

INTOSAI



# Audit Quality Control

**Preliminary draft**

# INTOSAI



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## 1 Introduction

The purpose of this document is to provide guidance for SAIs in relation to establishing and maintaining an appropriate system of quality control which covers all audit and other assurance work performed by each SAI.

This document is designed to provide complementary guidance to, and should be read in conjunction with, the International Standard on Quality Control *ISQC-1, Quality Control for Firms that perform Audits and Reviews of financial statements and other Assurance and Related Services Engagements*. ISQC-1 (redrafted) is effective as of 15 December 2009.

This guidance is designed to minimise duplication with the material contained in ISQC-1.

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

SAIs operate under different mandates and models and the size of SAIs vary around the world. This guidance may not be equally applicable to all SAIs, but is intended to lead SAIs towards a common goal of audit quality.

## 2 Focus of these guidelines

By recognising and building on the International Standard on Quality Control ISQC-1, these guidelines establish an overall code for audit quality within SAIs. This guidance is designed to apply to the system of quality control covering all the work carried out by SAIs, including financial audits, compliance audits and performance audits.

These guidelines, which are focussed on the organisational aspects of audit quality operating across each SAI, are designed to complement the guidance developed in respect of audit quality at an individual engagement level (e.g. an individual financial audit, compliance audit or performance audit).

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

- ISSAI 1000 – 2999 (Financial Audit Guidelines)

[ISSAI 1220 provides guidance in respect of quality control procedures for audits of financial statements];

- ISSAI 3000 – 3999 (Performance Audit Guidelines);
- ISSAI 4000 – 4999 (Compliance Audit Guidelines).

### 3 Overview of ISQC-1

ISQC-1 deals with a firm's responsibilities in relation to its system of quality control for audits and reviews of financial statements and other assurance work. In the public sector environment, 'firm' equates to SAI.

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

- (a) the firm and its personnel comply with professional standards and regulatory and legal requirements; and
- (b) reports issued by the firm or engagement partners, are appropriate in the circumstances"<sup>1</sup>.

['Engagement partner' and 'firm' should be read as referring to their public sector equivalents within the SAI environment].

### 4 What is a system of quality control?

This document uses the quality control framework outlined in ISQC-1 and provides additional guidance on the issues of particular relevance in the public sector audit environment affecting an SAI's system of quality control:

- (a) Leadership responsibilities for quality within the firm.
- (b) Relevant ethical requirements.

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

- (c) Acceptance and continuance of client relationships and specific engagements.
- (d) Human resources.
- (e) Engagement performance.
- (f) Monitoring.

The quality control framework contained in ISQC-1 is relevant to SAIs and therefore, where relevant, the requirements of ISQC-1 should be followed by SAIs when following this guidance.

**(a) Leadership responsibilities for quality within the firm**

**ISQC-1 requires each firm to “establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements”<sup>2</sup>.**

**Particular considerations for SAIs**

- The head of the SAI (e.g. the Auditor-General, President of Court of Account) should take overall responsibility for the SAI’s system of quality control.
- The head of the SAI may delegate operational responsibility for the SAI’s system of quality control to a person or persons with sufficient and appropriate experience and the authority to assume that responsibility.
- SAIs should strive to achieve a culture that recognises and rewards high quality work. This requires the SAI to have the right “tone at the top” which emphasises the importance of quality.
- The strategy of each SAI should recognise an overriding requirement for the SAI to achieve quality in its work so that political or economic considerations do not override the quality of work performed.

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<sup>2</sup> ISQC-1, para 18

**(b) Relevant ethical requirements**

**ISQC-1 requires each firm to “establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements”<sup>3</sup>.**

**Particular considerations for SAIs:**

➤ SAIs should ensure policies and procedures are in place which reinforce the fundamental principles of professional ethics of:

- integrity;
- independence, objectivity and impartiality;
- professional secrecy;
- competence.

(For more guidance refer to the INTOSAI *Code of Ethics* ISSAI 30).

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

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

➤ SAIs should balance the desirability of auditor rotation with the legislative provisions that establish the statutory appointment and terms of office of the head of the SAI and, where relevant, particular personnel.

**(c) Acceptance and continuance of client relationships and specific engagements**

**ISQC-1 requires each firm to “establish policies and procedures for the acceptance and continuance of client relationships and specific engagements designed to provide the firm with**

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<sup>3</sup> ISQC-1, para 20

**reasonable assurance that it will only undertake or continue relationships and engagements where the firm:**

- (a) is competent to perform the engagement and has the capabilities, including time and resources, to do so;**
- (b) can comply with relevant ethical requirements; and**
- (c) has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity”<sup>4</sup>.**

#### **Particular considerations for SAIs**

- SAIs’ policies and procedures should acknowledge that often the SAI has no discretion regarding the acceptance and continuance of client relationships and specific engagements.
- SAIs should ensure that risk management procedures are adequate to manage the risks of undertaking work which ordinarily would be declined.

#### **(d) Human resources**

**ISQC-1 requires the firm to “establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to:**

- (a) perform engagements in accordance with professional standards and regulatory and legal requirements; and**
- (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances”<sup>5</sup>.**

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<sup>4</sup> ISQC-1, para 26

<sup>5</sup> ISQC-1, para 29

### **Particular considerations for SAIs:**

- SAIs should ensure that personnel and where relevant, contractors (e.g. from chartered accounting firms), have the collective competencies required to undertake the range of work of the SAI.
- SAIs should ensure an appropriate mix is struck between conducting work 'in house' and contracting work to other parties (such as chartered accounting firms), which is designed to optimise audit quality. For example, SAIs should consider the nature of work to be contracted out based on those areas where the SAI's inhouse skills are not considered to be adequate.
- SAIs should ensure that Human Resources policies and procedures give appropriate emphasis to quality, technical competence and professional development. Such policies and procedures related to human resource issues include, for example:
  - recruitment;
  - performance evaluation;
  - capabilities (including time to perform assignments);
  - competence;
  - career development;
  - promotion;
  - compensation; and
  - the estimation of personnel needs.
- SAIs should ensure that staff and all parties contracted to work for the SAI have a good understanding of the public sector environment in which the SAI operates (e.g. a good understanding of the machinery of Government).
- SAIs should ensure that performance appraisals of staff and all parties contracted to work for the SAI reflect that quality is a key driver of performance assessment.



**(e) Engagement performance**

**ISQC-1 requires the firm to “establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances”<sup>6</sup>.**

**Particular considerations for SAIs:**

- SAIs should ensure appropriate policies and procedures (e.g. audit methodologies) are in place for conducting the range of work that is the responsibility of the SAI, including work which is contracted out.
- SAIs should ensure that applicable standards are followed on both pre-audits (prior to a transaction occurring) and post audits (after a transaction has occurred), and that any deviations are appropriately documented.
- SAIs should ensure appropriate quality control policies and procedures are in place in respect of each major product of the SAI/type of engagement (e.g. financial audits, performance audits, compliance audits). Where appropriate, the SAI should ensure consistency in quality across the range of work of the SAI.
- SAIs should ensure that where they are subject to specific procedures relating to rules of evidence, that such procedures are consistently followed.
- SAIs should ensure that all engagement documentation (e.g. audit work papers) is the property of the SAI, irrespective of whether the engagement has been conducted by SAI personnel or contracted out.
- SAIs should ensure appropriate principles of natural justice<sup>7</sup> are followed in respect of finalising report findings to ensure those parties affected by the SAI’s reports have an opportunity to comment prior to the report being finalised.

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<sup>6</sup> ISQC-1, para 32

<sup>7</sup> Also referred to as “the principle of contradiction” in ISSAI 4100, para 151

- SAI should ensure that in addition to any retention period for documentation outlined in professional standards and guidelines, that they meet any other specific requirements of them to retain documentation for longer periods.
- SAI should balance the confidentiality of audit documentation with the need for transparency and accountability. As a general principle, when the audited entity has a statutory obligation to gather and retain certain information, requests from outside parties for such information are normally referred to the audited entity.

**(f) Monitoring**

**ISQC-1 requires the firm to “establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively”<sup>8</sup>.**

**Particular considerations for SAIs**

- SAI should ensure that monitoring is carried out of key aspects of the SAI’s system of quality control and of individual engagements (using personnel not involved in these engagements), covering the range of work conducted by the SAI, including work contracted out (e.g. to chartered accounting firms).
- SAI should ensure the results of quality control reviews are reported to the head of the SAI in a timely manner.
- Where appropriate, SAI should consider engaging another SAI to conduct an independent review of the system of quality control.

## **5 Summary**

The quality of work performed by SAIs around the world is directly related to the reputation and credibility of each SAI, and ultimately their ability to fulfil their respective mandates within each jurisdiction.

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<sup>8</sup> ISQC-1, para 48

A major challenge facing all SAIs is the consistent delivery of high quality audit and other assurance services.

For a system of quality control to be effective, it needs to form a key part of the SAI's strategy, culture and detailed policies and procedures as outlined in this guidance (and in the underlying International Standard on Quality Control ISQC-1). In this way, quality is built into the production of the SAI's reports rather than being seen as an additional process once each report is produced.