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**Republic of Kosovo**  
**Office of the Auditor General**

**Audit Quality Management Guide**

**9 June 2009**

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## **Foreword by Auditor General**

I am pleased to introduce the draft Audit Quality Management Guide for discussion.

This Guide will be tested during the next audit season (September 2009 – August 2010). Already during the finalization of this season's audit, the Quality Monitoring will be introduced (compare the Guide on the Production of the Annual Audit Report).

The Quality Function being introduced will own this Guide and be responsible for overseeing its implementation. The function will be responsible for drafting amendments based on our experiences from implementation.

The benefits that we will gain from an effective quality management can be summarized as follows:

- A high standard of audit work by improving audit performance and results.
- Our audit will be conducted in a more efficient and cost effective way which can lead to a saving in audit time and cost.
- Our competitiveness will be improved.
- Our credibility and reputation will be enhanced.
- An informal method of training and identifying additional training needs will be introduced.
- The motivation to carry out quality audit will rise.
- A self-assessment of audit work performed will be introduced.
- A management tool for measuring our performance will be introduced.

As said in the introduction to the Guide, quality is the responsibility, and in the interest, of all employees. But quality is not just something that can be implemented through a guide: quality is basically a question about an individual professional approach, a willingness to learn from experiences gained, and a sharing culture where everyone is focused towards the results we want to see.

I am convinced that all of us are prepared taking up this challenge.

# Chapter 1: Introduction

## Our Quality Principles

1.1 The Kosovo Office of the Auditor General's Quality Management policy, as outlined in detail within this document, is based on the following key principles:

- quality is the responsibility, and in the interest, of all employees;
- we shall continuously work on maintaining and improving audit quality;
- we shall strive to serve as a model for our auditees and partners; and
- our quality procedures and processes will be based on internationally recognized auditing standards and European good practices.

## Objective of this Guide

1.2 This guide is our quality management framework aimed at ensuring that our audit is carried out in a professional manner with high quality products and reports. The guide applies to all staff in the Office as everybody has an important role in ensuring quality.

1.3 The guide establishes procedures for embedding and enhancing quality. The specific quality management arrangements (see Chapter 2) should ensure that audits are timely, comprehensive, adequately documented, and reviewed by qualified personnel. The guide should also ensure that experience gained in applying the arrangements is reflected in future audit assignments.

1.4 The guide also includes measures for improving quality at a corporate level, in terms of management of human resources, managing corporate risks, learning from previous experience, and improving external relations.

## Components of a Quality Framework

1.5 Quality is a priority and is achieved through a continuous and high standard of management of the audit process. There are three main components of our quality framework:

- **Quality control** is about getting it right first time by ensuring that quality procedures are embedded in operational audit work;
- **Quality monitoring** involves independent review of individual audits by our Quality Function, within the Methodological Unit, to ensure that quality control procedures are operating effectively and in accordance with this guide and the Audit Manual;
- **Quality assurance** involves an independent external assessment of our quality control and quality monitoring procedures put in place and implemented.

## Basis for this Guide

1.6 This guide is based on International Standard of Supreme Audit Institutions (ISSAI) 1220. This Practice Note, issued in 2007, confirms that Internal Standard on Auditing (ISA) 220 on 'Quality Control for Audits of Historical Financial Information' should be applied by auditors of public sector entities in their role as auditors of historical financial information,

including audits of financial statements. The guide also draws on the INTOSAI Quality Assurance Guide issued in October 2004.

1.7 The quality management arrangements set out in this Guide should enable us to comply with international good practice (as set out in relevant standards) for ensuring quality in auditing practices and reports.

## **Types of Audit**

1.8 According to Law No. 03/L-075 on The Establishment of the Office of the Auditor General of Kosovo we shall carry out two main types of audit:

**Regularity Audit** – defined as attestation of financial accountability involving examination and evaluation of financial statements and other financial records and expression of opinions on:

- whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- whether the financial records, systems and transactions comply with applicable statutes and regulations;
- the appropriateness of internal control and internal audit functions;
- the probity and propriety of administrative decisions taken within the audited body;
- all matters arising from or relating to the audit.

This definition is broadly in line with that set out in International Standard of Supreme Audit Institution (ISSAI) 100 on ‘Basic Principles in Government Auditing’.

**Performance audit** – defined as an audit of the economical manner, efficiency and effectiveness with which the audited body uses and manages its resources in carrying out its responsibilities.

The ISSAI Standard states that performance audit this embraces:

- audit of the economy of administrative activities in accordance with sound administrative principles and practices and management policies;
- audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited bodies for remedying identified deficiencies;
- audit of the effectiveness of performance in relation to the achievement of the objectives of the audited body, and audit of the actual impact of activities compared with the intended impact.

Although quality management arrangements for performance audit are not specifically covered in this guide, the same basic principles apply and this guide should be used where appropriate.

## **Content of this Guide**

1.9 This guide covers quality management arrangements at a corporate level (Chapter 2), sets out detailed procedures for ensuring quality at each stage of a regularity audit (Chapters

3 and 4), and outlines arrangements for a formal quality assurance review (Chapter 5). More specifically:

- **Chapter 2** deals with audit quality management at the corporate level (human resources management, management of corporate risks, learning from experience, and improving external relations).
- **Chapter 3** covers quality control and outlines the embedded procedures that need to be set up to achieve quality in the audit process within individual audit assignments. Detailed procedures are established for the planning, fieldwork, reporting and follow-up stages of an audit and the procedures map onto the audit approach set out in the Audit Manual and related guidelines. Detailed quality control checklists are provided for completion by the Team Leader and Audit Director at each stage.
- **Chapter 4** covers Quality Monitoring ('hot review') of individual audits at the planning, fieldwork, and reporting stages. The chapter sets out the independent internal checks, by our Quality Function, that need to be carried out at key stages of the audit process to ensure that quality control procedures are being properly implemented.
- **Chapter 5** focuses on Quality Assurance ('cold review') – a periodical internal or external assessment of the quality control and quality monitoring procedures put in place and implemented.

1.10 Detailed checklists for completion at each quality review stage are set out in Appendices.

## **Chapter 2: Audit Quality Management at the Corporate Level**

### **Introduction**

2.1 Quality management requires an internal environment which will contribute to a consistent high quality and continuous improvement of our performance. We need to give high priority to establishing effective quality management arrangements at an office-wide level.

2.2 Audit quality management at the corporate level needs to be delivered through:

- human resources management;
- management of corporate risks;
- corporate planning;
- strong internal control;
- learning from experience;
- improving external relations.

### **Human Resources Management**

2.3 Management of human resources relates to: *recruitment, professional education, staff development, and implementation of ethical standards*. This is important in establishing an internal environment that helps us to ensure quality and continuous improvement throughout the organization. This requires measures to ensure the highest level of commitment by the people responsible for these tasks.

#### ***Staff Recruitment***

2.4 We should have a clear strategy for recruiting new personnel and one element of this strategy is that the Office will recruit individuals with the right skills, competencies and qualifications for the job. In order to achieve this, a number of steps have to be put in place:

- job descriptions should be developed for each post holder setting out the respective roles and responsibilities. The job description should also specify the experience and qualifications required of the employee;
- staff responsible for carrying out recruitment need training in the recruitment and selection process to ensure that they comply with our policies and that they are able to evaluate the respective merits of potential candidate;
- a personal file should be established for each employee which contains a record of their employment history, progress within the organization, qualifications obtained, training record, etc.

#### ***Professional Education and Training***

2.5 We shall pay special attention to the professional education and skills development of its personnel. Training is provided in several ways:

- *Induction training* is designed to assist newly recruited staff adapt to our context, organizational culture, and working methods. In addition to other matters, this training

needs to encompass issues related to the organizational structure, internal and external working relations, ethical standards, etc.

- *Technical training* should provide auditors with the methodological knowledge and skills to plan, implement, and report on any type of audit and to do it efficiently and to a high quality. This should take place in the context of a certification program, providing auditors with a professional qualification and internal courses covering basic auditing skills.
- *Management training* covers the skills required to manage audit teams and our corporate functions.

2.6 Induction training is usually carried out within the Office, while technical and managerial training may be organized within the Office or delivered through arrangements with professional organizations or academic institutions.

2.7 We encourage all audit staff to carry out a program of continuing professional development. After completing basic training modules and obtaining certification, all auditors should invest at least 80 hours per year in continuing professional development. The Human Resources function should assist by facilitating access to professional technical standards and professional literature and handbooks.

### ***Staff Development***

2.8 We consider that staff career development and advancement as important for staff motivation and also for succession planning. We are committed to::

*Supporting audit staff to become as successful as possible in their work and developing staff for positions of greater responsibility.* Training is important here, but there also needs to be a system of performance appraisal, through which all staff must go. This appraisal, by line management, should be on-going, feeding into an annual assessment. Information gathered as part of this process can be used to inform the training and development plans of individual employees.

*In filling vacancies in the OAG, the positions will be filled with the most capable and competent individuals.* The process of selecting candidates needs to be transparent, fair, objective, and free from any favoritism. The selection process will be carried out through an open competition, where the announcement is widely publicized along with the required qualifications for the position. Selection will be carried out by a committee, which conducts an interview with each candidate and evaluates their expertise, experience, and qualifications in accordance with previously defined criteria.

2.9 To underpin the selection process, we will develop guidelines for promotion, which will include:

- defining the expected competencies, skills and qualifications needed for higher grade posts;
- criteria for evaluating individual performance and ability – as part of the performance appraisal system;
- published policies and procedures for advancement.

### ***Code of Conduct***

2.10 All staff are required to observe our Code of Conduct. The Code is designed to ensure professionalism, expertise, technical competence, independence, honesty, and objectivity of the audit personnel. It is vitally important for audit quality management at the organizational level

while at an individual level it ensures that each employee performs their job with honesty and without any conflict of interest or other obstacles.

## **Managing Corporate Risk**

2.11 Our Office, like all organizations, will face numerous risks to the achievement of its objectives. These risks will be identified and evaluated (in terms of likelihood and impact), and managed. While it will not be possible to prevent risks from occurring, if the risk has been identified and action taken to manage it, the impact on the objectives and reputation of the organization can be reduced.

2.12 Potential corporate risks that might arise include:

- weaknesses in strategic and annual audit planning, resulting in the wrong prioritization of auditing activities;
- insufficient staff resources, resulting in an inability to complete planned audits;
- inadequate auditing practices and techniques, resulting in an incorrect opinion being placed on financial statements;
- poor presentation of audit reports, resulting in a loss of credibility;
- political interference in our program of work, threatening the Auditor General's independence.

## **Corporate Planning**

2.13 A comprehensive annual corporate planning exercise is important to ensure that we carry out the right audits at the right time and that action is taken to develop our capability as an audit office. Our strategic audit plan prioritises audits and distributes resources. The annual audit plan for each audit directorate schedules these audits across the year and identifies the actual resources that will be deployed to carry them out.

2.14 Senior management will monitor the progress of Directors in implementing the approved strategy and annual audit plans and will expect any implementation problems to be brought to their attention as they arise.

## **Strong Internal Control**

2.15 We will seek to establish and maintain effective internal control in accordance with INTOSAI guidance (INTOSAI GOV 9120) on 'Internal Control: Providing a Foundation for Accountability in Government'. This sets out the internal control roles and responsibilities which our managers, from Team Leader upwards, will implement:

- creating a positive control environment by setting a positive ethical tone; providing guidance for proper behaviour; removing temptations for unethical behaviour; and providing discipline when appropriate;
- ensuring that our auditors have and maintain a level of competence to perform their duties;
- clearly defining key areas of authority and responsibility;
- establishing appropriate lines of reporting;
- establishing management control policies and procedures that are based on an analysis of risk;

- using training, management communications, and day-to-day actions to reinforce the importance of management control;
- monitoring the organization's control operations through annual assessments and reports to senior management.

## **Learning from Experience**

2.16 A key aspect in developing capability, in any profession, is through learning from experience. This will be built into our quality management arrangements. You will receive feedback following each quality control and quality monitoring exercise and Audit Directors should consider the need for additional training in light of this.

2.17 In addition, the Quality Function will produce an annual report summarizing the outcomes of its reviews and this will act as an input to future staff training and development needs and also the need for any corporate changes.

2.18 There will be a two way flow of communication. Management will provide continuous feedback and support to staff and staff will advise management promptly of matters that require their attention. This will drive a culture of sharing experiences.

## **Improving External Relations**

2.19 The establishment of effective external relations is an important element of any quality management system. It is also important in promoting accountability. Our senior management will allocate time and effort to:

- co-operating with other auditors (public and private sector) and relevant professional associations, with the aim of exchanging experiences which can strengthen the quality of work in both sectors;
- establishing good working relations with Parliament and its committees;
- strengthening co-operation with the Ministry of Finance, which has a significant input to the continuous improvement of budget accounting and establishment of internal control;
- establishing good working relations with the media, which is important for keeping the public informed about our reports (and measures undertaken as a response to audit reports);
- forming relations with the academic community, which can provide a pool of experts for specialized fields;
- establishing good working relations with other national audit offices to facilitate an exchange of knowledge, experience, techniques, and information on good practices.

## **Building on Corporate Quality**

2.20 The next chapters (3-4) of this Guide are focused on ensuring quality at an operational level at various stages of an audit. However, it will not be possible to deliver quality at an operational level without first delivering quality management at the corporate level as set out in this chapter.

# Chapter 3: Quality Control

## Introduction

3.1 Quality control is about 'getting things right first time'. This is achieved by embedding quality procedures and processes into operational audit work at all stages of the audit: planning, fieldwork, reporting and follow-up.

3.2 Prior to considering detailed quality control procedures, there are several important aspects of working practice that underpin operational quality: documentation and supervision.

## Documentation

3.3 There are two key aspects to good documentation: audit evidence and working papers.

## Audit Evidence

3.4 You are required to obtain sufficient and relevant evidence to be able to draw reasonable conclusions. It is important that audit evidence is reliable. You should use your judgment about what is reliable evidence, but in general:

- external evidence (for example, independent confirmation of bank balances from the client's bank) is better than internal evidence;
- audit evidence obtained from the audited body's records or directly by audit staff is more reliable than that provided by the client;
- evidence in the form of documents and written statements is more reliable than oral evidence;

## Working Papers

3.5 Standardised working papers are the documents that auditors prepare to record the performance of their work. Working papers should be sufficiently complete and detailed to enable an experienced auditor with no previous connection with the audit to reach a basic understanding of the work performed and conclusions reached. The working papers should demonstrate that:

- work has been adequately recorded and reviewed at an appropriate level;
- matters arising have been identified and discussed with the appropriate official;
- conclusions have been properly reached from the supporting evidence.

3.6 Working papers should specifically identify the following aspects:

- the audited body, relevant financial period, and audit topic;
- the date on which the papers were prepared and the initials of the person who prepared them;
- the date on which the working papers were reviewed and the initials of the reviewer;
- the objective, nature and extent of work carried out and the conclusions reached;
- for schedules prepared by the audited body, the date they were received and the source.

3.7 To assist in ensuring that sufficient relevant evidence is obtained and adequately recorded, a number of standard forms of documentation are available to auditors. These include checklists, standard planning templates, standard report templates, and questionnaires. These are included in the Audit Manual and related guidance. You should ensure that you use standard forms in preference to other material. In addition, you should use the standard file structure and referencing system specified in the Audit Manual.

## **Supervision**

3.8 For each individual audit, we establish an audit team which is led by a designated Team Leader. The Team Leader will be an experienced certified auditor and they will be responsible for organizing, guiding, and supervising the work of the rest of the audit team. The Team Leader reports to the Audit Director responsible for the body being audited.

3.9 The work performed by each audit team member will be reviewed by the Team Leader, who will evidence the process by initialing and dating the appropriate working papers. The reviewer will ensure that:

- work has been performed in accordance with the audit program;
- the work performed and results obtained have been adequately documented, and the working papers are complete, tidy and understandable, and appropriately referenced;
- matters arising are clearly summarized and are both significant and relevant;
- conclusions are properly supported and are consistent with audit findings from other areas of work;
- review points remain on file as evidence that a review has taken place and are signed by the reviewer once they have been satisfactorily cleared.

3.10 Through their supervision, the Team Leader monitors on an on-going basis whether:

- auditors have the necessary skills and experience to carry out their assigned tasks;
- audit guidance and audit programs are understood;
- work is being carried out in accordance with audit programs and other instructions.

## **Implementing a Quality Control System**

3.11 Quality control must be implemented for each audit as part of 'getting it right first time'. This means embedding quality control procedures at the **planning, fieldwork, reporting, and follow-up stages of the audit**.

3.12 Quality control checklists are an integral part of the quality control measures. They are referred to at each stage of the audit and are included in the Appendices to this Guide.

## **Quality Control at the Planning Stage**

3.13 An assignment audit plan will be prepared for each audit included in the Annual Audit Plan. The objective of this assignment audit plan is to ensure that:

- appropriate and sufficient evidence is obtained to support the Auditor General's opinion;
- auditing standards are complied with;

- only necessary audit work is carried out.

3.14 Our audit planning methodology envisages two phases of audit planning: *general planning and detailed planning*.

<b>General Planning Steps</b>	<b>Tasks</b>
Step 1	Understand the client's business
Step 2	Establish audit objectives and scope
Step 3	Assess materiality, planned precision and audit risk
Step 4	Understand the client's internal control structure
Step 5	Determine audit components
Step 6	Determine error/irregularity conditions
Step 7	Assess inherent risk and control risk
Step 8	Determine the mix of tests
<b>Detailed Planning Steps</b>	<b>Tasks</b>
Step 9	Develop audit programs
Step 10	Determine staffing requirements and resource allocation
Step 11	Estimate budget requirements
Step 12	Determine the timing of audit activities
Step 13	Determine information required from client management
Step 14	Re-assess planning decisions
Step 15	Complete planning documentation
Step 16	Review and approve the audit plan

3.15 General planning decisions have a significant impact on the nature, extent, timing, and success of the work that is performed during the fieldwork stage. General planning decisions should therefore be made by the more senior and experienced members of the audit directorate. Detailed planning will generally be carried out by the audit team under the leadership of the Team Leader.

3.16 The key output from the planning stage is the Audit Plan. This should include background information (such as the nature of the auditees activities, the organization structure, accounting policies, internal control structure) and the proposed audit strategy (including the overall audit objective and scope, materiality level, risk assessment, testing methodology); and available resources. Audit programs contain the specific audit procedures that the auditor will complete during the fieldwork stage and these should be finalized at this point of the planning process.

3.17 The Audit Director carries overall responsibility for supervising the planning process to ensure its quality as a basis for an effective audit. This responsibility should be exercised by reviewing and approving all working papers and, specifically, the Audit Plan and associated audit programs to make sure they are complete and that planning decisions have a sound basis.

3.18 To assist in ensuring that audit planning tasks have been satisfactorily completed, the Team Leader and Audit Director will each complete a checklist. The completed checklists (A and B in the Appendices to this Guide) should be placed on the planning chapter of the current file.

3.19 Since the work performed will form the basis for the conclusions reached and the form and content of the reports being issued, it is important that all key planning decisions are reviewed by the Quality Function, as part of our Quality Monitoring arrangements.. Therefore, prior to approval by the Audit Director, the Audit Plan, and planning documents, will be

reviewed by the Quality Function, by reference to Checklist I. The Audit Director will consider feedback from the Quality Function when approving the Audit Plan.

## **Quality Control at the Fieldwork Stage**

3.20 The guidance in this section refers to interim audit work, carried out during the year to which the financial statements relate, and final audit work, carried out after the year end.

3.21 Before the start of each individual audit, the Team Leader will ensure that:

- all members of the audit team understand the audit plan and the tasks assigned to them;
- each auditor has the required knowledge, training, and skills to carry out their tasks;
- there is no conflict of interest, or any other factors that might in any way jeopardize the principles of independence, objectivity, and competence of the auditors in the team.

3.22 During this phase of the audit, the Team Leader is responsible for:

- providing guidance to team members on aspects of the audit;
- supervising the conduct of the audit and the completion of audit tasks;
- reviewing the work carried out, supporting documentation, and proposed findings and conclusions.

3.23 Audits will be implemented in accordance with the approved audit plan. Any unforeseen circumstances which arise in the course of the audit, and which may have an impact on the financial statements being audited, will require changes to the audit plan. These changes will be made by the Team Leader with the approval of the Audit Director. Changes in the audit plan will be documented and explained.

3.24 If the change to the audit plan requires significant changes to the audit methodology, the timescale of the audit, or other additional resources, the Auditor General (AG) or Deputy Auditor General (DAG) will be consulted. The agreement to significant changes by the AG/DAG will be documented in the planning chapter of the current file.

3.25 The Team Leader is responsible for ensuring that every team member performs the planned tasks in a professional and competent manner, in accordance with the established audit methodology. Any overruns against the time planned for the audit fieldwork stage, where the audit plan has not been modified, need to be explained and documented by the Team Leader.

3.26 The Team Leader will offer team members support and guidance wherever appropriate. This support might range from additional information relating to the client's operations to assistance in identifying audit findings and recommendations. If, during the audit, unexpected problems or technical issues arise which require skills that the audit team does not possess, the Team Leader will, with the approval of the Audit Director, arrange for provision of the necessary expert assistance.

3.27 The Team Leader is responsible for resolving differences in professional judgment between audit team members. If the Team Leader is unable to do this, the matter be referred for resolution to the Audit Director. In the event of disagreement between the Team Leader and the Director, the final judgment should be made by the AG or DAG. All such discussions and resolutions will be fully documented.

3.28 Every team member needs to document the work they have performed as set out in paragraphs 3.4 to 3.7. It is the Team Leader's responsibility to ensure that this documentation has been completed to the right standard.

3.29 Following completion of interim audit work, the Team Leader and Audit Director will review the standard of work carried out and identify outstanding matters to be carried forward to the final audit.

3.30 After the final audit work has been completed, and before compiling the draft audit report, the Team Leader will complete the quality control checklist for the fieldwork stage (Checklist C). Among other things, the questions in this checklist are intended to confirm that:

- the current file is compiled in accordance with the Audit Manual, relevant standards, and any specific internal instructions, and working papers are easy to follow and cross-referenced;
- the audit approach was appropriate, or modified if the circumstances required;.
- materiality levels are appropriate;
- where reliance is being placed on the client's internal controls, these have been evaluated and tested;
- analytical procedures and substantive tests have been carried out in accordance with the audit plan and program and, where appropriate, the correct sampling techniques have been applied;
- working papers contain relevant and reliable audit evidence supporting the findings, conclusions, and recommendations and this evidence is sufficient to support the auditor's opinion.

3.31 At the same stage, the Audit Director should review the completed fieldwork chapter of the current file, using Checklist D, to determine whether:

- the audit has been completed in accordance with the audit plan;
- the planned audit methodology, adjusted if necessary to reflect different circumstances, has been implemented;
- the audit results are adequately documented;
- the audit objectives have been achieved and are reflected in the conclusions of the audit;
- the conclusions set out in the working papers are consistent with the audit findings and support the auditor's opinion.

3.32 Following the Director's review, the current file should be passed to the Quality Function for quality monitoring, using Checklist J.

## **Quality Control at the Reporting Stage**

3.33 The audit report will be written in accordance with the approach set out in the Audit Manual. Likewise, the Auditor General's Opinion should be expressed in a form and manner set out in the Audit Manual, depending on the results of the audit.

3.34 Audit reports need to be completed within the statutory deadline. They should be written in a clear, concise and objective way. They need to fairly present all the relevant facts.

All audit findings and conclusions should be supported by relevant, reliable and sufficient audit evidence (as documented in the audit working papers). Recommendations provided in the audit report need to be clear, consistent with the auditor's conclusions, and focused on rectifying weaknesses and/or errors found during the audit. The response from the auditee should be attached to the report together with our comments upon them.

3.35 The first draft audit report is normally prepared by the Team Leader in conjunction with the audit team members. In drafting the report, the Team Leader will ensure that:

- all the audit findings have been assessed in accordance with the established materiality and the draft report includes all relevant facts and issues;
- there is a clear audit trail of all the steps carried out during the audit, that the findings and conclusions are documented, and that the recommendations logically flow from those findings;
- all the relevant facts are presented in the report in neutral terms and that the report is both constructive and objective;
- there is sufficient supporting evidence for audit findings and that the audit report includes positive findings where appropriate;
- the form and structure of the report is in accordance with the methodology set out in the Audit Manual;
- the draft report is completed within the legal timeframe.
- any significant and important events that took place after the audit, but before the submission of the report, have been taken into account;
- in case of discovered fraud, the correct procedures have been followed.

On completing this review, the Team Leader will complete Checklist E.

3.36 The first draft audit report will be reviewed by the Audit Director to ensure that:

- the form and content of the report is in accordance with the standards and approved reporting methodology;
- the report reflects significant findings and conclusions that the auditors have found in the course of the audit;
- the findings, conclusions and recommendations are consistent, concise, and clear;
- the findings and conclusions support the proposed audit opinion.

On completing this review, the Audit Director will complete Checklist F.

3.37 If there is a difference in professional judgments between the Audit Director and Team Leader on key issues (for example, the impact of certain findings on the financial statements, application of accounting standards) the Director should ensure a correct professional judgment. They will consider the explanations of the Team Leader, consult available literature and experts, review audit practice elsewhere, and clearly state their position in the working documentation. Where the Director considers it necessary, they will inform the AG/DAG about the problem. All corrections, different professional judgments, or changes to conclusions and recommendations which arise during the review of the first draft report by the Director should be documented.

3.38 After the first draft report together with the current file has been reviewed by the Audit Director and monitored by the Quality Function,(Checklist K) it will be sent to the auditee for

review and comment. The Team Leader and Audit Director will consider any comments made by the auditee and will discuss these with the it's management as necessary. The Director will take appropriate action to resolve any disagreements. It may be that the auditees comments are not of such a nature as to change the findings, conclusions, and audit opinion. The Director will make any necessary revisions to the draft report.

3.39 Following consultation with the auditee, the final draft report will be prepared and again submitted to the Quality Function. Any points raised on the final draft report by the Quality Function will be considered by the Audit Director and the report revised as necessary.

3.40 The Audit Director will then submit the final draft report to the Auditor General for approval

### **Quality Control at the Follow-up Stage**

3.41 Following up the audited body's action on audit recommendations is an important part of the audit process and is usually carried out as part of the planning stage of an audit assignment. Details on an audited body's progress in implementing audit recommendations will be incorporated into the planning documents for an audit. However, where the audited body is not subject to an annual audit, a separate exercise may need to be carried out, depending on the significance and nature of the recommendations.

3.42 Your approach to examining whether recommendations have been implemented will depend on the nature of the weaknesses that underlie the recommendations. It will also depend on the relationship between the Office and the audited body. In cases where the problems are relatively minor, where the audited body's management accepts the recommendations and has an action plan for their implementation, the examination can be done by way of a simple question. In other cases, the Team Leader will plan the necessary review and testing in order to ascertain that the audited body has undertaken the required steps and that the problem has been resolved.

3.43 Actions taken by the audited body that have resulted in removal of irregularities found in the previous audit should be noted in a separate section of the audit report. Where the audited body has not taken adequate action on audit recommendations, this should be specifically highlighted.

3.44 Quality control over work in following up the implementation of audit recommendations should be documented by the Team Leader on Checklist G. The Audit Director will confirm whether the quality control has been carried out satisfactorily by completing Checklist H.

3.45 Assignment audit reports issued by the Auditor General over the course of the year provide input to the Auditor General's Annual Audit Report. Specific quality arrangements for producing the Annual Audit Report will be determined each year.

## **Chapter 4: Quality Monitoring**

### **Introduction**

4.1 Quality monitoring is the internal review function established to ensure that quality control procedures are operating effectively. Quality monitoring covers all audit work from the planning stage through to reporting.

### **Independent Internal Review**

4.2 At key stages of an audit assignment, it is important for management to have independent assurance that the audit is being carried out in accordance with approved standards and methods and that the quality control procedures set out in Chapter 3 of this Guide are being implemented effectively.

4.3 This review will be carried out by the Quality Function, established within the Office's Methodological Unit. This Function will be comprised of experienced auditors to maintain credibility and will also include the Office's Legal Advisor.

4.4 The Quality Function will review the conduct of individual audit assignments at three key stages:

- at the planning stage, before the audit plan is finalised by the Audit Director;
- at the fieldwork stage, after the final audit has been completed;
- at the reporting stage, before the final draft audit report is submitted to the Auditor General.

4.5 Given the number of audits carried out each year, and the limited resources available within the Methodological Unit, it might be necessary to prioritise the audits that are subject to this independent internal review. In deciding which audits to review, the Quality Function will consider:

- the size and complexity of the audit;
- the relative experience of the audit team;
- evidence of difficulties encountered during the audit, including complaints from the audited body;
- the significance of findings from previous years audits of the same audited body.

These factors will be used to carry out a risk assessment of audits to identify which audits to review and the extent of any review.

4.6 The Quality Function will carry out their review by reference to a standard checklist (Checklist I for the planning stage, Checklist J for the fieldwork stage, and Checklist K for the reporting stage). In carrying out their review, the Quality Function will have access to all relevant reports and working papers and may interview members of the audit team about specific aspects of the audit. The Quality Function will at all times liaise with the Director responsible for the audit.

4.7 The Quality Function will issue a report following each review setting out:

- whether the conduct of the audit has been in accordance with our policies and practices;
- shortcomings in the audit process and recommendations for improvement;

- aspects of good practice that can be shared with other audit teams.

4.8 The purpose of this independent review is not to criticise audit teams. The emphasis is on helping auditors to improve their working practices. The Quality Function's reports need to be balanced and take into account the difficulties and obstacles that the audit team had to face. Reports will focus on significant matters.

4.9 When concluding a review, the Quality Function will discuss its findings with the audit team, who will be given a chance to provide written comments. The Quality Function will seek to agree each of its findings with the audit team. Any disagreement must be recorded.

4.10 The Quality Function's reports will, over time, indicate whether our quality control system is well designed; whether this system is efficient and functional; whether audit standards, policies, and procedures are applied; and whether the required quality of audit work and audit reports has been achieved.

4.11 The Methodological Unit will each year produce an overall report, based on these individual quality monitoring reviews. This annual report will summarize the main findings and recommendations from individual reviews and identify areas where audit procedures need to be improved across the Office. This report should be used by senior management and the HR function to identify future staff training and development needs and corporate changes.

## **Chapter 5: Quality Assurance**

### **Introduction**

5.1 Quality assurance is quite distinct from quality monitoring in that it is concerned with an independent ‘post audit’ review of our quality management arrangements, including the effectiveness of quality control and quality monitoring procedures.

5.2 Quality assurance is generally achieved through a combination of internal and external review. However, the detailed quality monitoring arrangements (set out in Chapter 4) mean that further internal review will not add value. The focus of our quality assurance stage will therefore be confined to external review.

### **External Review**

5.3 The purpose of an external review is to obtain a fully independent assessment of the standards being achieved – against a regional or sector benchmark rather than internal expectations.

5.4 This external ‘peer’ review might be carried out by a regional audit office (or individuals from several audit offices). Alternatively, the task might be contracted to a local academic institution or accounting/consulting firm.

5.5 The Methodological Unit will agree with the external review team on the approach that is to be adopted. This should include:

- review of our quality management arrangements, as set out in this Guide, to establish whether they are fully in line with international standards;
- review of a sample of completed audits, including all associated working papers, to determine whether the established quality management arrangements (quality control and quality monitoring) have been carried out effectively.

5.6 The external review team will provide a report to the Auditor General outlining key findings, areas for improvement, and actions required to achieve improvements.

5.7 In the future, the scope of this external assessment will be extended to include feedback from audited bodies on the way audits have been conducted and on the benefit gained from the audit process.

## Appendendices

### Quality Control and Quality Monitoring Checklists

Checklist A	Quality Control at the Planning Stage of the Audit (by Team Leader)
Checklist B	Quality Control at the Planning Stage of the Audit (by Audit Director)
Checklist C	Quality Control at the Fieldwork Stage of the Audit (by Team Leader)
Checklist D	Quality Control at the Fieldwork Stage of the Audit (by Audit Director)
Checklist E	Quality Control at the Reporting Stage of the Audit (by Team Leader)
Checklist F	Quality Control at the Reporting Stage of the Audit (by Audit Director)
Checklist G	Quality Control at the Follow-up Stage of the Audit (by Team Leader)
Checklist H	Quality Control at the Follow-up Stage of the Audit (by Audit Director)
Checklist I	Quality Monitoring over Audit Planning (by Quality Function)
Checklist J	Quality Monitoring over Audit Fieldwork (by Quality Function)
Checklist K	Quality Monitoring over Audit Reporting (by Quality Function)

## Checklist A: Quality Control at the Planning Stage of the Audit

To be completed by the Team Leader

<b>Name of the client</b>	
<b>Audit code</b>	
<b>Subject</b>	Quality control at the planning stage of the audit
<b>Aim</b>	To ensure that the audit planning is complete and has been carried out in line with our policies and practices as set out in the Audit Manual and related guidance.

The questions in this checklist relate to the detailed OAG guidance on audit planning.

No.	Question	Yes	No	Working Paper Ref & Comment
1	Has our understanding of the audited body's activities been adequately updated and any additional information placed on the Permanent File?			
2	Has the audit team reviewed the previous year's audit report, and audited body response, and identified outstanding matters, and have these been incorporated in the current planning exercise?			
3	Have there been any significant changes at the audited body since the last audit and have the impact of these on the audit objective and scope been considered and documented?			
4	Have the 'materiality level', 'expected aggregate error' and 'planned precision' been calculated?			
5	Has the audit team identified potential risks to the Office, by reference to risk indicators, and has an Audit Risk Assessment been completed?			
6	Have all major transaction streams (audit components) been identified?			
7	Has the audited body's internal control structure (for each audit component) been documented and evaluated?			

No.	Question	Yes	No	Working Paper Ref & Comment
8	Have audit objectives been identified for each audit component?			
9	Have significant 'error conditions' (types of error that might occur) been identified for each audit objective?			
10	Has inherent risk and control risk been assessed, and clearly justified, for each audit component and audit objective?			
11	Have appropriate analytical procedures been carried out and the level of audit assurance to be derived documented on the Analytical Procedures Assurance Form?			
12	Has consideration been given to available sources of assurance for each audit component and audit objective and has the Source of Assurance form been completed?			
13	Where tests of control are planned, has the audit team identified and documented the key controls on which reliance will be placed, determined the testing methodology, and recorded this in the Audit Plan and audit programs?			
14	Where substantive tests of details are planned, have the actual tests to be carried out, including sample sizes and methodology, been set out in the Audit Plan and audit programs.			
15	Does the Audit Plan contain the minimum content specified in the Audit Manual and related planning guidance?			
16	Have detailed staffing requirements been determined based on the audit approach and the sources of assurance to be used?			
17	Has an overall time budget been prepared and has this been allocated to the audit staff assigned to do the work?			

No.	Question	Yes	No	Working Paper Ref & Comment
18	If external specialists are to be used during the audit, has their availability been confirmed?			
19	Have discussions been held with audited body liaison officials to ensure that the audit can be carried out and completed in the proposed timeframe?			
20	Has a Letter of Engagement been prepared for dispatch to the Executive Head of the audited body?			
21	Is the permanent file complete and up to date?			
22	Have all required sections of the planning chapter of the current file been completed?			
23	Has the draft Audit Plan been prepared and does it highlight major planning considerations and recommended decisions?			
24	Have detailed audit programs been prepared for each audit component?			

<b>Checklist completed by:</b>	<b>Date:</b>
<b>Checklist reviewed by:</b>	<b>Date:</b>

## Checklist B: Quality Control at the Planning Stage of the Audit

To be completed by the Audit Director

<b>Name of the client</b>	
<b>Audit code</b>	
<b>Subject</b>	Quality control at the planning stage of the audit
<b>Aim</b>	To ensure that the audit planning is complete and has been carried out in line with our policies and practices as set out in the Audit Manual and related guidance.

No.	Question	Yes	No	Working Paper ref & comments
1	Has the permanent file been up-dated to reflect changes to the audited body's activities?			
2	Have all the planning tasks specified in the Audit Manual and related guidance been carried out and the results of this work documented in the planning chapter of the current file?			
3	Has the audit objective and audit scope been clearly defined and does it reflect changes in the audited body's activities?			
4	Are the proposed materiality level, expected aggregate error, and planned precision appropriate?			
5	Are risks identified in the Audit Risk Assessment satisfactorily covered by the proposed audit methodology?			
6	Does the focus of the audit match the audited body's significant transaction streams and does it reflect the assessed audit risks?			
7	Has the assessment of the audited body's internal control structure, and control risk, been adequately documented?			
8	Is any proposed reliance on the audited body's internal controls sufficiently justified?			

No.	Question	Yes	No	Working Paper ref & comments
9	Are proposed analytical procedures and substantive tests of detail sufficient to obtain the required level of assurance?			
10	Does the Audit Plan include the material specified in the Audit Manual and related guidance.			
11	Do the audit programs clearly state the audit objective and are the proposed tests sufficient to achieve this?			
12	Is the estimated resource input sufficient to complete the audit within the specified timeframe?			
13	Is there sufficient expertise on the audit team to carry out all the tasks specified in the audit programs?			
14	Has the audited body been notified of the audit and have the required liaison activities taken place?			
15	Has the Team Leader reviewed all the planning documents and completed Checklist A?			

<b>Checklist completed by:</b>	<b>Date:</b>
<b>Checklist reviewed by:</b>	<b>Date:</b>









## Checklist G: Quality Control at the Audit Follow-up Stage

To be completed by the Team Leader

Name of the client	
Audit code	
Subject	Quality control over the audit follow-up stage
Aim	To ensure that monitoring of the audited body's actions in implementing audit recommendations is carried out effectively.

The questions in this checklist relate to the detailed OAG guidance on audit follow-up

No.	Question	Yes	No	Working Paper Ref & Comments
1	Did the completion activities for the previous audit specify when follow-up should occur?			
2	Did the audited body produce an action plan for implementing the reported recommendations?			
3	Have recommendations been implemented on a timely basis?			
4	Was the audited body able to provide documentary evidence to demonstrate implementation?			
5	Where recommendations have not been implemented, did the audited body provide an explanation and has this been recorded?			
6	Has consideration been given to the risks arising, for the audited body and this office, of the audited body's failure to implement audit recommendations?			
7	Have these risks been highlighted for inclusion in the planning stage Audit Risk Assessment?			

Checklist completed by:	Date:
Checklist reviewed by:	Date:

## Checklist H: Quality Control at the Audit Follow-up Stage

To be completed by the Audit Director

Name of the client	
Audit code	
Subject	Quality control over the audit follow-up stage
Aim	To ensure that monitoring of the audited body's actions in implementing audit recommendations is carried out effectively.

No.	Question	Yes	No	Working Paper Ref & Comments
1	Was the audit methodology for following-up recommendations based on the significance of each underlying finding and the level of risk to the audited body's activities?			
2	Has sufficient and reliable evidence been collected to demonstrate that the audited body has implemented recommendations?			
3	If no (or partial) action has been taken, did the audit team establish the reason for this?			
4	Where recommendations have not been fully implemented, have the auditors considered the continuing risks to the audited body and this office?			
5	Have these risks been reported to AG/DAG?			
6	Has the outcome of this follow-up work been included in the audit report (or otherwise communicated to the audited body)?			
7	Has the Team Leader completed Checklist G?			

<b>Checklist completed by:</b>	<b>Date:</b>
<b>Checklist reviewed by:</b>	<b>Date:</b>

## Checklist I: Quality Monitoring over Audit Planning

To be completed by the Quality Function

<b>Name of the client</b>	
<b>Audit code</b>	
<b>Subject</b>	Quality monitoring over audit planning
<b>Aim</b>	To ensure that planning activities provide a sound basis for the work of the OAG

No.	Question	Yes	No	Working Paper ref & Comments
1	Has audit planning been carried out in accordance with our methodology (as set out in the Audit Manual and related guidance)?			
2	Have outstanding matters from the previous year's audit been satisfactorily covered?			
3	Are decisions on materiality, expected aggregate error, and planned precision supported by evidence obtained during the planning process?			
4	Have risks to this office been satisfactorily identified and provided for in the audit methodology?			
5	Does the Audit Plan provide sufficient justification for the audit methodology and level of testing?			
6	Do the detailed audit programs cover all the significant audit components?			
7	Is the estimate of resources realistic?			
8	Has there been adequate liaison with the audited body throughout the planning stage and is there evidence that comments received have been taken into account?			

<b>Checklist completed by:</b>	<b>Date:</b>
<b>Checklist reviewed by:</b>	<b>Date:</b>

## Checklist J: Quality Monitoring over Audit Fieldwork

To be completed by the Quality Function

<b>Name of the client</b>	
<b>Audit code</b>	
<b>Subject</b>	Quality monitoring over audit fieldwork
<b>Aim</b>	To ensure that all audit fieldwork tasks have been carried out as per the audit plan and in line with the Audit Manual and related guidance.

No.	Question	Yes	No	Working Paper ref & Comments
1	Were the results of interim audit work documented and reviewed by both the Team Leader and Audit Director?			
2	Have all outstanding matters from the interim audit been dealt with during the final audit?			
3	Have all working papers been reviewed and have queries been recorded and satisfactorily resolved?			
4	Are the results of audit tests documented and cross-referred to audit programs?			
5	Has a conclusion been reached that relates to the audit objective?			
6	Has the audit objective been achieved?			
7	Have matters arising during the audit been raised with the audited body's management and is the outcome of the 'exit meeting' documented on the file?			
8	Have any significant matters arising from the audit been referred to the AG/DAG?			

<b>Checklist completed by:</b>	<b>Date:</b>
<b>Checklist reviewed by:</b>	<b>Date:</b>

## Checklist K: Quality Monitoring over Audit Reporting

### To be completed by the Quality Function

Name of the client	
Audit code	
Subject	Quality monitoring over audit reporting
Aim	To ensure that reports published by the OAG are of a sufficiently high standard

No.	Question	Yes	No	Notes
1	Is the form and content of the final draft report in line with our methodology (as set out in the Audit Manual and related guidance)?			
2	Does the report state clearly the legal basis for the audit, the audit objective, the audit work carried out, and to whom the report is addressed?			
3	Is there sufficient background and context to the report to enable someone unfamiliar with the audited body's activities to understand the information being reported?			
4	Are all findings supported by detailed audit evidence?			
5	In considering the significance of individual audit findings, has consideration been given to 'cause' and 'effect' and is this set out in the report?			
6	Does the report focus just on significant issues, with minor weaknesses and errors referred to the audited body in a management letter?			
7	Do conclusions and recommendations flow logically from the findings?			
8	Are the recommendations sufficiently specific as to the action that the audited body should take and are they realistic in terms of the change that can be expected?			
9	Does the report include an appropriate audit opinion?			

No.	Question	Yes	No	Notes
10	Have the findings to be raised in the formal report been discussed with the audited body's management and their comments reflected as appropriate?			
11	Does the report include an action plan setting out how the audited body's management intend to respond to the recommendations and over what timeframe?			
12	Are significant developments which took place during the course of the audit reflected in the audit report?			
13	Have matters that need to be followed up been recorded to be brought forward in planning the next year's audit?			

<b>Checklist completed by:</b>	<b>Date:</b>
<b>Checklist reviewed by:</b>	<b>Date:</b>