Forum for
INTOSAI
Professional
Pronouncements

Agenda for the February/March 2023 web-meetings of the

Forum for INTOSAI Professional Pronouncements (FIPP)

| The agenda is an overview of all agenda-items planned to be discussed during all sessions. Some items will be discussed in several sessions. | | |
|---|---|---|
| **Meeting days**<br>**Tuesday 28  February 2023 - 12:00–16:00 CET**<br>**Thursday 2  March 2023 - 12:00–16:00 CET** | | |
| **Agenda Items** | **Purpose** | **Output** |
| **Project Proposal / Exposure Draft / Endorsement version submitted from Goal Chair for discussion / appraisal** | | |
| ISSAI 140  Quality management for SAIs - Exposure Draft | To discuss/appraise/approve  according to FIPP Working Procedures and drafting conventions | For FIPP to discuss/approve/vote.<br>See Annex 1<br><br>The project group is invited to participate at the meeting for discussion. |
| **FIPP Working Procedures - Role of the Liaison Officer** | | |
| FIPP Working Procedures | To discuss the LO role as a first step in the work on updating the FIPP Working Procedures | For FIPP to discuss the LO role. The first step in the work on the update of the FIPP working procedures from 2018. A result/update of the discussions/document is planned to be presented at the PSC SC 27-28 September 2023. |
| **Information** | | |
| AoB | FIPP Chair | • Information of the SDP process<br>• FIPP meetings 2nd half of 2023<br>• Introduction of new FIPP member Monica Rajamanohar |
| PSC Secr information | PSC Secr | Information from the PSC |
| **Concluding the meeting** | | |
| Summary of activities | FIPP Chair | |
| Summary of key decisions in the minutes | FIPP Chair | |

**ISSAI 140 revision – proposal for conforming amendments to ISSAI 100**
**10 February 2023**

## 1  Introduction and purpose of this document

The project proposal for the revision of ISSAI 140 mentions the amendments to ISSAI 100 as one of the deliverables of the project (see C.1).  This document contains the above mentioned amendments to ISSAI 100.

## 2  Proposed amendments to ISSAI 100

*(Using the April 2022 Endorsement version of ISSAI 100)*

### 2.1  Chapter 5 ' Principles of public-sector auditing'

> *Proposed amendment 1:*
> *In the schematic overview under para 34, on page 17,the third area in the general principles is called 'Quality control' which might better be amended to 'Quality management'.*

> *Proposed amendment 2: separate quality management out of para 35 and include a new para just for quality management and include text on the components from ISSAI 140*

**35) SAIs should establish and maintain appropriate procedures for ethics**

Each SAI should establish the relevant ethical requirements and maintain procedures for ethics and quality management on an organisational level that will provide it with reasonable assurance that the SAI and its personnel are complying with the ethical requirements. professional standards and the applicable legal and regulatory requirements The existence of these procedures at SAI level is a prerequisite for applying or developing national standards based on the Fundamental Auditing Principles. ISSAI 130 – Code of Ethics defines the requirements of the ISSAIs and provides related application material in this regard.

**New 36) SAIs should establish and maintain a system of quality management**

Each SAI should establish and maintain a system of quality management to provide it with reasonable assurance that the SAI carries out all audits and other work at a consistently high level of quality and in accordance with the ISSAIs or other relevant standards and applicable legal and regulatory requirements. A SAI's system of quality management generally addresses the following interconnected components in a continual and iterative manner:

- SAI's risk assessment process;
- governance and leadership;
- relevant ethical requirements;
- acceptance, initiation, and continuance of engagements;
- performing engagements and issuing engagement reports;
- SAI resources;
- information and communication; and
- monitoring and remediation process.

The existence of a system of quality management at SAI level is a prerequisite for applying or developing national standards based on the Fundamental Auditing Principles. *ISSAI 140 - Quality Management for SAIs* defines the requirements of the ISSAIs and provides related application material in this regard.

## 2.2 *General principles*
(Page 21)

---

*Proposed amendment 3: adjust paragraph 38 to address engagement level in line with other principles in this section of ISSAI 100*

---

Quality ~~control~~management

**38) Auditors should perform the audit in accordance with the procedures and requirements of the SAI's system of quality management.**

~~professional standards on quality control~~ An SAI's quality ~~control~~ management ~~policies and~~ procedures should assign and define responsibilities for the quality and quality management of individual audits ~~comply with professionalstandards~~, the aim being to ensure that audits are conducted at a consistently high level. Quality ~~control~~management procedures should cover matters such as the direction, review and supervision of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters. Auditors can find further information in ISSAI 140 – Quality Management for SAIs~~Quality Control for SAIs~~.

## Annex as a good example: the recently added conforming amendments to ISSAI 100 for the linking to ISSAI 150

---

– *Newly endorsed ISSAI 100/36 linking to ISSAI 150*

36)  **SAIs should establish and maintain appropriate procedures for competency management**

Each SAI should establish and maintain procedures for competency management on an organisational level that will provide it with reasonable assurance that the SAI's auditors have the competencies required to fulfil their function in accordance with the mandate of the SAI. The competency management at an organizational level generally involve:

- Determining relevant competencies
- Providing enabling human resource practices,
- Providing pathways for professional development and
- Assessing and monitoring competencies.

The existence of procedures for competency management is a prerequisite for applying national standards that are based on or consistent with the Fundamental Auditing Principles. ISSAI 150 - Auditor Competence defines the requirements of the ISSAIs and provide related application material in this regard.

---

# Explanatory Memorandum – Revision of ISSAI 140

### REQUEST FOR COMMENTS

This Exposure Draft of *ISSAI 140 (revised) Quality Management for SAIs*, was developed by a working group set up by the Professional Standards Committee and composed of representatives of all its sub-committees (CAS, FAAS, ICS and PAS). The working group also produced a proposal for amending ISSAI 100 in line with the revised ISSAI 140.

Respondents are asked to submit their comments electronically by Month Date Year to the email address (insert email address). Please submit comments to specific paragraphs using the file circulated at the same time as the exposure draft. General comments may be submitted using PDF or Word documents. All comments will be considered a matter of public record and will be posted on the issai.org website. Comments are accepted in the five official INTOSAI languages.

The ISSAI 140 working group will consider all comments received when preparing the final version of the text for submission to the Forum for INTOSAI Professional Pronouncements (FIPP) for approval.

The FIPP have approved this exposure draft on Month Date Year (cf. section 2.1 of the due process for the IFPP). The final pronouncement is expected to take effect two years from final approval (see point 4 below).

_____

## Introduction

ISSAI 140 – 'Quality control for SAIs' – which 'adapts' the key principles of ISQC1 for SAIs, was included in INTOSAI's framework of standards in 2010 (then named ISSAI 40).

In December 2020, the IAASB issued a new suite of quality management standards (ISQM 1 and ISQM 2) replacing the extant ISQC 1, and revised its ISA 220 standard (quality management of an audit of financial statements). The new standards are effective as of December 15, 2022 (the revised ISA 220 being effective for audits of financial statements for periods beginning on or after December 15, 2022). The changes emphasise that the auditor's objective is about managing quality and associated procedures in a **risk-based and dynamic way** in order to achieve the required level of quality, rather than implementing a defined set of quality control procedures.

These changes and revisions implied that a revision of the associated content of the IFPP, notably ISSAI 140, was needed.

## Background

Our aim is to update and revise ISSAI 140, containing basic principles and key requirements, keeping in mind that:

• it should fit well into the revised INTOSAI framework, which should be clear, useful and accessible for SAIs that seek compliance with the ISSAIs;

• its presentation should be consistent with similar level standards (notably the endorsement version of ISSAI 150);

• its content should be consistent with ISSAI 100;

• it should adapt the content of the IAASB quality management standards ISQM1 and ISQM2 for SAIs;

• it should be applicable to different SAI organisational models.

SAIs are free to design, implement and operate a system of quality management taking into account their changing nature and circumstances. SAIs will manage their system of quality management in a dynamic way, by adapting it to changes in the nature and circumstances of the SAI and its engagements.

In the standard we refer to SAIs needing to produce high quality work to meet both their strategic objectives and their mandate. We feel that this is important that SAIs consider both strategic objectives and mandate to be relevant to their circumstances. This is in line with the Rio Declaration and other INTOSAI initiatives that encourage SAIs to make an impact through their audits. For some SAIs this may be achieved by delivering their mandate, other SAIs may want or need to have a bigger impact through their audit work. To achieve either objective requires work to be of a desirable level of quality to meet or exceed the expectations of their stakeholders.

As stated in paragraph 6, ISSAI 140 *'is applicable to all types of engagements covered by the ISSAIs. ISSAI 140 can also be used for jurisdictional and other activities carried out by the SAI'*.

**Questions for respondents to consider**

1. The revised ISSAI 140 has been built around seven organisational requirements, reflecting the quality management process:
   - establishing the system of quality management;
   - establishing quality objectives;
   - identifying and assessing quality risks;
   - designing and implementing responses;
   - establishing a monitoring and remediation process;
   - evaluating and concluding on the effectiveness of the system of quality management; and
   - documenting the system of quality management.

   For each of these organisational requirements, we have identified the key high-level requirements from ISQM1 and adapted them to the SAI context. We analysed the remaining ISQM1 requirements and revised them as necessary to serve as application material. In our view, such an approach allows flexibility to the SAIs while effectively resulting in SAIs applying most of what is actually required by ISQM1.

Given the overall direction of ISQM1, we have not set out the conduct of inspections of completed engagements as a high-level requirement in revised ISSAI140; rather it has been placed within the application material. It is within the SAI's discretion to determine the circumstances when a review of completed engagements is an appropriate part of its monitoring activities. In our view, such approach is consistent with the emphasis on scalability in the revised ISSAI 140. In respect of ISQM2 and engagement quality review, we have included the base definitions of engagement quality review and engagement quality reviewer in the proposed ISSAI 140. Engagement quality reviews are one of the responses to quality risks, and in paragraph 51d i-iv, we have provided examples of policies and procedures that might be needed to cover:

• identification of specific engagements or types of engagements that require engagement quality reviews;
• eligibility to serve as an engagement quality reviewer;
• impairment of the engagement quality reviewer's eligibility to perform the engagement quality review; and
• performance of the engagement quality review.

We have not taken over the detailed requirements of ISQM2, but provided a reference to this standard in a footnote to paragraph 51d. In our view, such details should be covered in further guidance to be developed, which should be equally applicable to financial, compliance, performance audits and other assurance related engagements.

**Question: Do you agree with our approach to structuring ISSAI 140? Have we set the requirements at the right level? Do you see any elements of the application material that should be elevated to the level of requirements?**

2. In the *Definitions* section, we have brought over certain, but not all definitions from ISQM1. We have also added definitions of some key concepts in the SAI environment. For example, we have:
   - brought over from ISQM1 and adapted to a SAI context definitions of *Deficiency, Engagement quality review, Engagement quality reviewer, Engagement team, Findings, Quality objectives, Quality risk* and *Response*;
   - not included the ISQM 1 definitions of *Engagement documentation, Engagement partner, External inspections, Firm, Listed entity, Network firm, Network, Partner, Personnel, Professional standards, Service provider,* or *Staff*, as these terms are either not mentioned in ISSAI 140, not relevant in the SAI context, and/or are considered self-explanatory;
   - not included definitions of widely-understood terms, such as design, implementation and operation (of the system of quality management);
   - not defined *Professional judgement,* which is defined in ISSAI 100 para 37;
   - not defined *Relevant ethical requirements* – as in para 40 we explicitly refer to ISSAI 130;
   - not defined *Reasonable assurance* because it is defined in ISSAI 100 para 33;
   - not covered I*ndependence* because it is covered in the LIMA declaration;
   - included a definition of *Engagement* which links back to paragraph 6 which says that ISSAI 140 'is applicable to all types of engagements covered by the IFPP' – so as to include all

audit types, other assurance engagements and jurisdictional activities which are recognised within the IFPP;

- included a definition of *Culture* – this definition covers the concept in relation to the SAI as an organisation functioning in a certain environment with specific circumstances and expectations;
- included a definition of *Quality* as a key concept around which ISSAI 140 is centred.

**Question: Do you agree with such approach? Do you have any comments/suggestions on the proposed definitions of *Culture* and *Quality*?**

3. ISQM1 requires the individual assigned with ultimate responsibility for the system of quality management to evaluate the system at least annually (see para 53 and A187-189 of ISQM 1). You will find it as a requirement in paragraph 62 – that *'the person assigned ultimate responsibility and accountability for the system of quality management shall evaluate the system and conclude on the extent to which its objectives are being achieved. The evaluation shall cover a defined period and be performed at least annually'*. The application material under *Organisational requirement 6* provides further information and explanation.

**Question: Do you agree with the requirement to evaluate the system of quality management on an annual basis, per analogy with the ISQM1? If you do not agree, what justification do you consider makes it appropriate to move away from the ISQM1 requirement?**

4. We propose an implementation date of no later than two years following the final approval of revised ISSAI 140. We believe that SAIs will need time to consider the ISSAI 140 requirements and to design and implement the quality management system. We believe that two years will be adequate time for these events to occur, but SAIs will also be encouraged to implement the standard earlier.

**Question: Do you agree with setting implementation date as two years following the final approval?**

# TABLE OF CONTENTS

1. **INTRODUCTION**

2. **SCOPE**

3. **THE PRINCIPLES UNDERLYING THIS STANDARD**

4. **DEFINITIONS**

5. **ORGANISATIONAL REQUIREMENTS UNDERPINNING A SAI'S SYSTEM OF QUALITY MANAGEMENT**

   Requirement 1: Establishing the system of quality management

   Requirement 2: Establishing quality objectives

   Requirement 3: Identifying and assessing quality risks

   Requirement 4: Designing and implementing responses

   Requirement 5: Establishing a monitoring and remediation process

   Requirement 6: Evaluating and concluding on the effectiveness of the system of
   quality management

   Requirement 7: Documenting the system of quality management

## INTRODUCTION

1)     For Supreme Audit Institutions (SAIs) to meet their strategic objectives and fulfil their mandates, it is essential that all aspects of their operations are of high quality, and lead to high quality output. Quality should be built into a SAI's strategy, culture, policies and procedures. The quality of a SAI's work and output affects its reputation and credibility, and ultimately the ability to fulfil its mandate effectively.

2)     The public interest is best served by a SAI carrying out its engagements at a consistently high level of quality. The design, implementation and operation of a system of quality management help a SAI achieve this objective and provide reasonable assurance that its processes are in accordance with professional standards and applicable legal and regulatory requirements.

3)     The International Standards of Supreme Audit Institutions (ISSAIs) promote independent and effective auditing by SAIs, and thereby support the credibility and reliability of public sector auditing.

4)     ISSAI 140 – Quality Management for SAIs is intended to be used in conjunction with the other ISSAIs and with due consideration of a SAI's mandate, national legislation, structure, size, and types of audit and other work it performs. The standard allows for appropriate flexibility in the application of the organisational requirements contained in the document, to cater for specific considerations that are unique to each SAI.

## SCOPE

5)     The purpose of ISSAI 140 is to set out the organisational requirements that a SAI shall follow for quality management when claiming compliance with the ISSAIs. ISSAI 140 serves the same purpose as International Standard on Quality Management (ISQM) 1.[1] The principles of the latter are adapted as necessary to apply to SAIs and the public sector context in which they work.

6)     ISSAI 140 addresses the SAI's role and responsibilities on an organisational level and is applicable to all types of engagements covered by the ISSAIs. ISSAI 140 can also be used for jurisdictional and other activities carried out by the SAI.

7)     ISSAI 140 is complemented by other INTOSAI pronouncements relating to quality management for specific auditing types and at an engagement level.

---

[1]     ISQM 1, International Standard on Quality Management 1 (previously International Standard on Quality Control 1).
*Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and other*
*Assurance and Related Services Engagements*, International Auditing and Assurance Standards Board (IAASB).

## THE PRINCIPLES UNDERLYING THIS STANDARD

8)   In accordance with paragraph 35 of ISSAI 100 – *Fundamental Principles of Public-Sector Auditing*, the SAI establishes and maintains procedures for quality management on an organisational level that provides it with reasonable assurance that the SAI and its personnel are complying with professional standards and applicable legal and regulatory requirements.

9)   ISSAI 140 defines the organisational requirements of the ISSAIs based on this principle in ISSAI 100. The SAI must comply with all organisational requirements of this standard in order to be able to assert that it has conducted audits in accordance with the ISSAIs. The authority of the ISSAIs is further defined in ISSAI 100.[2]

10)  The system of quality management needs to adapt to changes in the nature and circumstances of the SAI and its engagements. A system of quality management addresses the following interconnected components operating in a continual and iterative manner:

   a.   SAI's risk assessment process;

   b.   governance and leadership;

   c.   ethical requirements;

   d.   acceptance, initiation, and continuance of engagements;

   e.   performing engagements and issuing engagement reports;

   f.   SAI resources;

   g.   information and communication; and

   h.   monitoring and remediation process.

---

[2] ISSAI 100 – *Fundamental Principles of Public-Sector Auditing*, paragraphs 7-12.

11)   **Culture** – operating environment encompassing behavioural norms and shared ethics, vision, mission, beliefs and core values, goals, attitudes, competencies, procedures, policies and practices, and communication, that characterise a SAI and how it operates.

12)   **Deficiency** in the SAI's system of quality management exists when:

   a.   an appropriate quality objective is not established, or established incorrectly;

   b.   a quality risk, or combination of quality risks, is not identified or properly assessed;

   c.   a response, or combination of responses, do not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented, or operating effectively; or

   d.   another aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this standard has not been addressed.

13)   **Engagement** – any work carried out by a SAI that is within the scope of ISSAIs, as well as jurisdictional and other activities.

14)   **Engagement quality review** – an objective assessment, performed by the engagement quality reviewer and completed before the date of the engagement report, of the significant judgments made by the engagement team and the conclusions reached.

15)   **Engagement quality reviewer** – an individual or a team, within the SAI or external, with appropriate experience and professional knowledge to perform the engagement quality review independent from the engagement team.

16)   **Engagement team** – individuals performing the engagement, and any other individuals who are responsible for, or perform, procedures on the engagement, excluding an external expert and internal auditors who provide direct assistance on an engagement.

17)   **Findings** – in relation to a system of quality management, information about the design, implementation and operation of the system of quality management,

which indicates that one or more deficiencies may exist.

18) **Head of the SAI** – person or group of persons at the highest level who lead or manage the institution and who have the power to delegate authority and allocate resources within the institution.

19) **Quality** – the extent to which the work performed and reports issued by the SAI comply with professional standards and applicable legal and regulatory requirements and satisfy stakeholders' needs.

20) **Quality objectives** – desired outcomes to be achieved by the components of the system of quality management.

21) **Quality risk** – a risk that has a reasonable possibility of:

    a.  occurring, and

    b.  individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

22) **Response** – policies and procedures designed and implemented by a SAI, and actions undertaken within the system of quality management to address one or more quality risks.

**Policies** are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions;

**Procedures** are actions to implement policies.

These can be:

    a.  preventive: designed and implemented to prevent the risk from occurring, aimed at the root cause of the risk;

    b.  corrective: designed and implemented to mitigate the effects of "an occurring risk" and to prevent it from happening again.

# ESTABLISHING THE SYSTEM OF QUALITY MANAGEMENT

**Organisational requirement 1**

23) **The SAI shall design, implement, and operate a system of quality management taking into account the changing nature and circumstances of the SAI. The system shall cover all types of engagements covered by the ISSAIs as well as for jurisdictional and other activities carried out by the SAI. The system shall be integrated into the SAI's operational activity.**

24) **The SAI shall incorporate into the system of quality management the principles of integrity, independence and objectivity, competence, professional behaviour and confidentiality and transparency, as set out in ISSAI 130 - Code of Ethics.**

25) **The head of the SAI shall take the overall responsibility for the system of quality management.**

26) **The SAI shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks.**

## *Application material*

27) A strong culture supports the design, implementation and operation of the system of quality management in achieving the SAI's quality objectives.

28) Responsibility for the system of quality management involves understanding the purpose of the system of quality management in their SAI and putting in place an appropriate system of governance to oversee the operation of the system.

29) To operate the system of quality management, the head of the SAI may assign responsibilities to individuals for the system and hold them accountable for the way they exercise those responsibilities. This may involve assigning to:

   a. a person or group of persons such as the most senior official or group of

officials the ultimate responsibility and accountability for the system of quality management;

   b. a person or group of persons the operational responsibility for specific aspects of the system, including compliance with independence requirements, and the monitoring and remediation process.

In a less complex environment, all these responsibilities may be assigned to the same individual.

30) The individuals assigned those responsibilities have the appropriate experience, knowledge, influence and authority, and sufficient time to fulfil them to the required standard. They understand the roles to which they are assigned and how they are accountable.

# ESTABLISHING QUALITY OBJECTIVES

**Organisational requirement 2**

31) **The SAI shall establish quality objectives appropriate to its circumstances that the system of quality management is intended to address. The quality objectives are associated with governance and leadership; fulfilment of the SAI's responsibilities in accordance with ethical requirements; acceptance, initiation, and continuance of engagements; performing engagements and issuing engagement reports; SAI resources; and information and communication.**

32) **The SAI shall assess whether changes to quality objectives are needed to reflect changes in the nature and circumstances of the SAI or its engagements.**

## *Application material*

33) Laws, regulations and professional standards may create a requirement for specific quality objectives.

34) When establishing quality objectives, it is advisable for the SAI to consider:
   a. the context of its work and how it impacts its quality objectives;

   b. the need for quality objectives to be separated into sub-objectives to facilitate the SAI's identification and assessment of risks to the quality objectives and to establish appropriate responses.

### *Governance and leadership*

35) Quality objectives associated with governance and leadership of the SAI may include one or more of the following:
   a. the SAI demonstrates a commitment to quality within the culture of the SAI;

   b. leadership is responsible for and accountable for quality;

   c. leadership demonstrates a commitment to quality through its actions and behaviours;

   d. the organisational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the SAI's system of quality management;

e. resource needs are planned, and resources are obtained, allocated, and assigned in a manner that demonstrates the SAI's commitment to quality.

### *Fulfilment of the SAI's responsibilities in accordance with ethical requirements*

36) Quality objectives associated with ethical requirements may confirm that the SAI and its personnel understand and fulfil their responsibilities in relation to the relevant legal and ethical requirements (such as those set out in ISSAI 130 - Code of Ethics), including those related to independence.

### *Acceptance, initiation, and continuance of engagements*

37) Quality objectives associated with the acceptance, initiation, and continuance of engagements may specify that the SAI will normally accept, initiate, and continue engagements only if it:
   a. complies with professional standards, applicable legal and regulatory requirements, and ethical principles;

   b. acts within its legal mandate or authority; and

   c. has the capabilities, including time and resources, to do so.

38) A SAI's engagements may arise (1) from its legal mandates, (2) following requests of legislative or oversight bodies, and (3) at its own discretion. In the cases of legal mandates and requests, the SAI may be required to conduct the engagement and may not be permitted to make decisions about acceptance or continuance or to resign or withdraw from the engagement.

### *Performing engagements and issuing engagement reports*

39) Quality objectives associated with performing engagements and issuing engagement reports may set expectations on the extent to which:
   a. engagement teams understand and fulfil their responsibilities in connection to engagements, including the overall responsibility of the individual responsible for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the different stages of the engagement;

   b. the nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the specific features of the engagements and the resources assigned or made available to the engagement team;

   c. engagement teams exercise appropriate professional judgment and professional scepticism;

d. consultation on significant matters is undertaken, especially for difficult or contentious matters, and the conclusions agreed to are implemented and, as appropriate, documented;

e. differences of opinion (e.g. within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the SAI's system of quality management) are brought to the attention of officials at the appropriate level of the SAI, resolved and documented appropriately;

f. engagement reports are appropriate and satisfy stakeholders' needs; and

g. engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the SAI and to comply with law, regulation, relevant ethical requirements, and professional standards.

### SAI resources

40) Quality objectives associated with SAI resources may include (in addition to those set out in ISSAI 150 - Auditor Competence):

a. personnel are recruited, trained, and retained who have the competence and capabilities to perform engagements to a consistently high quality and carry out responsibilities related to the operation of the SAI's system of quality management;

b. personnel develop and maintain the appropriate competence to perform their roles, are assessed and held accountable for that, or recognised through timely promotions and other incentives;

c. individuals assigned to engagements or to perform activities within the system of quality management have appropriate competence and capabilities, including sufficient time, to perform their duties;

d. appropriate technological resources (typically IT applications, infrastructure and processes) are obtained or developed, implemented, maintained, and used to enable the operation of the SAI's system of quality management and the performance of engagements;

e. appropriate intellectual resources (e.g. methodologies, guides, standardised documentation, databases etc) are obtained or developed, implemented, maintained, and used to enable the operation of the SAI's system of quality management and the consistent performance of high quality engagements;

f. human, technological, or intellectual resources from service providers are appropriate for use in the SAI's system of quality management and in

performing engagements.

*Information and communication*

41)  Quality objectives associated with information and communication may include the following:

a.  the information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management;

b.  relevant and reliable information about the system of quality management is communicated to personnel and engagement teams to enable them to understand and carry out their responsibilities within the system of quality management or engagements;

c.  personnel and engagement teams communicate to the SAI when performing activities within the system of quality management or engagements;

d.  relevant and reliable information about the system of quality management is communicated to stakeholders and other external parties.

# IDENTIFYING AND ASSESSING QUALITY RISKS

**Organisational requirement 3**

42) **The SAI shall identify and assess quality risks, which are risks that have a reasonable possibility of both occurring and adversely affecting the achievement of quality objectives.**

43) **The SAI shall assess whether changes to quality risks are needed because of changes in the nature and circumstances of the SAI or its engagements.**

## *Application material*

44) The following matters may assist a SAI in assessing the conditions, events, circumstances, actions or inactions that could adversely affect the achievement of its quality objectives, and how these risks may materialise:

   a. complexity and other attributes of the SAI's organisational and operating environment;

   b. the SAI's strategic and operational processes;

   c. characteristics and management style of SAI leadership;

   d. resources available to the SAI;

   e. laws, regulations and professional standards required in the environment in which the SAI operates;

   f. any partnerships in the SAI operations;

   g. the nature of engagements and other work that is performed by the SAI;

   h. the types of reports that the SAI issues; and

   i. the bodies that the SAI audits.

45) The following matters may assist a SAI in assessing the degree to which a risk, individually or in combination with other risks could adversely affect the achievement of quality objectives:

   a. how the condition, event, circumstance, action or inaction would affect the achievement of the quality objectives;

   b. how frequently the condition, event, circumstance, action or inaction is

expected to occur;

c.  how long it would take after the condition, event, circumstance, action or inaction occurred for it to have an effect, and whether in that time the SAI would have an opportunity to respond to mitigate the effect; and

d.  how long the condition, event, circumstance, action or inaction would affect the achievement of the quality objective once it has occurred.

46)  A SAI may use ratings or scores to help them classify the risks.

# DESIGNING AND IMPLEMENTING RESPONSES

**Organisational requirement 4**

47)   **The SAI shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the assessments of those risks.**

48)   **The SAI shall assess whether changes to responses are needed because of changes in the nature and circumstances of the SAI or its engagements.**

## *Application material*

49)   Appropriate responses to address quality risks are proportionate to the assessment of these risks. Professional judgment assists a SAI in determining that the responses are proportionate to how the conditions, events and circumstances, and actions or inaction adversely affect the achievement of one or more quality objectives.

50)   When designing and implementing responses to address quality risks, a SAI may consider the following:
   a.  the nature, timing and extent of the responses;

   b.  the appropriate level at which to implement the responses (e.g., at the institutional level, engagement level, or a combination of both); and

   c.  the necessity of documenting and communicating the response to ensure consistent implementation.

51)   The following are examples of responses to quality risks that the SAI may design and implement to address quality risks:
   a.  the SAI establishes policies and procedures for:

      i.   identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and

      ii.  identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner;

   b.  the SAI obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent;

c.  the SAI establishes policies and procedures for receiving, investigating and resolving complaints and allegations about failures to perform its engagements in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the SAI's policies or procedures;

d.  the SAI establishes policies and procedures that identify if and when an engagement quality review is an appropriate response to address one or more quality risks.[3] These policies and procedures may address matters such as, but not limited to:

   i.   identification of specific engagements or types of engagements that require engagement quality reviews;

   ii.  eligibility to serve as an engagement quality reviewer;

   iii. impairment of the engagement quality reviewer's eligibility to perform the engagement quality review; and

   iv.  performance of the engagement quality review.

---

[3] More information can be found in ISQM 2, International Standard on Quality Management 2 *Engagement Quality Reviews,* International Auditing and Assurance Standards Board (IAASB).

# ESTABLISHING A MONITORING AND REMEDIATION PROCESS

**Organisational requirement 5**

52) **The SAI shall establish a monitoring and remediation process to:**

    a. **provide relevant, reliable and timely information about the implementation and operation of the system of quality management;**

    b. **identify potential deficiencies in the design and operation of the system of quality management;**

    c. **take appropriate action to respond to identified deficiencies such that they are remediated on a timely basis; and**

    d. **enable it to assess compliance with professional standards and with policies and procedures it has established to address quality risks.**

53) **A monitoring and remediation process shall include evaluating findings to determine whether deficiencies exist, evaluating the severity, pervasiveness and root cause of identified deficiencies, and designing and implementing appropriate remedial actions to address those deficiencies.**

## *Application material*

54) The monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management in addition to enabling the evaluation of the system of quality management.

55) Establishing a monitoring and remediation process may include:

    a. designing monitoring activities to identify deficiencies in the design and operation of the system of quality management;

    b. determining the circumstances when a review of completed engagements is required as part of monitoring activities; and

    c. establishing criteria for selecting engagements for review, the frequency

of reviews and who should perform them.

56) In determining the nature, timing and extent of the monitoring activities, the SAI may consider:

  a. its size, structure and organisation;

  b. the reasons for the assessments given to the quality risks;

  c. the design of the responses;

  d. the design of the SAI's risk assessment process;

  e. the changes in the system of quality management; and

  f. the results of previous monitoring activities.

57) Changes in the system of quality management may include:

  a. changes to address an identified deficiency in the system of quality management; and

  b. changes to the quality objectives, quality risks, or responses to address the quality risks resulting from changes in the nature and circumstances of the audit organization and its engagements.

58) When changes in the system of quality management occur, the SAI's previous monitoring activities may no longer provide it with information to support the evaluation of the system of quality management. Therefore, it is advisable to include monitoring of those changes in the SAI's monitoring activities.

59) Monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities, built into the SAI's processes and performed on a real-time basis, reacting to changing conditions. Periodic monitoring activities are conducted at regular intervals by the SAI.

60) To assist their monitoring and remediation process, SAIs could consider engaging another SAI, or other suitable body, to carry out an independent review of the system of quality management (such as a peer review).

61) Timely communication on identified deficiencies and remediation from those responsible for specific components of the system of quality management may enable personnel to take action to address the deficiencies in accordance with

their responsibilities.

# EVALUATING AND CONCLUDING ON THE EFFECTIVENESS OF THE SYSTEM OF QUALITY MANAGEMENT

**Organisational requirement 6**

62) **The person assigned ultimate responsibility and accountability for the system of quality management shall evaluate the system and conclude on the extent to which its objectives are being achieved. The evaluation shall cover a defined period and be performed at least annually.**

## *Application material*

63) The information that provides the basis for the evaluation of the effectiveness of the system of quality management can be obtained in a number of ways. When defining these processes the SAI has regard to the complexity of its organisation, operating environment and the types of engagements performed. In a less complex environment, the person(s) performing the evaluation may be directly involved in the monitoring and remediation and will therefore be aware of the information that supports the evaluation of the system of quality management. Where more complexity exists, the person(s) performing the evaluation may need to establish processes to collate, summarise and communicate the information needed to evaluate the system of quality management.

64) In concluding on the system of quality management, the person assigned ultimate responsibility and accountability for the system of quality management may consider

   a. the SAI's quality management risk assessment process, including its quality objectives, quality risks, and a description of the responses and the extent to which the SAI's responses address the quality risks; and

   b. the results of the monitoring and remediation process, including:

      i. the severity and pervasiveness of identified deficiencies and the effect on the achievement of the objective of the system of quality management;

      ii. whether remedial actions have been designed and implemented by

the SAI and whether the remedial actions taken up to the time of the evaluation are effective; and

iii.    whether the effect of identified deficiencies on the system of quality management has been appropriately corrected, such as whether further actions have been taken as appropriate.

65)    Applicable laws, regulations, or other factors could create circumstances when it is appropriate to communicate the conclusion on the effectiveness of the system of quality management to external parties. In such circumstances, it is advisable for the SAI to establish procedures as to how such conclusions are reported.

# DOCUMENTING THE SYSTEM OF QUALITY MANAGEMENT

**Organisational requirement 7**

67) **The SAI shall prepare documentation of its system of quality management that is sufficient to:**

   a. **provide evidence of the design, implementation and operation of the system of quality management;**

   b. **support a consistent understanding of the system of quality management by the personnel, including their roles and responsibilities within the system of quality management and in performing engagements;**

   c. **support the consistent implementation and operation of the system of quality management; and**

   d. **support the monitoring and evaluation of the system of quality management.**

## *Application material*

68) A SAI's judgments about the form, content, and extent of documentation may be affected by factors related to the nature and complexity of the SAI and engagements performed. Areas of greater quality risk, matters involving more complex judgments, and changes to aspects of the system of quality management may have a greater effect on the form, content, and extent of documentation.