the certificate and report
OVERALL CONCLUSIONS

The QA reviewer must come to an overall assessment as to whether there appears to have been sufficient and appropriate evidence to support the key judgements made and the audit opinions given, and whether the audit work carried out has complied with professional standards and Office policies.

This assessment will draw upon the conclusions made at steps A10, B7, C9 and D9, dealing with planning, fieldwork, completion and management & review respectively.

Each audit reviewed should be categorised as ‘A’, ‘B’ or ‘C’ as follows:

‘A’ In all significant respects the audit evidence is sufficient and reliable, judgements appear sound and professional standards and Office policies have been complied with.

‘B’ Audit evidence is sufficient and reliable to support the opinions given, and judgements appear to be sound, but there have been some significant departures from professional standards or from Office policies which impact adversely on the overall quality of the work.

‘C’ Audit evidence is insufficient, judgements are not adequately supported and/or documented, and professional standards and Office policies have not been complied with to the extent that puts the audit opinions at risk.

The QA reviewer should summarise the basis of his assessment, and sign-off below. If ‘A’, it may be sufficient to simply refer to the drawing of positive conclusions at steps A10, B7, C9 and D9, along with a positive statement that the files reviewed were in compliance with NAO procedures and policies and GAAS and GAAP as far as is applicable to that audit/account. ‘B’ or ‘C’ conclusions should be explained in greater depth however.

Overall assessment A B C (circle as appropriate)

Reasons for overall assessment:

Signatures: Review manager ........................................ Date .....................

Review director .......................................................... .....................
**GUIDANCE ON ANSWERING CHECKLIST QUESTIONS**

The detailed questions below, which relate to each of the checklist questions as indicated, are to provide reviewers with guidance, if required, in considering their answers to the checklist questions. Further guidance can be obtained by reference to the relevant Financial Audit Policy (FAP) in the Financial Audit Manual.

<table>
<thead>
<tr>
<th>Manual FAP Ref</th>
<th>A1, A2, A3, A4. Understanding the business, understanding the accounting and internal control systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.3 6.4 6.5 6.6 6.7 6.8 6.9 6.10 6.11 6.14</td>
<td>• Do the audit files contain up to date information/notes on:</td>
</tr>
<tr>
<td></td>
<td>(i) The client’s purposes/objectives and statutory basis;</td>
</tr>
<tr>
<td></td>
<td>(ii) The regularity and general legal frameworks;</td>
</tr>
<tr>
<td></td>
<td>(iii) The client’s organisational and geographical structure;</td>
</tr>
<tr>
<td></td>
<td>(iv) The financial reporting requirements;</td>
</tr>
<tr>
<td></td>
<td>(v) Any special public or parliamentary interest;</td>
</tr>
<tr>
<td></td>
<td>(vi) The overall control environment;</td>
</tr>
<tr>
<td></td>
<td>(vii) Key personnel and their responsibilities;</td>
</tr>
<tr>
<td></td>
<td>(viii) An appropriate classification of account areas?</td>
</tr>
<tr>
<td></td>
<td>(ix) Key monitoring and control procedures, including controls against irregularity, illegality and fraud (supported by walk-through tests as appropriate)?</td>
</tr>
<tr>
<td></td>
<td>(x) Corporate governance and risk management procedures</td>
</tr>
<tr>
<td>6.3 6.12</td>
<td>• Have board minutes, internal audit reports and other relevant sources of management information been appropriately reviewed?</td>
</tr>
<tr>
<td></td>
<td>• Have preliminary analytical procedures been carried out?</td>
</tr>
</tbody>
</table>

*Such information may be documented on forms NAO 900, NAO 905, NAO 906 and NAO 910*
### A5. Determining materiality

6.15  
- Has the determination of materiality been properly documented, with due consideration being given to:
  
  (i) Materiality by value;
  
  (ii) Materiality by nature;
  
  (iii) Materiality by context;
  
  (iv) Special public or parliamentary sensitivities?

### A6. Assessing material risks

6.16  
- Have we assessed specific risk factors at:
  
  (i) The entity level;
  
  (ii) The account area level (and related to specific audit assertions) drawing on the review of application controls?

6.17  
Where specific risk factors have been identified, have we also sought to identify controls to mitigate those factors?

*Such an assessment may be documented on forms NAO 920 and NAO 925*

### A7, A8. Designing audit procedures

6.18  
- Has an approach been outlined for each account area audit assertion? Consider in particular those account areas/audit assertions that may be critical to the accounts e.g.
  
  - fixed assets existence
  
  - stocks existence and valuation
  
  - debtors existence and valuation
  
  - cash existence
  
  - creditors completeness
  
  - income completeness
  
  - payroll occurrence and measurement
  
  - other expenses completeness and regularity
• Does the outlined audit approach note the relevant levels of assurance or levels of audit procedures needed to give the required level of assurance for each assertion e.g. for each audit assertion where we have identified specific risk factors, we should either:

(i) Rely on mitigating controls and perform a minimum level of substantive procedures; or

(ii) Perform focussed substantive procedures.

For audit assertions with no specific risk factors we should either:

(i) Confirm the reliability of the relevant accounting systems and controls and perform a minimum level of substantive procedures; or

(ii) Perform a standard level of substantive procedures.

<table>
<thead>
<tr>
<th>A9. Quality control over planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Has preparation of the Audit Plan been overseen by a suitably experienced auditor (except for the smallest audits this is unlikely to be someone below SA level) and subject to AM review?</td>
</tr>
<tr>
<td>• Were preliminary analytical procedures performed by a suitably experienced auditor (as described in the question immediately above)?</td>
</tr>
<tr>
<td>• Was the audit planning process carried out on a timely basis (e.g. before embarking on testing)?</td>
</tr>
<tr>
<td>• Has there been appropriate ITAG or other specialist input into the planning process?</td>
</tr>
</tbody>
</table>

*[In considering quality control in the planning process, reference to NAO 112, the Audit Planning Checklist, might be helpful to the reviewer]*
<table>
<thead>
<tr>
<th>Manual FAP Ref</th>
<th>B1. Performing audit procedures - reliance on controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.2</td>
<td>• Have relevant controls been tested throughout the period, and in accordance with the Audit Plan.</td>
</tr>
<tr>
<td>7.3</td>
<td>• Have any control deviations noted from our testing been evaluated as to their potential effect on the assessment of control risk and appropriate action taken to:</td>
</tr>
<tr>
<td></td>
<td>(i) Extend tests;</td>
</tr>
<tr>
<td></td>
<td>(ii) Revise the audit approach;</td>
</tr>
<tr>
<td></td>
<td>(iii) Notify management via the management letter;</td>
</tr>
<tr>
<td></td>
<td>as applicable?</td>
</tr>
<tr>
<td>7.4 7.5</td>
<td>B2. Performing audit procedures - reliance on substantive analytical procedures</td>
</tr>
<tr>
<td></td>
<td>• Was an expectation value established at the outset, with an appropriate ‘closeness of fit’ (comparison type APs) or a calculation of tolerable difference (modelling type APs)</td>
</tr>
<tr>
<td></td>
<td>• Have we corroborated the data from which we have developed our expectation for AP purposes? Do the relevant data relationships appear valid?</td>
</tr>
<tr>
<td></td>
<td>• Have any differences in excess of an acceptable closeness of fit / tolerable difference been appropriately investigated and assumptions revised / conclusions drawn as appropriate?</td>
</tr>
<tr>
<td>7.6</td>
<td>B3. Performing audit procedures - reliance on tests of detail</td>
</tr>
<tr>
<td></td>
<td>• For tests of detail:</td>
</tr>
<tr>
<td></td>
<td>(i) Was the entire population appropriately identified and tested; or</td>
</tr>
<tr>
<td></td>
<td>(ii) A sample of transactions tested (along with key and high value items if applicable), the source of the sample being reconciled to the population sampled per the financial statements?</td>
</tr>
<tr>
<td>7.6</td>
<td>• Were sampling techniques statistically or otherwise supportable?</td>
</tr>
<tr>
<td>7.7 7.8 7.10</td>
<td>• Have errors been properly evaluated e.g. (i) Assessed as systematic or random; (ii) Extrapolated if appropriate and taken to a summary of errors?</td>
</tr>
<tr>
<td><strong>B4, B5. Evaluating results</strong></td>
<td></td>
</tr>
<tr>
<td>7.7 7.8</td>
<td>• Have test results been combined at: (i) Each account area level across all audit assertions; (ii) At the financial statement level across all account areas; to allow us to conclude on the likelihood of material misstatement or irregularity? [These evaluations may be carried out using forms NAO 940 and NAO 945]</td>
</tr>
<tr>
<td>7.11</td>
<td>• Have appropriate revisions to the audit plan been made if the results of our audit testing reveal higher than expected levels of error or control failure?</td>
</tr>
<tr>
<td><strong>B6. Quality control over fieldwork</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Has the fieldwork been carried out by suitably experienced auditors under appropriate supervision?</td>
</tr>
<tr>
<td></td>
<td>• Was the fieldwork subject to audit manager review?</td>
</tr>
</tbody>
</table>
|  | • Has the fieldwork been carried out on a timely basis (but after approval of the detailed audit plan)?
<table>
<thead>
<tr>
<th>Manual FAP Ref</th>
<th>C1. Overall review of financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>• Is there a lead schedule <em>(eg form NAO 940)</em> for each account area that has been agreed to the trial balance, and (via intermediate summarisation if necessary) to the financial statements?</td>
</tr>
<tr>
<td></td>
<td>• Do the financial statements present the account figures in a logical manner and reflect our knowledge of the client’s business?</td>
</tr>
<tr>
<td></td>
<td>• Has the relevant accounts disclosure checklist been completed?</td>
</tr>
<tr>
<td></td>
<td>• Have the financial statements been subject to an analytical review along the lines set out at para 5 of Chapter 8 of the Financial Audit Manual?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AC 11/98 AC 2/99 AC 11/00</th>
<th>C2. Statement on the system of internal financial control</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Have we reviewed whether the SSIFC reflects compliance with Treasury guidance and disclosure requirements?</td>
</tr>
<tr>
<td></td>
<td>• Have we considered whether the SSIFC disclosures are consistent with</td>
</tr>
<tr>
<td></td>
<td>- our review of board and committee minutes</td>
</tr>
<tr>
<td></td>
<td>- discussions and proceedings at audit committees at which corporate governance, internal control and risk management matters have been considered</td>
</tr>
<tr>
<td></td>
<td>- our knowledge of the client obtained during the audit of the financial statements?</td>
</tr>
<tr>
<td></td>
<td>• Have we considered the process adopted by the accounting officer for his/her effectiveness review, and the documentation prepared to support the statement?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C3. Information accompanying the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.1</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>14.2</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>C4. Subsequent events</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>8.2</td>
</tr>
<tr>
<td>• Were appropriate procedures carried out to identify any material subsequent events to the date of the audit certificate, along the lines of the FMM T6 APG no. 17?</td>
</tr>
<tr>
<td>8.2</td>
</tr>
<tr>
<td>• If there was a significant time lapse between signing and laying, was our review updated to the laying date?</td>
</tr>
<tr>
<td>8.3</td>
</tr>
<tr>
<td>• Was ‘going concern’ given appropriate consideration?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C5. Representation letter</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.4</td>
</tr>
<tr>
<td>• Was a management representation letter, signed by the AO or equivalent, received prior to signature of the audit report?</td>
</tr>
<tr>
<td>8.4</td>
</tr>
<tr>
<td>• Does the letter cover material matters where management views / knowledge were important to our assessment and an acknowledgement of the AO’s personal responsibility for regularity of transactions?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C6. Audit summarisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.5</td>
</tr>
<tr>
<td>• Was an executive summary of the audit prepared that:</td>
</tr>
<tr>
<td>• Includes appropriate high level background information on the client</td>
</tr>
<tr>
<td>• Summarises our audit approach and the results of our procedures</td>
</tr>
<tr>
<td>• Comments on the client’s results</td>
</tr>
<tr>
<td>• Explains and concludes on the key audit issues</td>
</tr>
<tr>
<td>• Lists outstanding matters and matters to be carried forward</td>
</tr>
<tr>
<td>• Concludes on an appropriate form of audit certificate?</td>
</tr>
<tr>
<td>8.5</td>
</tr>
<tr>
<td>• Has the audit completion checklist been completed?</td>
</tr>
<tr>
<td>8.6 8.7</td>
</tr>
<tr>
<td>• Was an appropriate certification journal, signed by the assignment supervisor, manager and director; containing a confirmation that the financial statements would still have been approved by the client at the date of the audit certificate signature; and accompanying the audit certificate approved by the assignment director, submitted?</td>
</tr>
<tr>
<td>C7. Management letter</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>15.3 15.4 15.5</td>
</tr>
<tr>
<td>• Was a comprehensive, high quality management letter sent to the client within a reasonable time, to which the client has responded?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C8. Quality control over completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Were completion procedures carried out by suitably experienced auditors, and subject to audit manager review? In particular:</td>
</tr>
<tr>
<td>• Were lead schedules clearly and directly cross-referenced by the team member responsible for the account area or a senior/experienced member of the team</td>
</tr>
<tr>
<td>• Was the disclosure checklist completed by the assignment supervisor</td>
</tr>
<tr>
<td>• Were analytical review, review of other information in the annual report and the subsequent events review carried out by suitably experienced/senior audit team personnel (usually the assignment supervisor)</td>
</tr>
<tr>
<td>• Were the management letter and any other reports issued subject to appropriate assignment manager input and director review, and issued on a timely basis?</td>
</tr>
<tr>
<td>Manual FAP Ref</td>
</tr>
<tr>
<td>---------------</td>
</tr>
</tbody>
</table>
| AC16/01       | • Has the assignment director completed the director’s confirmation and Financial Audit Risk Management Checklist provided with AC 16/01?  
• For new non-statutory engagements, were appropriate investigations carried out to confirm:  
(i) The prospective auditee’s standing, reputation and funding (including obtaining a ‘clearance letter’ from the out-going auditors);  
(ii) The NAO’s independence, availability of resources and ability to perform the audit?  
• For continuing non-statutory audits, has our continued acceptance of the assignment been subject to an annual review and a re-assessment at the audit completion stage to re-confirm the matters outlined above? |
| 4.3           | • Is there a current engagement letter or equivalent on file? |
| D4. Assignment staffing | |
| 5.3           | • Were sufficient staff resources available in the light of the size of the assignment, its complexity and risk, and the reporting timetable, in terms of grades, abilities and experience?  
• Have the assignment staff complied with professional requirements to maintain their continuing professional development/education?  
• Have appropriate screening procedures been applied to ensure the suitability and quality of temporary staff / secondees used on the assignment e.g.  
  • Were the staff interviewed before being taken on?  
  • Did they provide evidence of appropriate qualifications and experience, including continuing professional development and ‘fit and proper’ status?  
  • Were the staff provided by a reputable source?  
  • Does it appear that on-the-job review / monitoring was appropriately adjusted to take account of temporary staff’s lack of familiarity with central government audit and NAO procedures/documentation? |
<table>
<thead>
<tr>
<th>D5. First and second stage review</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.2</td>
</tr>
<tr>
<td>• Is there evidence of an appropriate level of first stage review (usually by the assignment manager) of all working papers and standing information?</td>
</tr>
<tr>
<td>10.2 10.3</td>
</tr>
<tr>
<td>• Have both the 1st and 2nd stage reviewers considered all points on the summary of matters for attention?</td>
</tr>
<tr>
<td>10.3</td>
</tr>
<tr>
<td>• Is there evidence of an appropriate level of second stage review by the assignment director?</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>(in considering the sufficiency of the extent and depth of 1st and 2nd review, the QA reviewer should take into account:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>• The experience and knowledge of the audit team</td>
</tr>
<tr>
<td>• The complexity/riskiness of the audit and of individual account areas)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D6. Standards Assurance Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.4 10.5 10.6 AC17/01</td>
</tr>
<tr>
<td>• For all accounts where the notional or actual audit fee is in excess of £100,000; and for those audits where the audit plan has identified particular sensitivity or significant risks; or where other than a standard clear audit opinion is being considered; or where a substantive report is proposed where such a report is not normally required, has a standards assurance review (‘hot review’) been carried out by an independent director?</td>
</tr>
</tbody>
</table>
QUALITY ASSURANCE REVIEW

Record of Matters arising from Cold Review

This form may be used to record the reviewer’s findings, and the comments of the assignment director and/or assignment manager thereon. It should be signed off by both parties to confirm their discussion of the matters raised. The reviewer should also note any comments, impressions or practical recommendations on how well the principles of ‘Audit 21’ have been applied in the audit, and any other suggestions to improve the audit’s efficiency or added value.

Job……………………………………………… Reviewer………………………………………………

Director…………………………………………… AM………………………………………………

Date………………………………………………

<table>
<thead>
<tr>
<th>Matters arising from Review</th>
<th>D / AM Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
Obtaining Feedback
from Financial Audit Clients
Audit Circular (Financial)

AC 11/02

OBTAINING FEEDBACK FROM FINANCIAL AUDIT CLIENTS

Introduction
1. This audit circular is for the attention of all financial audit staff.

2. It introduces a questionnaire to obtain feedback from our financial audit clients on their perception of the quality of our audit work and the service that we provide to them. It also provides guidance on how and when to use the questionnaire.

Background
3. The quality of our audit work and the need to provide the highest standards of client service are crucial if the reputation of the C&AG and the NAO are to be maintained and enhanced. We have a range of procedures in place to underpin the quality of our work and to measure quality against our own internal standards. However, hitherto we have not gathered feedback from audited bodies on the quality of our financial audit work in any systematic way.

4. Obtaining client feedback on the quality of our financial audit is important in ensuring that we fully understand their needs and expectations and provide the quality of audit that they expect. The importance of this issue has also been highlighted by both the Sharman Review and the recent internal NAO review of how we measure up against the EFQM Model summarised in MC 01/02.

5. The introduction of a client feedback questionnaire for financial audit should form only one part of our more general efforts to develop and improve client relations. A number of other corporate initiatives are relevant: the introduction of standard templates for financial audit products (AC 19/01), the introduction of Client Directors (MC 22/02), and the planned client feedback Central Reference Point (see the recently published leaflet "Quality Assurance and Client Care: Working Together"). And improving communication and the service we provide to clients is also integral to our more general drive to improve the quality of our financial audit work – as set out in Audit Circulars 15/01, 16/01 and 17/01.

6. Ultimately, though, the ongoing development of productive relations with our financial audit clients will depend crucially upon Directors’ and teams’ continued efforts to engage on a local level and, of course, on the underlying quality of our audit work.

Client Questionnaire
7. A copy of the standard client questionnaire [Merlin editor's note: to download, right click on the link and choose "Save Target As..."] to obtain feedback from our clients on the key stages and overall conduct of the audit is attached to this circular. As with other standard templates for financial audit products, it draws upon questionnaires currently being used in different areas of the NAO and also on the questionnaire used
in respect of our value for money work. The questionnaire is divided into four sections:

- **Approach and Methods** covers our understanding of the client's business and asks the client to assess how well we consulted them about the approach to the audit, the project timetable and the staffing of the audit (including the use of any contract staff or contractors where the audit was contracted out).

- **Working Relationships** includes all aspects of our dealings with the client, including how well we communicated with them, the professionalism, courtesy and tact we showed and the extent to which we co-ordinated our work with that of Internal Audit.

- **Reporting** covers communication of the significant issues arising out of the audit, the quality of our management letter and dealings with the client audit committee.

- **General Comments** seeks to elicit any other feedback or comments that the client has not made elsewhere, including how far we have achieved or assisted beneficial change. Equally importantly it provides the client with the opportunity to tell us how we might improve the quality of the audit and the service that we provide.

8. The questionnaire asks respondents to assess our performance using a four point marking scheme, where 1 denotes unsatisfactory performance up to 4 denoting an excellent performance. This will enable a quantitative analysis of the feedback to be determined (see paragraph 10 below). Each section also contains a box for narrative comments to supplement the numerical assessment.

**Use of the Client Questionnaire**

9. The questionnaire should be sent to the PFO (or equivalent) by the Assignment Director after the completion of the annual audit. Where we are responsible for a range of audits for a single client, a single questionnaire will suffice. It would make sense to send it to the client on completion of the most significant audit, rather than await the completion of each individual assignment.

10. Clients should be requested to complete the questionnaire electronically if at all possible to facilitate collation of responses. The questionnaire should be returned, in the first instance, to the Director, Financial Audit Policy and Support, who will, in turn, forward it on to the Assignment Director. Completed questionnaires will be used on two different levels:

- To measure client satisfaction on an individual area basis; and

- At the corporate level, to establish a benchmark for the NAO’s overall performance against which future trends can be assessed, and to identify aspects of client service for development and improvement.

11. We need to ensure that clients understand that we will take their feedback seriously. Assignment Directors are strongly encouraged to use their contacts with senior client staff to explain the rationale behind the questionnaires and to secure their understanding of, and support for, the process. Directors should acknowledge receipt of the questionnaire and, where there are significant issues to be dealt with, should follow these up with the client at the earliest opportunity. In any event, the completed questionnaire should as a matter of course be discussed with the client as part of the following year’s audit planning process. It would be appropriate for that discussion to be led at assignment manager level or above.
12. We envisage that the questionnaire should initially be sent to all our clients to establish a starting point. Thereafter we would obtain further feedback from all clients over time, but at a minimum each client should receive a questionnaire at least once every three years. Assignment Directors may also wish to obtain more regular feedback from their key clients, and should use their judgement in this respect.

13. Reports on the collated results from the questionnaires should be prepared for discussion at Unit Management Boards at least annually. Responsibility for reporting will rest, in the first instance, with the lead financial audit director, who will necessarily need to rely on directorate colleagues to send out questionnaires on a timely basis and ensure as complete a response rate as possible.

Queries

14. Any queries regarding the use of these documents in Team21 should be addressed in the first instance to your unit Team 21 champions, whose names and contact numbers can be found on the Team21 Merlin site. General queries regarding the application of these documents should be addressed to the FAS Team on extension 7282, e-mail Z3-FAST.

MIKE SUFFIELD
Director, Financial Audit Policy and Support

25 June 2002
Standards Assurance Review Procedures

United Kingdom National Audit Office
Audit Circular (Financial)

AC 12/02

STANDARDS ASSURANCE REVIEW PROCEDURES

Introduction
1. This audit circular is for the attention of all financial audit directors who have been allocated standards assurance review (SAR) responsibilities. It provides, as an annex, a checklist setting out the matters that the independent review would normally encompass.

Background
2. Statement of Auditing Standards (SAS) 240, revised in September 2000, defines ‘independent review’ (i.e. “standards assurance review” in an NAO context) as "an objective independent assessment of the quality of the audit undertaken before the issue of the auditors’ report". AC 17/01 was issued in September 2001 to provide guidance to ensure that the Office meets the requirements of the revised SAS, extending the requirement for SARs to high interest or high risk audits. It gives detailed guidance on
   • Audits for which SAR will always be mandatory
   • Identifying other audits that fall to be classified as particularly sensitive or high risk
   • Allocation of appropriate independent reviewers
   • The independent review steps that should be carried out.

Review procedures checklist
3. To supplement AC 17/01, FAST have produced a short checklist of the procedures that Directors might normally be expected to carry out in their role as independent reviewers. This is attached as an annex to this circular. In Team21 this checklist can be obtained from the "Add WP" command and selecting "Custom templates". It can then be found in the checklist folder that appears in the bottom half of the wizard.

4. The checklist should not be taken to imply that SAR procedures can be uniformly standardised. The questions are broadly drafted and will require directors to consider their exact procedures to meet the underlying requirements, bearing in mind the purpose of the review set out in paragraph 2 above.

5. Any queries on this circular should be directed to the Financial Audit Support Team on extension 7282 or e-mail at Z3-FAST.

MIKE SUFFIELD
Director, Financial Audit Policy and Support
3 July 2002
STANDARDS ASSURANCE REVIEW PROCEDURES CHECKLIST

To be completed by independent review director, and all points to be satisfactorily cleared before account certification.

<table>
<thead>
<tr>
<th>SAR procedure</th>
<th>Yes/No</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independence and objectivity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Consider the independence and objectivity of the assignment director, manager and audit team. Has this remained satisfactory during the course of the audit?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Reviewers may wish to review the completion and director sign-off of the Financial Audit Risk Management checklist]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Resources and expertise</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Has the audit team been suitably competent and resourced to undertake the assignment? Has appropriate specialist expertise been available in the team or otherwise called upon as appropriate? Has there been appropriate consultation in the event of any conflict of views or difficult or specialist issues (Audit Circular 18/01 refers)? Has there been an appropriate level of director and manager involvement and review?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Reviewers may wish to review the completion and director sign-off of the Financial Audit Risk Management checklist]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td></td>
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</tr>
<tr>
<td>3. Has appropriate rigour been applied in the planning process, including the analysis of the key components of audit risk identified by the team and planned response thereto? Was the planning carried out by suitably experienced staff and based on sound judgements?</td>
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<td></td>
</tr>
<tr>
<td><strong>Evaluation and judgements</strong></td>
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</tr>
<tr>
<td>4. Have the results of the fieldwork been appropriately summarised and supportive of the judgements made? Do the key judgements appear soundly based, particularly</td>
<td></td>
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</table>
those in high risk areas?

5. Are any potential changes to the financial statements identified by the auditors but which the management of the audited entity have declined to make, immaterial in terms of value, nature and context?

<table>
<thead>
<tr>
<th>Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Have all matters that may be reasonably be judged by the auditors to be important and relevant to client management identified during the course of the audit been considered for reporting to senior client management and / or the audit committee?</td>
</tr>
</tbody>
</table>

7. Is the audit certificate (and report if applicable) appropriate?

**Independent review director's confirmation**

I confirm that I have completed my standards assurance review and that any matters arising therefrom have been cleared by the assignment team to my satisfaction and that the audit may be submitted for certification, with audit certificate (and report if applicable) as proposed in the Certification Journal.

*Signature – independent review director……………………………………...Date………………………………...*
Part 4: Securing quality in our vfm work

4.1 It is important that our vfm work is carried out thoroughly, resulting in reports of high quality. This part concerns the steps we take to promote quality so that we can do even better. It sets out the arrangements we have for promoting quality through training and guidance, and through quality assurance.

Promoting quality through training and guidance

4.2 The NAO promote quality through training and guidance in a number of ways:

- vfm training courses and written guidance provide a bedrock of teaching and advice to staff on both general and technical vfm matters;
- we hold seminars, workshops and other training events to promote best practices, new techniques and lessons learned;
- written guidance includes this handbook and guides on various subjects containing examples of best practice;
- there is a considerable interchange of information between vfm teams and units as to what has worked well and what has worked less well;
- we regularly invite external practitioners and experts to talk to staff about new techniques and methodologies.

4.3 Formal training and guidance is mainly delivered by the central vfm team and line units' resource management teams. But study teams have an important role to play in sharing their experiences, leading seminars and workshops on what has worked well and pitfalls to be avoided, and by participating in other training events.

Quality assurance arrangements

4.4 The objectives of quality assurance are to:

- organise vfm work so that quality assurance is an integral part of it at all stages;
- evaluate the strengths and weaknesses of vfm outputs and their management in order to learn and apply the lessons for future work; and
- provide senior management with systematic and reliable information about the quality of vfm examinations.

4.5 There are two aspects to quality assurance arrangements: continuous quality assurance, which should be an integral part of all vfm examinations, and post study completion quality reviews.
Continuous quality assurance

4.6 Project directors and their teams are responsible for delivering their approved programmes of vfm work to high quality standards. They must determine the most appropriate form of quality assurance depending on the size and complexity of the examination, its sensitivity, its duration and the experience of staff undertaking the work.

Obtaining expert advice and second opinion

4.7 Action and procedures to provide quality assurance include:
  • consulting expert opinion, either internally or externally, to advise on key aspects of vfm examinations at critical stages especially design, before the crucial decisions are made;
  • sources of expert opinion include, internally, the Technical Advisory Group and externally, specialist consultants and panels of academics and other experts;
  • ‘hot edits' - these are independent reviews of reports while they are being written to assess whether they are technically sound, the organisation is convincing, evidence is clearly presented, and that overall the report is likely to convey its messages simply and quickly to the lay reader;
  • subjecting work to review by experienced staff not directly involved in the work.

Building-in quality

4.8 Quality can also be promoted by good management and review, and assurance can be taken when there is evidence that this is reliable and consistent. This means:
  • assigning staff with the right skills and experience to appropriate study tasks;
  • frequent communication with staff so they all understand their roles and tasks within the aims and context of the examinations;
  • regular discussion with staff to determine what worked well, what was less successful and the reasons, the scope for improvement, and how it might be implemented;
  • documenting key evidence and its interpretation so that there is a good trail to demonstrate how decisions influencing the examination and its conclusions were reached;
  • monitoring study progress and costs to anticipate problems and to intervene early enough with appropriate action and solutions; and
  • comprehensive and timely review of work to ensure that all conclusions are soundly based and supported by reliable and sufficient evidence.

Quality reviews

4.9 There are four types of post study completion reviews which provide information on the quality of our vfm examinations:
  • internal evaluations;
  • external evaluations;
- feed back from the audited body; and
- team review

No one assessment is key and the aim of the assessments is to enable us to continue to improve our work by learning lessons.

Internal reviews

4.10 Published reports are reviewed by the team who carried out the study, using a standard form. Assessments cover four aspects of the work:
- presentation and format;
- technical content and quality;
- initial impacts; and
- overall assessment.

External reviews

4.11 In order to obtain an independent perspective on the quality of our work, we appoint an external organisation to review our published reports. The external reviewer, usually an academic body recognised as a centre of expertise, draws on a panel of academic experts from a range of disciplines, who receive copies of all reports once they are published. The panel assesses reports against similar criteria used for internal reviews. The external reviewers normally produce two summary reports each year bringing together the key messages arising from their quality assurance reviews.

Feedback from audited bodies

4.12 The views of audited bodies who are subject to our vfm examinations are important, including their perspective on the impact and added value achieved by the study and whether they think the study was well managed and that staff acted professionally. Feedback from audited bodies is requested in a standard format sent to the audited body by the study director after the report is published.

Team review

4.13 Teams carry out a 'lessons learned' review once the report is published. The purpose of this is to determine:
- what worked well and why;
- what was less successful and the reasons; and
- lessons for the future and possible wider application for all vfm examinations.

Acting on findings

4.14 The central vfm team periodically prepare summary reports for senior management which highlight the lessons learned from quality assurance reviews; the need for action to promote improvements, such as training and guidance; and wider issues for further research and consideration. The key messages arising from quality assurance are communicated to vfm staff through seminars, workshops and guidance.
Helpful advice

4.15 Some points to bear in mind with quality assurance:

Quality assurance is a continuous process and not just a one-off procedure or event after completion of the study.

Consider at a very early stage in the examination the action you are going to take to promote quality.

Seek second opinion at key stages to validate, for example study selection, the questions to be examined, design, and methodology.

Identify critical points in the examination when review is especially required to ensure that the study will meet its aims.

Hot edits can help to provide constructive comments for improving draft reports and presentation generally. Make sure suggestions are practical though.

Allow sufficient time for internal and specialist review of draft reports.

Respond positively to the findings of external quality assurance reviews and feedback from audited bodies and seek clarification if you do not understand their comments or concerns.

Consider the reasons why aspects of the study were more successful as well as those which were less so.

If a study exceeds its elapsed time or cost budgets, identify the main drivers which resulted in the overrun and consider what might be done next time - the benefits of hindsight can be useful.

Ensure that the lessons learned from quality assurance reviews are widely communicated through workshops and seminars.

Above all, adopt a positive approach - quality assurance reviews should not be negative post-mortems but an opportunity to be constructive and to learn from experience.
Quality assurance of NAO value for money studies

How does the NAO assess the quality of its value for money studies?

The NAO collects information for its quality review process from five equally important perspectives. Feedback on each value for money (VFM) study is obtained from the study team, the audited body, the media, the Public Accounts Committee and the London School of Economics and Political Science (LSE). The LSE acts as an external reviewer of all of our VFM work.

What is the aim of the process?

The aim of quality review is to draw out any lessons which the NAO needs to take on board for the future, and to identify good practice which will help to improve the quality of future reports. The outcomes of the review inform the on-going quality assurance of future studies: the continuous process of ensuring that what should be happening on each study actually is happening.

Why does the NAO ask the LSE to review its VFM reports?

We feel that using one of the most well-regarded universities in the UK to evaluate our work lends credibility to our quality assurance procedures and provides a secure foundation for our own future development. The LSE has demonstrated that they can draw on a breadth of knowledge and experience in work across the whole of government, and that they can provide authoritative comment on study methodologies and the technical rigour of analyses.

What criteria do the LSE use to evaluate NAO reports?

The LSE awards each report a set of scores, on a scale of 0-5, for the six dimensions of performance listed below.

<table>
<thead>
<tr>
<th>Administrative and management context</th>
<th>How effectively the subject matter of the report is located in context, and the relevant background is presented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure, presentation and format</td>
<td>How clearly the report is structured and presented, and how well the executive summary puts across the main messages</td>
</tr>
<tr>
<td>Graphics and statistics</td>
<td>How well charts, figures and tables are handled, and whether the presentation of data is appropriate and adds value to the report</td>
</tr>
<tr>
<td>Audit issues and scope</td>
<td>How well the terms of reference of the study are defined, and how well the issues examined fit with parliamentary and public concerns</td>
</tr>
<tr>
<td>Methodology</td>
<td>How appropriate and rigorous the methods and analytical techniques employed in the study are</td>
</tr>
<tr>
<td>Conclusions and recommendations</td>
<td>How informative and well-grounded the conclusions are, and the extent to which courses of action which would demonstrably improve VFM are recommended</td>
</tr>
</tbody>
</table>

The LSE review team assigns a score of 3 under any of these six headings if their readers feel that the report demonstrates a ‘solid professional performance’ on the dimension of performance in question. A score of 4 represents a ‘very good’ performance, and 5 is ‘excellent’. Scores of 2 or below indicate that performance falls below the level that would be expected of an organisation such as the NAO.
In addition to the scores under the above six headings, the LSE also provides an overall score, on the 0-5 scale, for each report. This is not an average or other function of the six specific scores, but rather an overall assessment, in the judgment of the LSE team, of the extent to which the report has been successful in achieving its aims and furthering the NAO’s reputation.

All numerical scores are supplemented by qualitative discussion (typically a review of an NAO report will run to about five pages of text).

**What impacts do the LSE reviews have on the NAO’s VFM work?**

The detailed comments in the LSE reviews provide important formative information for VFM study teams. We issue periodic guidance material to VFM staff which summarises the key messages from recent quality reviews. We examine trends in scores to inform our developmental work. For instance, we highlighted the need for clear explanations of methodologies in materials we issued in 1999. This led to a significant improvement in methodology scores in 2000. We have identified conclusions and recommendations as the next area on which to focus attention, and have recently drawn on quality review information in formulating guidance aimed at improving the effectiveness of this aspect of our studies.
Quality Review Criteria

United Kingdom National Audit Office
VFM Quality review criteria

Administrative and management context

*Question addressed:* To what extent does the report clearly describe the administrative and managerial context within which the area examined is carried out?

*Evidence required:*
- The report locates its subject matter in the general context of public accountability.
- The report presents sufficient relevant background material to enable the non-specialist reader quickly to appreciate the key issues examined.
- Where the report is part of a themed group of studies this is noted, and references to related reports are given. References to websites and other material such as PAC reports are given as appropriate.

Structure, presentation and format

*Question addressed:* To what extent is the report well-structured and well-written, and does it include an effective executive summary?

*Evidence required:*
- The report is clearly and logically structured.
- The report is drafted clearly and concisely, and avoids excessive use of jargon. Any specialist terms required are defined in a glossary.
- The executive summary is relatively self contained, and puts across the key messages of the report. It contains the headline conclusions and recommendations of the study.

Graphics and statistics

*Question addressed:* To what extent were graphics and statistics appropriately used, and how well-presented were any that appeared?

*Evidence required*
- The presentation of tabulated statistical information is fit for purpose (at the appropriate level of detail, to an appropriate number of significant figures, etc.)
- Tables and figures include effective captions, and indications of the source of the data.
- Graphical figures add value to the text, are well designed and unambiguously presented. They are in line with NAO guidance on presenting data [at present ‘Presenting Data in Reports: A Guide’; though this is currently being revised]

Audit issues and scope

*Question addressed:* To what extent is the rationale for the report’s scope clearly set out within NAO’s remit which excludes questioning the merits of policy objectives?

[Note. The original specification of this criterion added the rider that ‘provided the scope of the report has been clearly stated, the LSE will take that as given for their score under the scope criterion. If the LSE consider that the stated scope is too narrow they may wish to make a reasoned case for this, but this should not influence their scoring.’]

*Evidence required:*
- The terms of reference of the investigation are clearly defined.
- There is a clear link between the issues examined in the report and parliamentary and public concerns.

Methodology

*Question addressed:* How far is the methodology clearly set out and does it include an appropriate range of evaluative criteria and techniques to answer the questions posed in the specification?

[Note. The original specification of this criterion stipulated that ‘where the NAO report is criticised for its methodology the LSE will set out the methods and evaluative criteria that they would have used instead.’]
Evidence required:
- The study’s methodology is rigorous, appropriate and technically correct.
- The methodology is explained in sufficient detail for a non-specialist to understand. Where necessary, technical aspects of the methodology are set out in an appendix or annexe.

Conclusions and recommendations

Question addressed: To what extent did the conclusions provide a balanced view of successes and shortfalls in performance, and make reasoned recommendations for remedies?

Evidence required:
- Conclusions are informative, clearly supported by the evidence in the report, quantified where appropriate and objectively stated.
- The recommendations presented are feasible, and capable of being monitored. Given the evidence in the report, it is likely that they will lead to demonstrable improvements in value for money.

In addition, the overall score provides an assessment, in the judgment of the LSE team, of the extent to which the report has been successful in achieving its aims and furthering the NAO’s reputation.
NAO Reports: An Invitation to Comment

United Kingdom National Audit Office
REPORT TITLE:

In line with suggestions made by Principal Finance Officers, the NAO have revised arrangements for obtaining the views of the audited body on the quality of individual reports and the way they have been handled. The attached questionnaire has been designed to be completed easily and covers the main elements of producing an NAO report.

The completed questionnaires will assist us in assessing the quality of our work and making improvements in the way we do things in the future. Your views will remain confidential, and will not be reported outside the NAO without your prior consent.

We would be happy to accept comments in manuscript and, if you have any further comments to add, please attach additional sheets. Completed questionnaires should be returned to the NAO Director responsible for the study, but if you have any problems with the context of the questionnaire, please contact the NAO’s central VFM Development Team on 020 7 798 7503.

VFM Development Team
Room A491
National Audit Office
Value for Money Report Questionnaire

Title of the VFM Report: 

Unless requested, please tick only one box per question.

Part 1: Adding value

Q1. To what extent did the study address significant and relevant issues?
   - To a great extent
   - To a good extent
   - To some extent
   - Not at all

Q2. Was the focus of the study:
   - Too wide
   - About right
   - Too narrow

Q3. What insights into services did the study provide?

Q4. What changes have been prompted or reinforced by the study?
### Part 2: Approach and methods

Q5. Do you consider that the examination used suitable techniques for:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtaining data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysing data</td>
<td></td>
<td></td>
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</tbody>
</table>

Q6. Were you given the opportunity to comment on:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aims of the study</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed methodology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appointment of consultants</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q7. If you answered No to either Q5. or Q6., please explain your reasons.
Part 3: Working relationships

Q8. To what extent were NAO staff courteous and professional in dealings with you and your staff?

<table>
<thead>
<tr>
<th>Fully</th>
<th>Most of the time</th>
<th>Some of the time</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

Q9. To what extent did they understand the key features of your services?

<table>
<thead>
<tr>
<th>Fully</th>
<th>Most of the time</th>
<th>Some of the time</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

Q10. How quickly did they get up to speed?

<table>
<thead>
<tr>
<th>Immediately</th>
<th>Quickly</th>
<th>Slowly</th>
<th>Never</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Q11. Were you:

- Kept up to date with progress
  - Yes
  - No

- Given an opportunity to comment as results emerged
  - Yes
  - No

Q12. If you ticked any boxes in the shaded area, please give your reasons.
Part 4: Contribution to the Modernising Government Agenda

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

<table>
<thead>
<tr>
<th>Question</th>
<th>To a great extent</th>
<th>To some extent</th>
<th>To a limited extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q13. Promoting joined-up Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q14. Supporting Innovation</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q15. Forward Looking</td>
<td></td>
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<td></td>
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<tr>
<td>Q16. Citizen-focused</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q17. Supporting appropriate risk-taking</td>
<td></td>
<td></td>
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<tr>
<td>Q18. Improving the Civil Service</td>
<td></td>
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<tr>
<td>Q19. Outcome focused</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Q20. Better use of Information Technology</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Q21. If you tick any boxes in the shaded area, please explain your reasons
Part 5: Fair and objective reporting

Q22. To what extent did the draft reports present the facts:

<table>
<thead>
<tr>
<th></th>
<th>Fully</th>
<th>Most of the time</th>
<th>Some of the time</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accurately</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Fairly</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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</tbody>
</table>

Q23. How far were your views/comments:

<table>
<thead>
<tr>
<th></th>
<th>Totally</th>
<th>Partially</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporated</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Given a fair hearing</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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</tbody>
</table>

Q24. In your opinion, how fair was the press coverage?

<table>
<thead>
<tr>
<th></th>
<th>Totally</th>
<th>Partially</th>
<th>Not at all</th>
</tr>
</thead>
</table>

Q25. If you ticked any boxes in the shaded area, please give your reasons.
Part 6: General comments

Q26. How would you rate the overall quality of the NAO report?

Outstanding  Very good  Good  Fair  Poor

Q27. Please suggest any ways in which this study might have been handled so as to make it more useful to those managing the programme or expenditure.

Signature ____________________________  Date ________________

Please check that you have completed all parts of the questionnaire and then return it to the project director at:

National Audit Office
157-197 Buckingham Palace Road
Victoria, London Sw1W 9SP

THANK YOU FOR YOUR HELP IN COMPLETING THIS QUESTIONNAIRE
Project Team Questionnaire

United Kingdom National Audit Office
<table>
<thead>
<tr>
<th>Study: report title</th>
<th></th>
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<tbody>
<tr>
<td>Director</td>
<td></td>
</tr>
<tr>
<td>Unit</td>
<td></td>
</tr>
<tr>
<td>Final cost</td>
<td>£</td>
</tr>
<tr>
<td>MC budget</td>
<td>£</td>
</tr>
<tr>
<td>(Under)/over budget (£,000s)</td>
<td>£</td>
</tr>
<tr>
<td>MC delivery (Month/Year)</td>
<td></td>
</tr>
<tr>
<td>Approved (Month/Year)</td>
<td></td>
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<tr>
<td>(Under)/over time (months)</td>
<td></td>
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</tbody>
</table>

**Study Selection**

1. Why was the study selected?

   

2. What, if any, alternatives were considered?

   

3. What was the full cost of preparing study options (including the cost of any work to develop the study outline, alternative study options and feasibility prior to the start of the preliminary study or full study where if there was no preliminary study)? (£000’s)

   £
### Objectives and scope of study

<table>
<thead>
<tr>
<th>4. How clearly were the following defined at the start of the study (in the preliminary study report or scoping paper):</th>
<th>Very well</th>
<th>Well</th>
<th>Partially</th>
<th>Not well</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Objectives</td>
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<tr>
<td>• Scope</td>
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<tr>
<td>• Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Costs</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>• Skills/expertise needed on team</td>
<td></td>
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<tr>
<td>• External/consultancy input</td>
<td></td>
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<tr>
<td>• Deliverables</td>
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<tr>
<td>• Impacts</td>
<td></td>
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<tr>
<td>• Timescale</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>5. To what extent did the eventual report reflect the original objectives set out in the:</th>
<th>Fully</th>
<th>Mostly</th>
<th>Partially</th>
<th>To a limited extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>• study outline</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>• preliminary study report or scoping paper</td>
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</tbody>
</table>
6. To what extent did the study team’s skills and expertise used on the study match those set out in the preliminary study report and consultant’s scoping paper

<table>
<thead>
<tr>
<th></th>
<th>Fully</th>
<th>Mostly</th>
<th>Partially</th>
<th>To a limited extent</th>
<th>Not at all</th>
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</thead>
<tbody>
<tr>
<td>Team expertise</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Consultants (if used)</td>
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</table>

If you ticked any boxes in the shaded please identify which skills you lacked

### Methods

7. How appropriate were the methods in meeting the study objectives?

<table>
<thead>
<tr>
<th></th>
<th>Very appropriate</th>
<th>Appropriate</th>
<th>Of some use</th>
<th>Inappropriate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi-structured interview</td>
<td></td>
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<tr>
<td>Structured interview</td>
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<tr>
<td>Focus groups</td>
<td></td>
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<tr>
<td>Surveys</td>
<td></td>
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<tr>
<td>Basic statistics (e.g. use of sampling, averages, standard deviations)</td>
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<tr>
<td>Statistical modelling such as multivariate analysis</td>
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<tr>
<td>Performance benchmarking</td>
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<tr>
<td>Process benchmarking</td>
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<tr>
<td>Case studies</td>
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</tbody>
</table>
8. With hindsight are there any methods that you did not use (for example un-ticked methods in question 7) that you would now consider more appropriate than any of those employed?

Yes
No

If Yes please list

9. Had the approach been used on earlier studies of a similar type (for example studies of Private Finance Initiative deals, management of sickness and Major Defence Projects)?

Yes
No

If Yes please specify approach
## Delivery

### Timeliness

10. What were the reasons for late or early delivery?

<table>
<thead>
<tr>
<th>Late</th>
<th>Early</th>
</tr>
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<tbody>
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</table>

11. What would have helped to reduce delays?

<p>| |</p>
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<td></td>
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</table>

12. What would have helped to reduce delays?

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### Delivery against budget

13. What were the reasons for over or under runs against budget?

<table>
<thead>
<tr>
<th>Over</th>
<th>Under</th>
</tr>
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<tbody>
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</table>

### Clearance

14. How long did clearance take (from draft report to PFO to approval by C&AG)?

<table>
<thead>
<tr>
<th>Months</th>
</tr>
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<tbody>
<tr>
<td></td>
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</table>
15. What factors contributed to delays in clearance?

16. What was or could have been done smooth clearance?

Satisfaction of key stakeholders

VFM studies typically lead to specific outputs and outcomes of direct interest to stakeholders. For example some studies lead to change in Departmental guidance, others lead to financial savings.

17. What were the three main outputs and outcomes for the key stakeholders?

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
<td>2.</td>
</tr>
<tr>
<td>3.</td>
<td>3.</td>
</tr>
</tbody>
</table>

18. What are the views of the key stakeholders?

- Department/Agency Principal Finance Officer

<table>
<thead>
<tr>
<th>To what extent did the study address significant and relevant issues?</th>
<th>To a great extent</th>
<th>To a good extent</th>
<th>To some extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>To the extent that it did</td>
<td>□</td>
<td>□</td>
<td>□</td>
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</table>

<table>
<thead>
<tr>
<th>Was the focus of the study</th>
<th>Too wide</th>
<th>About right</th>
<th>To narrow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>□</td>
<td>□</td>
<td>□</td>
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</table>

<table>
<thead>
<tr>
<th>Did the study use suitable techniques?</th>
<th>Immediate</th>
<th>Quickly</th>
<th>Slowly</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>How quickly did NAO staff keep you up to speed</th>
<th>Immediate</th>
<th>Quickly</th>
<th>Slowly</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Question</td>
<td>Fully</td>
<td>Most of the time</td>
<td>Some of the time</td>
<td>Never</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
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<td>-------</td>
</tr>
<tr>
<td>Did the draft report fairly and accurately present the facts?</td>
<td></td>
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**Study Team’s scores:**

<table>
<thead>
<tr>
<th>Category</th>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance NAO reputation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Media and other key audiences support report</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative context</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Structure and executive summary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Graphics and statistics</td>
<td></td>
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<tr>
<td>Scope</td>
<td></td>
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<td></td>
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<tr>
<td>Methodology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conclusions and recommendations</td>
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**London School of Economics Cold Review scores:**

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<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and managerial context</td>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Structure and executive summary</td>
<td></td>
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<tr>
<td>Graphics and statistics</td>
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<td>Scope</td>
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<tr>
<td>Methodology</td>
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<td></td>
<td></td>
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<tr>
<td>Conclusions and recommendations</td>
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<tr>
<td>Media coverage</td>
<td></td>
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<td>----------------</td>
<td></td>
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</tr>
<tr>
<td>What media coverage did the report attract?</td>
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</tbody>
</table>

<table>
<thead>
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<th></th>
<th>Number of References</th>
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<tr>
<td></td>
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</tr>
<tr>
<td>Broadsheet press</td>
<td></td>
</tr>
<tr>
<td>Tabloid press</td>
<td></td>
</tr>
<tr>
<td>Regional press</td>
<td></td>
</tr>
<tr>
<td>Specialist press</td>
<td></td>
</tr>
<tr>
<td>Broadcast</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Positive about the NAO</th>
<th>Neutral about the NAO</th>
<th>Critical of the NAO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadsheet press</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tabloid press</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional press</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialist press</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broadcast</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reaction from PAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Briefing and statement</td>
</tr>
<tr>
<td>Statement only</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>N/A</td>
</tr>
</tbody>
</table>

|Was the chairman interested in the report?|

|Other PAC comments in report|

<table>
<thead>
<tr>
<th>Government reaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Press statement</td>
</tr>
<tr>
<td>Broadcast interviews</td>
</tr>
<tr>
<td>Correspondence</td>
</tr>
</tbody>
</table>

|What reaction was there from the ministers to the report?|

|Positive about the NAO
|Neutral about the NAO
<table>
<thead>
<tr>
<th>Critical of the NAO</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
</tr>
<tr>
<td>---</td>
</tr>
</tbody>
</table>

|Was the ministerial reaction|

|Positive about the NAO
|Neutral about the NAO
<table>
<thead>
<tr>
<th>Critical of the NAO</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
</tr>
<tr>
<td>---</td>
</tr>
</tbody>
</table>
19. In relation to the benefits, cost and time spent to what extent did the study represent good value for money

- Cost far outweigh the benefits
- Cost outweigh the benefits
- Cost and benefits about equal
- Benefits outweigh the costs
- Benefits far outweigh the costs

Please explain the rationale for the above answer

Good Practice

20. What worked particularly well on the study?

21. Why?

22. What worked less well?
23. Why?

Any other comments:

Thank you for completing the questionnaire
Building in Quality

United Kingdom National Audit Office
BUILDING IN QUALITY

QUALITY REVIEW OF VFM REPORTS 1999-2000
This paper summarises the results of VFM quality review in the financial year 1999-2000. The review combines the quality assessments for VFM reports provided by

- The London School of Economics (LSE);
- Principal Finance Officers (PFOs); and
- VFM study teams.

The paper also reminds staff of the importance of the quality assurance process, and sets out the main elements of that process. The procedures for quality review have been revised for 2000-01, and include some new elements. The procedures which staff should now follow are given in this booklet.

Collectively, our published VFM reports continue to be of solid quality overall. This is reflected in LSE scores, where the proportion of reports judged to demonstrate a 'sound professional performance' increased significantly in comparison with the previous financial year. Study teams' internal reviews supported this, and feedback from PFOs was positive on the whole. However, there is evidence that the proportion of reports of very good or excellent quality has fallen in comparison with last year. In particular, there is scope for study teams to improve the quality of their conclusions and recommendations. Key recommendations of this review of quality in VFM reports for 1999-2000 are that study teams should:

- focus on considering how to draft conclusions which are robust, relevant, and well supported by the analytical base of the report;
- identify the benefits that recommendations will lead to, and quantify them wherever practicable;
- argue persuasively, back up arguments with evidence, and avoid bland generalisations.

Further detail is given in the remainder of this booklet.
The LSE are contracted to carry out external quality reviews of all NAO VFM studies. They assess each report on seven criteria, using a 5 point marking system. The following comments are based on their summary reports, and on an analysis of the marks they awarded reports published in the financial year 1999-2000.

Examination of the LSE's marks for 1999-2000 (Figures 1 and 2) suggests three main messages.

1. Every report in the 1999-2000 financial year scored at least a 3 overall. This is an improvement on 1998-99, when 87 per cent of reports scored at least an overall 3.

2. There were also significant improvements in the proportion of reports gaining at least a 3 on the 'administrative context' and 'methodology' criteria. The largest increase was for methodology (Figure 1).

3. On every criterion, with the exception of methodology, there were fewer reports gaining a 4 or a 5 in 1999-2000 (Figure 2). The improvement in methodology does not appear to have resulted in better conclusions and recommendations as the LSE awarded considerably fewer 4s or 5s on this criterion than they did in 1998-99.
This table shows that there has been a decline in the proportion of reports obtaining a mark of at least 3 has generally increased across all criteria. There have been significant improvements in results for administrative and managerial context, methodology and overall.

**Figure 1: Percentage of reports receiving a mark of at least 3 (sound professional performance)**

<table>
<thead>
<tr>
<th></th>
<th>(Y1) 98-99</th>
<th>(Y2) 99-00</th>
<th>Difference (Y2-Y1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative context</td>
<td>82.1 (n=39)</td>
<td>97.0 (n=33)</td>
<td>14.9</td>
</tr>
<tr>
<td>Structure</td>
<td>89.7</td>
<td>93.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Graphics and presentation</td>
<td>89.7</td>
<td>90.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Scope</td>
<td>94.9</td>
<td>93.9</td>
<td>-1.2</td>
</tr>
<tr>
<td>Methodology</td>
<td>69.2</td>
<td>93.9</td>
<td>24.7</td>
</tr>
<tr>
<td>Conclusions and recommendations</td>
<td>92.3</td>
<td>97.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Overall</td>
<td>87.2</td>
<td>100</td>
<td>12.8</td>
</tr>
</tbody>
</table>

Notes: Statistically significant differences are in bold.
n=number of reports marked by the LSE in the year.
Source: LSE

This table shows that there has been a decline in the proportion of reports obtaining a 4 or a 5 on every criterion except methodology.

**Figure 2: Percentage of reports receiving a mark of 4 (good) or 5 (excellent)**

<table>
<thead>
<tr>
<th></th>
<th>(Y1) 98-99</th>
<th>(Y2) 99-00</th>
<th>Difference (Y2-Y1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative context</td>
<td>43.6 (n=39)</td>
<td>39.4 (n=33)</td>
<td>-4.2</td>
</tr>
<tr>
<td>Structure</td>
<td>64.1</td>
<td>54.4</td>
<td>-9.6</td>
</tr>
<tr>
<td>Graphics and presentation</td>
<td>46.1</td>
<td>39.4</td>
<td>-6.8</td>
</tr>
<tr>
<td>Scope</td>
<td>61.5</td>
<td>54.5</td>
<td>-7.0</td>
</tr>
<tr>
<td>Methodology</td>
<td>33.3</td>
<td>42.4</td>
<td>9.1</td>
</tr>
<tr>
<td>Conclusions and recommendations</td>
<td>64.1</td>
<td>33.3</td>
<td>-30.8</td>
</tr>
<tr>
<td>Overall</td>
<td>53.8</td>
<td>51.5</td>
<td>-2.3</td>
</tr>
</tbody>
</table>

Notes: Statistically significant differences are in bold.
n=number of reports marked by the LSE in the year.
Source: LSE
Some summary comments drawn from LSE's reports are given below.

- LSE noted that reports with better administrative and managerial context generally reflected a push by study teams to diagnose the roots of problems in an organisationally realistic way. Reports which scored lower on this criterion were often content with reaching evaluative judgments about the implementation of a policy, without pushing an adverse evaluation that little bit further into an analysis of why things were not better done.

- On presentation and format, LSE commented on the two distinct styles of executive summaries now being used. Some executive summaries were very short (4 or 5 pages), and focussed on key conclusions and recommendations. Others were twice this length, and gave more background and explanation of the link between analysis and recommendations. LSE thought that both styles worked well, but that teams adopting the shorter format will need to be careful that the introduction to the main report provides a sufficient introduction for readers, briefly covers the methodology, and includes periodic sections summarising conclusions and recommendations. Teams adopting the longer format need to check that the executive summary does not become an alternative mini-report with its own introduction.

- The scope of a number of reports was 'commendably broad', making sure that they encompassed issues which have caused public concern, or can shed light on the issue investigated. Several reports are now also showing a more joined-up governance approach.

- Methodology scores improved this year, perhaps partly because methodology appendices are now being included in reports as a matter of routine. Appendices have also become more useful, without necessarily becoming more extended. The number of reports making an effort to model the processes being studied is slowly increasing, and the LSE conclude that making an effort to do this virtually always pays dividends in firming up the confidence with which the study team can draw conclusions.
On the use of **graphics**, the LSE commented on some reports' use of large boxes of text presented as figures. In some cases these were printed in a smaller font than the main text, appeared very condensed, and would probably be skipped by readers. LSE suggested that boxes, textual figures, and sections reprising conclusions and recommendations should always use appropriate devices to draw readers' attention, including diagrammatic representation or photographs where feasible, and coloured bullet points or other ways of emphasising key aspects.

The LSE emphasised the importance, for **effective conclusions and recommendations**, of thinking through methods in innovative ways.

Overall, the LSE felt that, with fewer reports obtaining 4s and 5s this year, 'there is some sense of many reports settling at a not very ambitious level'. The decline in the perceived quality of conclusions and recommendations may appear somewhat surprising, as the LSE have assessed our methodologies as better than in 1998-99. The LSE comment, however, that 'the methods used were generally quite safe and not very striking, building up a picture through interviews, file analysis, cross-checking sets of data, and so on. The best three studies showed evidence of background model-
This year's PFO feedback was very similar to last year's. Once again, it was very positive on the whole, and a number of PFOs remarked in particular on the high standard of professionalism of NAO staff. An area of concern last year was the extent to which PFOs said they had been consulted before the appointment of consultants on studies. Figure 3 below shows that the extent of consultation remains about the same this year. As this is a self-reported figure it may be slightly biased (at least one PFO had in fact been consulted, but had forgotten it); however, it remains an area of concern this year, and teams are urged to make sure they consult PFOs before appointing consultants.

As was the case last year, some PFOs were worried about misleading press coverage in some instances. However, they did not cite NAO press notices as the reason for such inaccurate coverage.

Other general comments from PFOs included remarks on delays and long timescales for some studies. These had sometimes meant that studies' recommendations were not as useful to departments, as things had moved on in the interim. Some PFOs emphasised the importance of having staff with appropriate specialist skills on the study team, especially if the study was in a complex or highly specialised area.
INTERNAL REVIEWS BY VFM TEAMS

Evaluation of studies by teams themselves is a very important part of the quality review process. It is important to consider the internal assessments of study quality by staff alongside the external review carried out by the LSE. Study teams are encouraged to carry out a quality assessment using similar criteria to LSE. The average score for overall quality based on 22 such returns from study teams this year was 3.5.

Internal review can be particularly helpful in highlighting lessons and learning points for future studies, and a summary of such comments from teams is presented below.

- **On effective use of staff**, a number of teams mentioned the importance of ensuring that the right mix of skills is available. Wherever possible, it is useful to draw on the knowledge and experience of colleagues who have undertaken similar studies in the past. If there is scope for **input from financial auditors** this should be determined as early as possible, to ensure that roles and responsibilities are agreed at the outset.

- The importance of obtaining **early buy-in from senior management of the audited body** was remarked upon. A practice which one team mentioned as useful was to discuss expected PSR issues and scope with a member of the audited body’s senior management before sending the draft PSR to the department or agency. In general, it was important to **get key departmental personnel involved** with the report at an early stage.

- The ‘**dinner party’ approach to drafting** had been found effective and useful by a number of teams. In this approach teams imagine they are explaining the content of the report to an intelligent lay person over the course of a dinner.

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VFM Team Review Criteria

- Presentation and Format
- Technical Content and Quality
- Initial Impacts
- Overall
party, starting with key messages and a high level summary, and gradually moving into more detail. The VFM Development Team is investigating developing training in this approach to drafting.

- Several teams noted that it was important to ensure that the study methodology was balanced and did not rely too heavily on a single source of evidence. When results might be challenged by the department, an effort should be made to find additional corroborating evidence.

- An important part of effective study management is monitoring progress. Regular meetings are vital, and study progress reports may be useful when the study team is large and/or the study is complex.

- If there are delays in the receipt of crucial evidence, consideration should be given to taking the matter up with the audited body's senior management.

- 'Hot reviews' can provide useful inputs into the development of a draft report.

- The use of a panel of outside experts can be invaluable to a study.

- One team noted that when consultants are used, it is important to bring them in at an early stage, perhaps when planning and starting the full study fieldwork. Another team reported that it had achieved a significant cost saving by offering its consultants the assistance of a team member. This built a good working relationship with the consultants, and was good experience for the staff.

- Ensuring that the Press Office is aware of the report's key messages was vital to achieving good impact in the media. It is good practice to think about a media strategy at the preliminary study stage. Communications Unit can advise on this, and arranging a meeting with the Press Office at the PSR stage is recommended.

- A detailed publication plan should also be agreed with the Press Office three to four weeks before the study publication date.

- Be sure to visit the websites of audited bodies. If there is no website, it may be useful to point this out and thus highlight the need for action to meet the Government's commitment on electronic service delivery.
High quality analysis is a necessary precondition of sound, quantifiable conclusions, and recommendations which add value. Such analysis need not be unduly complex, but it must be fit for purpose, and appropriate for addressing the specific questions that the study has set out to answer. The complexity of the analysis depends on the study design, and its effectiveness in supporting robust conclusions requires us to get the study design right at the outset. In a well designed study, with clearly defined questions for investigation, and appropriately thought through criteria for addressing those questions, it should be relatively straightforward to plan how to analyse the evidence and come up hard-hitting and relevant conclusions and recommendations. A study in which data are collected without a clear notion of why each particular piece of information is being sought is less efficient. The link which analysis provides between the evidence and the study's conclusions and recommendations is then less obvious to the client, and this may lead to longer clearance times.

Carrying out the right analysis on relevant data provides the foundation for a set of effective conclusions and recommendations. We need to build on this by concentrating on converting well-evidenced pieces of analysis into well-argued conclusions. There can be a tendency to consider the drafting of conclusions and recommendations as the final stage in the study process, almost as an afterthought, whilst in reality they are likely to be the thing readers, and in particular the media, turn to first. The Press Office also faces difficulties in attracting media interest in our reports if their messages are vague and unconvincing. The press want to know what are the three key messages in each report.

Some of the key characteristics of good conclusions and recommendations are:

- identifying clearly those to whom the recommendations are directed;
- persuasively arguing what needs to be done and avoiding generalisations. It is no help saying that something needs to be improved without saying what needs to be done;
identifying the benefit which the recommendation will lead to and quantifying it wherever practicable (e.g., reductions in waiting times or incidence of disease, financial savings, improvements in efficiency, productivity or quality of service);

noting the timescale over which the recommendation is likely to have an impact, and setting out what is needed to sustain the impact, and the resource implications of implementing it;

assessing the scope for good practice to be more widely applied, and the mechanisms for achieving this; and

including key headline messages which can be picked up in subsequent media coverage.

WHAT THE VFM DEVELOPMENT TEAM ARE DOING

The VFM Development Team is organising a training programme for Directors, commencing in the Autumn, which will address a number of topical issues relevant to the design of high quality VFM studies. It will also provide a forum for VFM Directors from across the office to share best practice and experience of 'what works'. One of the programme seminars will be devoted specifically to achieving high-impact conclusions.

The Team has also re-designed the Modernising Government course, to provide an introduction both to the Modernising Government agenda and to the actual process of conducting Modernising Government studies. It includes technical sessions on appropriate analytical techniques that are useful in the Modernising Government context, as well as examples of good practice from previous studies, which study teams may find useful to consider in building quality into Modernising Government studies.
The Team is continuing to address the need for the office to provide sound, high quality quantification and analysis in its reports, and to develop the skills required to perform such analyses. Training courses in the use of the SPSS statistical package, and the SNAP package for questionnaire design and analysis are now being offered on demand, and focus on analysis of actual data being examined by teams. Courses in Qualitative Techniques, Benchmarking, Multiple Regression and Systems Dynamics are continuing to be offered, and in the Autumn a new course on Statistical Reasoning for VFM Auditors will be run. The Technical Notes series on Merlin, and the programme of lunchtime seminars and masterclasses, are additional resources VFM staff can use to gain useful information on techniques and analytical methods.
BUILDING IN QUALITY

THE BRICKS AND MORTAR: QUALITY ASSURANCE

Quality assurance is the on-going process of ensuring that what should be happening on a study actually is happening. The important point is that it should be a continuous activity. By adopting good practice and dealing with any problems or potential problems earlier rather than later, quality can be built into a study. Generally, teams should

- Obtain expert advice and second opinion, for example from external experts/panels, internal TAG members, or peer review. (Indeed, the NAO’s external auditors, Robson Rhodes, endorsed the use of review panels and steering/advisory groups in their last report.)

- Consult technical experts at the design stage (not only when doing the analysis).

- Review skills of team at beginning of study and divide up tasks appropriately. Do other skills need to be bought in?

- Meet regularly, and seek approval for any changes to agreed specifications sooner rather than later.

- Monitor progress and costs and intervene early if problems arise.

Further information is available in Section 4 of the Value for Money Handbook, on Merlin.

BUILDING FOR THE FUTURE: QUALITY REVIEW

Quality review is a retrospective assessment of what worked well, and what didn't work so well, on a study. The NAO quality review process collects information from five equally important perspectives: those of the study team, the audited body, the LSE, the media and the PAC. The aim of the review is to tease out any lessons that need to be taken on board for the future, and to identify good practice which will help to improve the quality of future reports. The review also provides important management information.
The diagram (Figure 4) sets out the main elements of the quality review process. Study teams are reminded of the following points in particular:

- Quality folders should include an assessment by the Press Office of the media coverage of the study and how well the study was presented to promote media interest.

- The standard PFO questionnaire is available on Merlin. The format of this questionnaire has been agreed with PFOs, and the adoption of a uniform format across the office aids analysis of PFO responses. It is important that teams encourage PFOs, or equivalent senior officers, to participate in the review and to give their views.

- Teams are encouraged to give their own criterion scores to reports. A pro-forma for this is sent to teams when they receive the LSE cold review.

- Staff should also note that the quality review process has been updated and revised, and that

- Teams are encouraged to meet with departments and agencies at the end of studies to get more comprehensive views on the team's performance and the impact of the study. Meetings may be with PFOs, or with other departmental contacts if these are more relevant or appropriate; but the meetings should be at a sufficiently senior level. A note of the meeting should be included in the quality folder;

- If the PAC hearing has taken place, teams should reflect on whether the report contributed to a good PAC session.

Figure 3: The quality review process

- Report published

  - Report on media coverage from Communications Unit

  - Meeting with PFO or most relevant Departmental contact

    - Team meeting to review report and summarise lessons learnt

      - Quality review folder completed

        - Folder to D/C&AG, via AAG

        - Note on PAC hearing, if hearing has taken place

        - Folder contains:
          - PFO responses
          - LSE report
          - Note of meeting with Department
          - Note of team meeting/lessons learnt
          - Report on media coverage
CONSTRUCTING HIGH QUALITY REPORTS

BUILD ON OUR SOLID FOUNDATIONS

We are continuing to produce reports of sound professional quality. We need to look at ways of moving forward and building on this solid foundation to produce more excellent quality cutting-edge reports.

USE THE RIGHT TOOLS TO CRAFT TELLING CONCLUSIONS

We should focus on converting well-evidenced pieces of analysis into well argued conclusions and recommendations. Effective recommendations include quantified examples of the benefits they would lead to, wherever practicable.

SHARE THE LOAD

Multi-client studies are on the increase, and technical issues are becoming more complex. Using a team with a mixture of different skills, and drawing on other colleagues' experience and knowledge are often ways of ensuring success.

BUILD THE WALLS BEFORE THE ROOF

Bring in consultants and technical experts sooner rather than later—they may be able to advise on study design, as well as helping with fieldwork or analysis. Gaining the buy-in of the audited body's senior management at an early stage is also very helpful.

FOLLOW YOUR BLUEPRINT

It is important to monitor the progress of your study, and to act early if problems arise which might threaten costs or deadlines.
Self-evaluation Manual
Self-evaluation Manual

April 22, 1999

January 2000
Netherlands Court of Audit
Corporate Policy and Communication Directorate
International Affairs
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1 Introduction

systematic learning process

Self-evaluation means that after an audit project has been concluded, or ended prematurely, the audit team systematically considers what lessons can be learned. Compulsory self-evaluation of every audit project is aimed at creating a systematic learning process. Self-evaluation focuses on three aspects: the audit process, the technical quality of the audit product and its strategic value, and it can provide information not only for the audit team but also for the audit bureau and directorate.

which audits?

A self-evaluation should be carried out for every performance audit and financial management audit. Every report on financial statements should also be subject to self-evaluation. In consultation with the directorate, it should be decided whether self-evaluation of individual objection audits is worthwhile; this will differ from case to case.

contents of the manual

Section 2 deals with the purpose of self-evaluation and the procedure. Section 3 lists points to be dealt with in self-evaluation discussions and the brief report.

production of the manual

This manual was prepared jointly by audit directorates II and III and the Quality and Control Unit of the Corporate Policy and Communications Directorate. We have tried to make maximum use of the experience of auditors, project leaders, directors and deputy directors with the first self-evaluation manual and the comments received on it.
2 Purpose and procedure

learning

Individuals and organisations are continuously learning. When they achieve success, they conclude that a similar approach should be adopted on the next occasion. When they meet with failure, they wonder how they can do better the next time. Learning often goes unnoticed. The purpose of compulsory self-evaluation is to give auditors and project leaders the opportunity to take stock of what they have learned and consider which of their experiences may be of interest to their bureau or directorate. Self-evaluation therefore aims to fulfil the Court of Audit's desire to learn.

optimum learning conditions

The starting point in producing this revised self-evaluation manual was that the most important condition for maximising the lessons to be drawn from self-evaluation is the ability to take an honest look at products and processes. Honesty towards oneself and others is easiest in a familiar setting. The central element of self-evaluation is therefore the audit team discussion. For the same reason, all the elements of accountability have been eliminated from the brief self-evaluation report.

accountability and assessment instruments

Accounting for capacity utilisation and turnaround times no longer forms part of the self-evaluation, but still takes place by means of the logbooks.

The strategic quality of our audits is assessed via the external evaluation, for which there is a separate manual. In due course, an additional instrument may be developed to assess the technical quality of audits and reports, which was partly covered in the first self-evaluation manual. The reported lessons will probably provide useful material for a quality assessment.

team discussion

Internal self-evaluation begins in the audit team, no more than four weeks after the audit findings have been published, or after the audit has been terminated. The project leader should take the initiative. As a rule, only team members should take part in the discussion, but the
team is free to invite other people, such as the bureau head or the communication adviser, to take part in the discussion, or part of it, if it is thought this might prove useful. The self-evaluation discussion is conducted by the project leader. If the team and project leader prefer, the discussion can be supervised by the bureau head. A checklist for preparing the discussion is given in section 3.

**learning at three levels**

The aim of the evaluation discussion is to learn. Lessons should be identified for the team and individual team members, for the bureau, and for the directorate and organisation as a whole. To this end, the procedure following the team discussion is as follows.

**audit bureau**

On the basis of the discussion, the team should decide which results - both positive and negative - are relevant to the bureau, with the project leader having final responsibility. These results should be presented to the bureau shortly after the discussion. This can be done fairly briefly, e.g. via an agenda item during a normal bureau meeting, or on a more extensive scale.

**directorate and organisation**

On the basis of the presentation and the bureau’s response, the project leader, together with the bureau head, should decide whether any of the results might provide useful lessons for the entire directorate or the Court of Audit as a whole. The project leader should report these to the director in writing within eight weeks of publication (see checklist in section 3). The same report should, as a rule, answer two standard questions about the audit (see checklist). On the basis of this brief report, the director can arrange a meeting with the project leader or the audit team. Another possibility is to discuss the lessons at a meeting of the directorate (attended by the project leader or the whole team). Every audit directorate should make its own internal arrangements on this matter, with the aim of ensuring that the self-evaluation receives at least some attention at directorate level. The project leader should ask the team member acting as rapporteur whether he or she would like to attend the directorate meeting. After the meeting, the director should decide whether he or she wishes to report any of the lessons to the DSO (the meeting of directors and secretaries-general).

The progress of the self-evaluation procedure should be monitored by the senior staff members of the directorates.
As part of their responsibilities, the directors should prepare a meta-evaluation once a year, based on the experiences brought to their attention. This involves reporting on the lessons learned and the actions taken (improvements, consolidation, strategy adjustments, etc.).

The content of the management reports should be used to make an annual assessment of whether this procedure has yielded information of relevance to the Court of Audit Report.
The project leader and the audit team should decide what use to make of the following checklist. For instance, it could be used in drawing up an agenda for the evaluation discussion.

**Strategic product quality**
- timing of the audit;
- estimate of the effects (this can be reviewed later with the auditee);
- attention to strategic quality throughout the audit;
- the audit should fit in with the overall approach;
- the audit should be in keeping with major policy developments;
- clear message for managers;
- the strategic quality or effects should be proportionate to the cost of the audit.

**Technical product quality**
- Report of findings:
  - conformity with audit proposal;
  - definition of terms;
  - arguments underlying findings;
  - standards: acceptance by auditee, relative weight;
  - consistency with earlier Court of Audit standards.
- Report:
  - the message should relate to the problem outlined;
  - the conclusions should answer the audit questions;
  - use of language, graphs and illustrations;
  - quality of summary.
- Press release:
  - consistency with report summary;
  - clear heading and message.
- Briefing:
  - structure of presentation;
clear message.

- Follow-up

**Process quality**

- relations with the auditee;
- compliance with rules on public access to Court of Audit documents;
- project management and support;
- team expertise;
- division of work;
- internal communication and cooperation;
- adequacy of audit capacity in audits with fixed deadlines;
- relations with and role of bureau head and director;
- tripartite consultations;
- relations with and role of other people involved (e.g. government-wide audit bureau, legal adviser, communication adviser, information officer);
- functioning of quality guarantees (peer review, soundboard group, etc.);
- four-party consultations;
- preparation of briefing;
- planned and actual turnaround times;
  - substantial discrepancies?
  - if so, do the causes lie in the planning and/or implementation phase?
- planned and actual costs:
  - substantial discrepancies?
  - could it have been otherwise?

The causes mentioned in any infringement reports can be considered here.
The brief report on the self-evaluation should deal with the following topics:

1. The lessons that have emerged from the team discussion and the bureau presentation that are considered relevant to the directorate or organisation as a whole. If there are no lessons for staff outside the bureau, nothing of course is reported.

2. The relationship between the 'yield' and costs of the audit. In view of the audit effects known and expected at the time of the self-evaluation, was the investment justified? Can any lessons be drawn from this?

3. The relationship between the audit and the audit strategy. Points to be considered include:
   - whether the audit is in keeping with the strategy;
   - whether the strategy is suited to the situation found in the policy field (how can the strategy be fleshed out or streamlined);
   - appropriate follow-up measures in the policy field (e.g. the same type of audit in another directorate or another type of audit in the same directorate);
   - the audit's contribution to the aims formulated in the audit strategy and the general progress made in achieving these policy objectives.
Manual on Quality Requirements and Instruments

The Netherlands Court of Audit
Manual on Quality Requirements and Instruments

April 11, 1996
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1 Introduction

Quality requirements

The requirements to be met by audits carried out by the Netherlands Court of Audit can be found in a variety of policy documents, manuals and guidelines. They are also widely discussed informally. To eliminate any confusion on this matter, this manual sets out the most important quality requirements, which apply to every audit product and audit process. They fall under three headings:

- strategic product quality (section 2);
- technical product quality (section 3);
- process quality (section 4).

Quality instruments

The manual also looks at instruments for ensuring that quality requirements are achieved as effectively as possible (section 5). These instruments are not compulsory, since the Netherlands Court of Audit's management approach involves determining the general course to be followed in advance, with the emphasis on achieving results. It is left to your own professionalism to put together the best combination of instruments, as long as the product and process meet the relevant requirements.

Target group

The manual is intended for everyone involved in the audit process. Since every audit has to be assessed afterwards to establish whether the requirements have been met (see the self-evaluation manual), it is a good idea to refer to this manual when preparing the audit proposal.

The manual seeks to define the various quality requirements and indicators as precisely as possible. Where this was not possible, an appeal is made to your professionalism. After this manual has been in use for six months, we shall examine whether it needs amending.
The strategic product requirements are derived from the Netherlands Court of Audit's objective: to assess and improve the functioning of central government and related bodies. Every product (i.e. audit) should contribute to this objective, and the following indicators are used to determine whether this is the case:

1. it should provide external target groups with new information on the functioning of central government and related bodies;

2. it should provide information on efficiency and/or regularity risks;

3. it should provide information on ways of improving the functioning of central government and related bodies;

4. the recommendations should relate to crucial issues for the organisation, management or policies of central government and related bodies.
3 Technical product requirements

3.1 Introduction

The technical product requirements relate to the audit findings, opinions and recommendations. The following requirements should be met:

- cogency;
- consistency;
- accessibility;
- objectivity.

Each of these requirements is considered in more detail below.

3.2 Cogency

3.2.1 Cogent findings

The findings are cogent if the data collection and processing methods are valid and reliable. 'Valid' means that things that are said to have been measured should actually have been measured. 'Reliable' means that if the audit were to be repeated, it would yield the same findings.

The indicators for determining whether the findings are cogent are as follows:

- terms should be correctly defined;
- items examined should be properly selected;
- reliable sources should be used as far as possible.

Definitions

The main terms used in an audit (e.g. effectiveness, subsidy, legislation) should be defined. A distinction can be drawn between theoretical definitions (which refer to ideas) and operational definitions (which describe observable phenomena).
Definitions should satisfy the following rules:

- they should be clearer than the terms defined;
- they should not be expressed in the negative;
- they should not be too broad;
- they should not be too narrow;
- they should be reversible;
- they should not contain any metaphors;
- they should not be circular.

For more information about definitions, see H. de Boer's guidelines on written reports.

Selection of items for examination

Since it is often impossible to examine all sources (documents and staff), a selection of items will usually have to be made. The selection method and the number of items selected help to determine the scope of the opinion. Selections should not be made too hastily. If the auditee has computer databases available, a complete analysis is generally preferable to a partial analysis.

Reliable sources

Written sources are generally considered to be more reliable than interviews. The larger the number of independent sources on which the findings are based, the greater their reliability.

3.2.2. Cogent opinions

An opinion is cogent if it has a firm theoretical and empirical foundation. This means that opinions must not appear out of thin air.

The indicators for determining whether opinions are cogent are as follows:

- standards should be taken from authoritative sources;
- the step from findings to opinions should be verifiable;
- the relative weight attached to the standards should be clear.
Source of standards

The following are regarded as authoritative sources for the standards:

- legislation;
- internal policy documents;
- statements made by prominent experts (e.g. the Scheltema report used in the audit of autonomous administrative authorities);
- the codification file containing standards used by the Netherlands Court of Audit in the past.

Assessment based on standards

As far as the second indicator mentioned above is concerned, an opinion is formed by assessing findings against standards. This step should emerge clearly from the published report (or, in the case of unpublished audits, the report of findings or the final report). It should be clear to readers how the Netherlands Court of Audit arrived at its opinion.

Relative weight of standards

An opinion is often based on several standards. For instance, the indicators of accuracy, completeness and timeliness are used to determine whether the requirement of an adequate information supply has been met. If one of these indicators has been given greater weight in the final opinion, this should be clearly indicated in the published report or final report.

3.3 Consistency

An audit is consistent if the opinions and recommendations are not only internally consistent but also consistent with those of other audits.

Consistency indicators include the following:

- a similar opinion should be given in similar cases;
- recommendations should arise logically from the opinions and standards;
- recommendations should be compatible.
Similar opinions in similar cases

Failure to satisfy the first indicator will be particularly conspicuous in comparative audits. However, even in non-comparative audits, the standards and their relative weight must not differ from those used in earlier audits. The project team therefore needs to be aware of similar audits.

Recommendations and opinions

The second indicator means that a recommendation must always be based on an opinion or standard and must not contradict an earlier opinion or standard.

Compatibility of recommendations

The third indicator means that the recommendations must not be contradictory. For instance, one recommendation should not lead to additional administrative tasks if another recommendation calls for the administrative workload to be reduced.

3.4 Accessibility

The accessibility requirement applies mainly to final reports and published reports. It means that the audit's message for the government should be clear and intelligible to the auditees. This is very important as it ensures that the response to the audit by ministers and directors of bodies related to central government is as concrete as possible.

Accessibility indicators include the following:

- the opinion should specify the object of the audit;
- the recommendation should specify what needs to be changed;
- it should also specify the expected improvements.

Clear definition of object

The first indicator means that it must be clear exactly what has been assessed. The definition of the object assessed should therefore be as specific as possible.

Specific recommendations

The second indicator means that those aspects of the object assessed that need to be changed should be specified as clearly as possible. Generalities should be avoided.

Specific improvements

The final indicator means that the recommendations should specify the improvements expected by the Netherlands Court of Audit if its recommendations are adopted.
3.5 Objectivity

The audit report should be as objective as possible. This applies both to the final report and published reports. The objectivity indicators are as follows:

- findings and opinions should be reported separately;
- positive opinions should be included.

Separation of facts and opinions

If the audit satisfies the first indicator, it will be clear to readers what is fact and what is the Netherlands Court of Audit's opinion. Findings should not contain value judgments; such judgments belong in the opinion. Thus, the findings should not say 'it took a very long time for subsidies to be awarded', but 'it took 7 months for subsidies to be awarded'.

Inclusion of positive opinions

If the findings also warrant positive opinions, these should be included. The Netherlands Court of Audit does not always have to report bad news in order to meet its objectives.
4 Process quality

4.1 Introduction

'Process' refers to the activities on which the product is based. The following audit phases are distinguished:
• preparation of the audit proposal;
• implementation of the audit, resulting in the report of findings;
• the reporting phase, which begins with the four-party consultations and ends with the published report;
• the follow-up phase.

The audit process should meet the following requirements:
• thoroughness;
• efficiency;
• verifiability;
• optimum functioning of formal quality guarantees.

These requirements are examined in more detail below.

4.2 Thoroughness

An audit process can be characterised as careful if the principles of sound administration have been observed. Important indicators in this regard include the following:
• the information provided to auditees should be as complete as possible;
• the response of ministers should be incorporated in the report;
• those directly involved should be sent the report at the same time as parliament and the press.
The first indicator means that auditees should be informed about the following aspects of the audit proposal:

- the aim of the audit;
- the problem to be addressed;
- the general plan for the audit;
- the standards to be applied;
- the timetable, especially where it concerns the auditees;
- the Netherlands Court of Audit's project leader.

The second indicator means that the main points of ministers' responses should be included in the published report, possibly followed by a response from the Netherlands Court of Audit, and an indication of whether they have led to changes in the text.

The published report should be sent to ministers and state secretaries, directors of section-59 organisations, and other interested parties such as civil servants and employees of the bodies audited.

4.3 Efficiency

'Efficiency' means that the process should be effective and efficiently implemented. A process is effective if the objectives are achieved. The objectives of the audit proposal are included in the planning proposal, and the objectives of the definitive audit are included in the audit proposal. A process is efficient if the problem to be addressed, as set out in the planning proposal (and possibly modified subsequently), has been investigated at minimum cost. Approval of the planning proposal or audit proposal entails approval of the cost-benefit ratio set out in the proposal. The efficiency of the audit process therefore depends on the extent to which this ratio is achieved.
Efficiency indicators include the following:

- the problem to be addressed should be fully investigated;
- the publication procedure should have the intended effect;
- the turnaround time for the audit should be achieved.
- the estimated costs should not be overrun or underrun;
- sufficient expertise should be available;
- project management should be of sound quality;
- there should be a pleasant working atmosphere in the audit team.

**Problem agreed should be addressed**

If the problem agreed (and possibly modified subsequently) has not been addressed, the process has not been effective, since the product does not fulfil the agreements made in advance.

**Publication procedure should be effective**

The second indicator means that when the findings, conclusions and recommendations of the audit are ready, a publication procedure should be followed, with the aim of reaching the various target groups in the right manner. The publication procedure relates not only to the content and design of the written audit report, but also to briefings for auditees, presentations for people connected to the field audited, etc.

**Achievement of turnaround time**

If the turnaround time mentioned in the audit proposal has been achieved, this can be considered efficient. If it is lengthened or shortened, this counts as inefficient.

**Actual costs should match estimated costs**

During the audit proposal preparation phase, the estimated costs of human and material resources contained in the planning proposal must not be overrun or underrun. In the implementation and reporting phases, the estimated costs must match what was agreed in the audit proposal.

**Sufficient expertise**

In choosing the team members, it should be ensured that the knowledge required to formulate the audit proposal and/or carry out the audit is available in the team or can be obtained via peer review or hiring external experts.
Sound project management means that it is clear what the audit team wants to achieve, what the milestones in the process are, what tasks each member of staff must carry out and what procedural and other agreements apply.

If the process is to be efficient, it is essential for a pleasant work situation to exist in the audit team. Relevant terms here include 'a good atmosphere', 'motivation' and 'enthusiasm' - which are difficult to measure.

4.4 Verifiability

'Verifiability' means that the course of the audit process can easily be reconstructed and that the audit findings can be checked.

One verifiability indicator is that the following points at least should be laid down in writing:
- division of tasks among audit team members;
- decisions regarding changes to the audit subject, structure, planning and costs;
- agreements made with auditees, respondents and senior Netherlands Court of Audit officials;
- time recording per person.

4.5 Formal quality guarantees

The bureau head, the director or deputy director, the team member acting as rapporteur and the four-party consultations play a central role in guaranteeing quality.

The following indicators can be used to determine whether they have performed their role optimally:
- the bureau head and deputy director should have made a positive contribution to the process quality;
- the director and rapporteur should have made a positive contribution to the product quality;
- the four-party consultations should have made a positive contribution to the product.
Contribution of bureau head and deputy director
In addition to the project leader, the bureau head and deputy director are responsible for ensuring that the audit process meets the quality requirements. They should ensure they make a positive contribution to the audit.

Contribution of director and rapporteur
In addition to the project leader, the director and rapporteur are responsible for ensuring a sound product quality. They should ensure they make a positive contribution to the quality of the audit product.

Contribution of Communications Unit
The Communications Unit has a specific advisory role in the reporting and follow-up phase. It should ensure it makes a positive contribution to the product quality.

Contribution of four-party consultations
The four-party consultations, involving the rapporteur, the director, a member of the Communications Unit and the project leader, are intended to discuss the nature, form and chief contents of the report and a proposed publication date. The consultations should have had a positive impact on this phase of the audit.
5 Quality instruments

5.1 Introduction

This section gives examples of quality instruments. The list is not exhaustive and the use of these instruments is not compulsory. Rather it is intended to give you an idea of what is possible.

The following instruments are considered in more detail below:
1. agreements with management and Board;
2. lists of action points;
3. analytical diagrams;
4. setting learning goals;
5. codification file;
6. consistent aims;
7. surveys;
8. audit team feedback;
9. computer databases;
10. internal and external experts;
11. checklists;
12. literature study;
13. logbook;
14. mini-conferences;
15. milestone planning;
16. peer review;
17. division of tasks according to interests and expertise;
18. statisticians;
19. reference to AIV diagram;
20. time recording;
21. progress monitoring.
5.2 Further details

The instruments listed in section 5.1 are considered in more detail below. For each instrument, it is indicated whether it is relevant to strategic product quality, technical product quality, process quality or a combination of these. A brief explanation of each instrument is also given. The numbering used in section 5.1 is retained.

1. Agreements with management and Board (process quality)
The bureau head, director, deputy director and the audit team member acting as rapporteur each have their own responsibilities for ensuring that the product and process are of the requisite quality. In the interests of efficiency, agreements should be made beforehand on each person’s role in the project and on mutual expectations, and these should be recorded, e.g. in a logbook. An important agreement is that everyone involved should be kept informed of the state of play and any problems. The final product must not contain any surprises for the bureau head, director, deputy director and rapporteur.

2. List of action points (process quality)
An action point list indicates who should carry out what activities and by what date. During the audit procedure, activities may be added to the list, or removed from it after being completed. Such a list can be useful in monitoring progress.

3. Analytical diagrams (technical product quality)
An analytical diagram indicates how the information gathered is to be processed in order to yield findings, how findings will be assessed against standards, and how this will lead to opinions. An analytical diagram shows clearly how all the steps, from findings to opinions and recommendations are to be taken. The diagram can be used to identify gaps and illogicalities.
4. **Setting learning goals (process quality)**
Self-evaluation is intended to ensure continuous development of the Court of Audit. Learning is paramount. In addition to courses, guidance, etc., the audit project itself can be used for learning purposes. Before dividing up the tasks among audit team members, it may therefore be useful to examine in what respects each person wants to improve. This may relate to cooperation or managerial aspects, as well as product-related tasks.

5. **Codification file (technical product quality)**
A codification operation has been carried out in recent years. It involved taking stock of the standards used by the Court of Audit in the past and the basic standards underlying them. On this basis, a system of standards will be formulated as part of the strategic policy discussions. The intention is to enter all the standards used by the Court of Audit in a database, which can be consulted during new audits. The file will of course be updated on a regular basis. Until the data base has been created, Marie-Louise Bemelmans-Videc or Martin Dees of the Policy Development Division should be consulted.

6. **Consistent aims (process and product)**
An audit is usually a team effort. Although the audit proposal clearly indicates what the results of the audit should be, it may be useful to examine beforehand what objectives each team member has regarding the project. This information can help to prevent any problems arising during the process.

7. **Surveys (technical product quality)**
Staff can be questioned by means of surveys (written or oral). If team members are not sufficiently familiar with conducting surveys, they can contact the statisticians of the Policy Development Division, consult the bureau for European and government-wide performance audits (ERDMO), follow the structural questioning module provided by the Training Division, or consult the booklet on audits by Steef de Bie and Ron Visser.
8. **Audit team feedback (process quality)**
Regular feedback should take place in the audit team. Feedback may relate to whether the various tasks are proceeding efficiently and the product can be completed in accordance with the agreements contained in the audit proposal. It may also be worthwhile to discuss the functioning of the team, so that any problems regarding work atmosphere, cooperation, etc. can be identified and resolved promptly.

9. **Computer databases (technical product quality/process quality)**
To answer audit questions, information has to be collected. It is usually assumed that this information should be collected by the Netherlands Court of Audit itself. However, auditees often have computer databases that can be used to answer audit questions. This has the advantage that the audit team does not have to compile the necessary information itself. Another advantage is that it allows a complete analysis and means that information does not have to be gathered on the basis of random samples, which inevitably yield less reliable information.

10. **Internal and external experts (strategic product quality)**
Experts can be consulted to ascertain what information is already available on the audit subject, what aspects could be improved or whether the subject is of any importance. They may include colleagues (including managers and the Board) who are experts in the field concerned and also external experts, such as representatives of non-governmental groups. If external experts are consulted, it should always be made clear that the Netherlands Court of Audit is free to decide whether or not to use the information supplied.
11. **Checklists (technical product quality)**
Audit findings can be derived from written sources. Checklists can be useful in analysing the contents of documents. If you are not sufficiently familiar with these instruments, you can contact the statisticians of the Policy Development Division, consult the ERDMO bureau, follow the structured questioning module provided by the Training Division, or consult the booklet on audits by Steef de Bie and Ron Visser.

12. **Literature study (strategic and technical product quality)**
In the interests of strategic quality, it is necessary to examine what information is available on the audit subject in question. To this end, a literature list can be compiled with the help of BIDOC and the departmental libraries. To ascertain what subjects are covered by existing information or what efficiency and regularity risks the subject may entail, requested literature can be examined with the help of a brief checklist. A literature study is particularly important to ensure that the technical product meets the cogency requirement. It can be used to define terms, select audit methods or formulate standards.

13. **Logbook (process quality)**
A logbook is simply a sort of diary, in which daily activities, discussions and agreements are noted. The best method is to create a database to which all team members have access.

14. **Mini-conferences (product quality)**
A mini-conference means that external experts are asked to give their opinion on a particular subject. Such a conference may relate, for example, to Netherlands Court of Audit standards, opinions or recommendations. This happened, for instance, in the case of the audit of autonomous administrative authorities and the licences audit.
15. **Milestone planning (process quality)**

The turnaround time and the cost of human and material resources are included in the audit proposal. To ensure that planning is as realistic as possible, it is necessary to divide the overall project into phases and to identify the various steps in each phase. This makes clear how many activities have to be carried out and prevents activities being forgotten. The next step is to assign costs (in days) to each activity. In addition to drawing on their own experience, staff can consult fellow-auditors, the bureau head and departmental staff. Planning forms part of the courses offered to project leaders.

16. **Peer review (strategic/technical product quality and process quality)**

Peer review means that colleagues are asked for their thoughts on particular subjects and for advice. It can also go further than advice. For instance, colleagues can be asked to assess products, such as completed checklists and coded surveys. In many cases, it is useful to ask someone not directly involved in the audit for their views on certain matters. For further information, see the manual on guaranteeing quality through knowledge networks.

17. **Statisticians (technical product quality)**

The Policy Development Division employs statisticians (Ed Broeze and Marion van Dam), who can help to flesh out the statistical aspects of the audit, such as the structure of the random sample, data collection (questionnaires, computer databases) and data analysis.

18. **Division of tasks according to interests and expertise (process and product)**

The audit proposal makes clear what product must be made by what persons. Before the tasks are divided up, it may be useful to examine what the interests and areas of expertise of the various team members are. Efforts to divide up tasks according to interests and expertise can have a stimulating effect. As well as improving the product, it can also improve the work atmosphere in the team.

19. **Reference to AIV diagram (technical product quality)**

To examine whether sufficient findings have been gathered, use can be made of the AIV diagram (‘AIV’ stands for ‘answers, indicators, questions’), which indicates what questions must be answered to assess compliance with the relevant indicators. Briefly presenting the findings
after each audit question is a quick way of clarifying whether all the questions have been answered or whether further investigations are required.

20. Time recording
It is important to record the time that each staff member spends on the project. This is the only way of establishing whether the estimated costs are still realistic. The information can then be taken into account in new projects or used in reports for management. In principle, the time spent can be included in each person's logbook.

21. Monitoring progress
Milestone planning makes it easier to monitor the progress of the project. If the timetable is not adhered to, the milestone plan can later be examined to see in what phase of the audit things went awry.
Guideline on Quality Assurance

Court of Audit of the Republic of Slovenia
**Introduction**

The purpose of the guideline on Quality Assurance is to define ways and procedures for reviewing execution of directions and procedures that were adopted by the Court of Audit in order to ensure high quality of audit work.

The guideline is based on Court of Audit Act, PoRacS and Napotilo for audit execution\(^1\) that was issued by the President of the Court of Audit.

The Guideline on Quality Assurance is connected with all guidelines and audit manual of the Court of Audit.

**Definition**

Quality Assurance is a process that defines ways and procedures for reviewing efficiency and effectiveness of executing quality standards that the Court of Audit defined as quality criteria in the internal acts – in guidelines and audit manual.

The guideline on Quality Assurance is used for regularity audits as well as for performance audits. The differences between them are in reviewing – in procedures and content of control tools.

**Details of guideline**

**Quality Assurance**

Quality assurance in the audit process can be realised by clearly defined roles and responsibilities, appropriate management and control over the audit. Formal way of control is based on defined reviews in each audit stage. Quality assurance procedures must be incorporated in all phases of audit process: strategic planning, planning, field work, reporting and follow up.

In the quality assurance process the auditors as well as senior management are included.

The basic objective of quality assurance is execution of audits on a high quality level that is: professional and timely audits. With quality assurance other objectives that are important for future audits are addressed. Those objectives are achieved on the basis of reviews after the audit is completed and their purpose is to assess training needs, development of methodology, defining best audit practice.

\(^1\) Official Gazette No. 41/01 on 25.6.2001
Quality Criteria

Quality criteria defined by the Court of Audit in order to provide quality assurance must be followed by auditors and management. The quality criteria are:

- Appropriate use of auditing standards in accordance with Napotilo issued by the President;
- Appropriate use of guidelines and manuals of the Court of Audit;
- Carrying out the audits in accordance with Annual Programme or with adopted and confirmed detailed audit plans.

Roles in the Quality Assurance Process

In the quality assurance process there are auditors as well as management involved. Each of them has a specific role and responsibility in the audit process and in the process of quality assurance. In the following paragraphs the roles and responsibilities in the audit process will be described.

Role of team member in the Quality Assurance process

The team member is responsible for his work allocated to him by team leader. The role of the team member is to ensure that the work is carried out in a professional manner. This means that they must ensure that their work is carried out in accordance with the standards. In addition they must ensure that they utilise and record the time spent on audits properly.

Role of team leader in the Quality Assurance process

The role of the team leader is to ensure that the work of the team is carried out in a professional manner. This means that they must plan the work and supervise the audit team during the audit process to ensure that each of the audits for which they are responsible are delivered to time and quality standards. At specific stages in the audit process, after audit fieldwork, the team leader should carry out a formal review of the audit papers. Such reviews should assess whether work has been carried out in accordance with the approved detailed audit plan; whether in accordance with audit standards. The results of this formal review should be documented and any problems identified notified to the Head of Department as soon as possible. In addition the team leader reviews and approves reports on utilised time by the audit team and reports about audit in progress.

Role of the project leader in the Quality Assurance process

The role of the project leader is to ensure the work of the teams included in the project is carried out in a professional manner. The project leader ensures quality when planning,
realising and co-ordinating work of the teams in the project. The project leader monitors work of the teams in accordance with adopted plan and quality criteria. This means that they must ensure that the audits are carried out timely and in accordance with the quality standards. The results of the review should be documented. The project leader reports to the authorised Deputy President and to the President and any problems identified presented to them. The project leader reviews and approves reports on utilised time by audit teams.

**Role of Head of Department in the Quality Assurance process**

The role of Head of Department is to ensure that the work of the Department, for which they are authorised by the President, are carried out in a professional manner. This means they must ensure that they plan and monitor the work of the Department in order to deliver the audits prescribed for their Department in the Annual Programme to time and quality standards. The Head of Department should monitor audits, under his authority, and carry out a formal review of the audit papers. The results of this formal review should be documented in order to be presented to the Deputy President.

**Role of Deputy President in the Quality Assurance Process**

The Deputy President is responsible for quality assurance in the audit Departments for which he was authorised by the President of the Court of Audit. The role of the Deputy President is to ensure quality by reviewing audit plans, reports and assessments. The result of the review is the approval that is in accordance with regulations, audit manual. The results are documented in order to presented to the Supreme State Auditor and President when the agreement between Deputy President and the Supreme State Auditor was not reached. In addition the Deputy President should monitor realisation of the Annual Programme of work by the Court of Audit. On the basis of the Department reports the Deputy President reports on the work of each audit Department he is responsible for to the President. The quality assurance processes are carried out in accordance with audit standards and audit manual of the Court of Audit.

**Role of Editorial Board in the Quality Assurance process**

The role of the Editorial Board in the quality assurance process is to ensure quality of audit reports and other written documents prepared by the Court of Audit from legal and linguistic point of view. The editorial board ensures consistent terminology, use of unified image of the Court of Audit. The editorial board reports to the President. In addition it informs the audit departments about usual linguistic mistakes and gives instructions how to improve the quality of the future audit reports.
Role of External Professionals in the Quality Assurance process

The President can also decide to have an audit reviewed by external Professional. The results of this review are formally recorded in a report and presented to President. The President then assesses whether to incorporate expert's recommendations in the report.

Roles and responsibilities and quality assurance procedures are described in detail in manual chapter on Quality Assurance.