

Conclusions drawn by FIPP as basis for the approval of endorsement versions of

ISSAI 140 Quality Management for SAIs and ISSAI 100 Fundamental Principles of public- sector auditing (revision concerning quality management)

Background

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.

In 2010 INTOSAI endorsed ISSAI 40 containing the six elements that need to be in place to ensure high-quality audits. This document should help SAIs design a system of quality control which is appropriate to their mandate and circumstances, and which responds to their risks to quality. As part of the transition from the ISSAI framework to the IFPP, this ISSAI was renamed ISSAI 140.

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 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 the meantime, 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 approach to achieve the required level of quality, rather than implementing a static set of quality control procedures.

With this background a project was established and a project proposal was developed.

The objectives of the project were 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 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

The project also resulted in revision of ISSAI 100. This include separating ethics and quality management and clearly communicating that these are to separate principles. In addition, the distinction between quality

management on organisational/SAI level and quality management on engagement/auditor level was clarified in ISSAI 100.

FIPP considerations

In connection with the approval of ISSAI 150 in 2020-21 FIPP clarified that the category *ISSAIs 130-199 Organisational requirements* within the IFPP is reserved for standards aimed at SAIs that refer to the ISSAIs in their auditors reports while SAIs referring to national or own standards need to comply with the principles of ISSAI 100. As part of the project, ISSAI 100 was therefore revised so it now provides the fundamental principles related to quality management that are universally applicable to all SAIs. ISSAI 140 provides more detailed requirements based on these fundamental principles. SAIs using the ISSAIs as their auditing standards, need to comply with the requirements of this ISSAI.

ISSAI 140 have now been out on exposure in INTOSAI. Unfortunately, the number of respondents were lower than could be expected. In addition, the respondents did not collectively represent all INTOSAI regions and SAI models. As part of the exposure, we asked for the respondent's feedback on several questions. Some of them were general questions regarding the level of requirements and if the standard is considered helpful in developing a system of quality management. In addition, we also asked for responses to specific questions where the project group and FIPP concluded differently. Each question is listed below and FIPP's considerations are summarized. As a general approach, FIPP decided to go with the majority of the respondents when concluding on the questions asked in the explanatory memorandum, while also exercising its own judgement to seek to accommodate all considerations raised as good as possible in the final text.

The most important issues considered by FIPP in the final approval were the following:

- Regarding the question asked in the exposure: 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?

The majority of respondents were in favour of keeping this requirement in the revised ISSAI 140. However, the project group advised that ISSAI 140 should be scalable and leave to the SAI to consider which activities are relevant to get the necessary understanding of the quality of the audits. They therefore proposed that there should be no requirement.

FIPP consider that the requirement should be formulated so it is scalable. This is achieved by reflecting that the SAI shall establish criteria for selecting completed engagements for review based on the risks. As a review of completed engagements is already part of the current ISSAI 140, FIPP consider the SAIs referring to the ISSAIs already are familiar with this requirement and that it will not affect this part of the system of quality management fundamentally. FIPP therefore concluded that this requirement should be included in the revised ISSAI 140.

- Regarding the question asked in the exposure: Do you agree with the requirement to evaluate the system of quality management on an annual basis, per analogy with the ISQM 1?

The majority of respondents were in favour of evaluating the system of quality management on an annual basis. This was also suggested by the project group in their endorsement version. There were however also feedback pointing out that an annual evaluation and conclusion on the quality management system would be cumbersome especially for smaller SAIs as well as doubts over the added value. The feedback obtained and the draft version submitted by the project group also raised an issue as to whether the form of the required conclusion should be further clarified.

FIPP considered that the annual evaluation should be required and should give relevant feedback as part of a learning process in the SAI. FIPP therefore decided to maintain the requirement as in the exposure draft. In the related application material, text was added to clarify that this phrasing of the requirement leaves it for the SAI to decide on the form of the conclusion. In this way the final ISSAI 140 explicitly allow for flexibility and address the feedback from the INTOSAI community.

- Regarding the question asked in the exposure: Do you agree with setting effective date as one year following the final approval?

The project group argued that implementation of the updated ISSAI 140 would require preparation from the SAI to be in line with the requirements and therefore suggested. The majority of respondents argued for setting the effective date as one year following the final approval.

FIPP acknowledge the arguments from the project group regarding the effective date of the updated ISSAI 140. However, the ISQM (the equivalent quality management standard for the private sector and many SAIs complying with national standards) has already taken effect. The link between ISSAI 140 and the financial audit ISSAIs is covered by ISSAI 2000. Postponing the effective date of the updated ISSAI 140 to 01.01.2026 potentially could result in lower quality than for those SAIs referring to other standards for quality management. In addition, it would prolong the period in which SAIs that refers to the ISSAIs as well as the ISAs in (some of) their audit reports, would be formally required to comply with the outgoing version of ISSAI 140 from 2010 as well as the ISQM-1. FIPP therefore see the need for an effective date as soon as possible. A further delay could affect the reputation of both the SAIs and INTOSAI as an organisation. FIPP conclude that the revised ISSAI 140 will take effect from 01.01.2025.

FIPP milestones

FIPP approved the project proposal in June 2022.

FIPP approved drafts for exposure in February/March 2023.

FIPP approved the endorsements versions in October 2023.

FIPP conclusions

The new versions of ISSAI 100 and ISSAI 140 have been approved and will both take effect from 1/1 2025.