



Explanatory Memorandum – Revision of ISSAI 140

REQUEST FOR COMMENTS

~~This Exposure Draft of ISSAI 140 Quality Management for SAIs, 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 ~~June 29, 2023~~ ~~Month Date Year~~ to the email address ECA-Issai140@eca.europa.eu ~~(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 ~~March 14, 2023~~ ~~Month Date Year~~ (cf. section 2.1 of the due process for the IFPP). The final pronouncement is expected to take effect ~~two-one~~ years from final approval (see ~~section point 4~~ Effective date below).

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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).

~~The need for an updating project was first identified in the 2017-2019 Strategic Development Plan (SDP) approved by INCOSAI in December 2016 as part of Project 2.4 Consolidated and improved guidance on SAI organisational issues. The 2020-2022 SDP (approved by the INTOSAI Governing Board in September 2019) reiterated the need to provide clear, consistent and adequate standards for the organisation of the quality management system within SAIs taking into account different organisational models, and ensuring consistent use of terminology.~~

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.

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Our aim is to ~~update and revise ISSAI 140~~ develop a standard on quality management for SAIs, which is applicable under various circumstances of different SAIs, 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 ISQM_1 and ISQM_2 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.

This is in line with the Rio Declaration and other INTOSAI initiatives that encourage SAIs to make an impact through their audits.

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 may also be used for jurisdictional and other activities carried out by the SAI.'*

[Link to ISQM](#)

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The ~~revised-proposed~~ 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;
- monitoring the system of quality management and remedying identified deficiencies;
- 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 ISQM_1 and adapted them to the SAI context. We analysed the remaining ISQM_1 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 ISQM_1.

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Question 1: Does the proposed ISSAI 140 provide sufficient structure for your SAI to develop a system of quality management?

If not, what would you like to see included as SAI-specific requirements or application material in ISSAI 140? Please provide examples.

Related to the changes of the ISSAI 140, we have also included the elements of the system of quality management in ISSAI 100 and proposed other minor amendments. All SAIs using the principles of the ISSAIs as a basis to develop or adopt national standards must ensure that the new fundamental principle is reflected in their national standards and practice.

Question 2: Do you agree with the changes in the ISSAI 100?

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With respect to ISQM 2 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 53d 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;
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- 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 ISQM_2, but provided a reference to this standard in a footnote to paragraph 53d. 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.

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Question 3:

- a) Do you agree with our approach to structuring ISSAI 140?
- b) Have we set the requirements at the right level?
- c) Do you see any elements of the application material that should be elevated to the level of requirements?
- d) Do you find the examples for responses to quality risks sufficient for identifying responses across components?

According to the current ISSAI 140, the monitoring process should include a review of a sample of completed work across the range of work carried out by the SAI. This requirement is included in ISQM 1 and we have included it in the proposed ISSAI 140, the argument being that we are not lowering the bar compared to the current ISSAI 140. The requirement has been slightly modified to allow for scalability and adaptation to the needs of the individual SAI. ISSAI 140 will no longer require that the review should be based on 'a sample.....across the range of work carried out by the SAI'. Instead, the review will be based on 'established criteria for selecting engagements for review'.

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Question 4: Do you agree that review of completed engagements should continue to be a requirement for SAIs and in accordance with ISQM 1? If not, what is your rationale for moving away from this requirement?

- 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 *Independence* because it is covered in the LIMA declaration;



Question 4: Do you agree that review of completed engagements should continue to be a requirement for SAIs and in accordance with ISQM 1? If not, what is your rationale for moving away from this requirement?

- ~~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 4: Do you agree that inspection review of completed engagements should continue to be a requirement for SAIs and in accordance with ISQM 1? If not, what is your rationale for moving away from this requirement?

ISQM_1 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 65 – that *‘the person or persons assigned 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.

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Question 5: Do you agree with the requirement to evaluate the system of quality management on an annual basis, per analogy with the ISQM_1? If you do not agree, what justification do you consider makes it appropriate to move away from the ISQM_1 requirement?

Definitions

In the *Definitions* section, we have brought over certain, but not all definitions from ISQM 1. We have also added definitions of some key concepts in the SAI environment. For example, we have:

- brought over from ISQM 1 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;
- 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;
- not covered *Independence* because it is covered in the INTOSAI-P 10 *Mexico Declaration on SAI Independence*;
- 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 ISSAIs' – but also be useful for jurisdictional and other activities carried out by the SAI;
- 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.

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Question 6:

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

Effective date

We propose that the new ISSAI 140 take effect one year after the endorsement by INTOSAI Governing Board. The effective date is estimated to January 1, 2025. The effective date will be important for SAIs that wish to be able to state that an audit has been carried out in accordance with the ISSAIs. From the effective date such claims can only be made if the SAI fully complies with the requirements of 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 one year will be adequate time for these events to occur, but SAIs will also be encouraged to implement the standard earlier.

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Question 7: Do you agree with setting effective date as one year following the final approval?



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