GUIDANCE 2: SAI'S NEEDS ANALYSIS IN THE DESIGN, IMPLEMENTATION AND OPERATION OF THE SYSTEM OF AUDIT QUALITY MANAGEMENT

Column	Guidance
[1]	This column consists of the requirements to establish a system of audit quality management, including the evaluation. Organisational requirement 1 provides the overarching requirement for the SAI to set up the system. Organisational requirements 2 to 4 represent the Quality Risk Management Process, organisational requirement 5 represents the Monitoring and Remediation Process, organisational requirement 6 represents the evaluation process and organisational requirement 7 represents overall documentation considerations.
[2]	This column sets the SAI's ambition in operationalising the system of audit quality management (i.e. policies and implementing procedures or guidelines needed to support the requirements or quality objectives in column 1). The SAI identifies different mechanisms and sets the target design to implement the system requirements, which need to be specific and realistic. Adequate research is needed to define what "should be" in the system. Application material in the revised ISSAI 140, and ISQM 1 and the related implementation guide provide details that may be used as one of the references. The SAI may also adopt some of the best quality management practices among SAIs.
[3]	This column lists and describes all the existing SAI policies and procedures that are relevant to match the "should be" policies and procedures. Take note that this should be identified after identifying "should be" policies and procedures in column 2 to avoid bias in identifying SAI needs. Identifying what exists first may narrow the SAI's reflection on what should be present in the system of quality management. For the needs analysis to provide more useful information, it is important to describe the specific key information or portion in the SAI policies, procedures, guidelines, manuals and other documents that are relevant to address the needs. When there are existing issues identified in the SAI implementation, these issues may be described here. If there are recent assessment efforts in the SAI (e.g. SAI PMF, ISSAI implementation needs assessment), information from these assessments may be relevant in identifying the needs of the SAI.
[4]	This column summarises all the needs of the SAI to set up the SoAQM. The needs are identified by matching the "should be" requirements in column 2 and the existing mechanisms in the SAI in column 3. The level of detail in column 2 and column 3 can affect the effectiveness of identifying the SAI needs. Start with the existing issues identified in column 3, if any. These issues may most likely become the sources of quality risks when the SAI starts to set up its SoAQM. The results of the needs analysis will become the basis for setting up the SoAQM. Providing details as to the specific actions/information needed, and individuals who will be involved to address the needs will define the value of the needs analysis.

SAIs are encouraged to do the detailed analysis per bullet/item in column 1.

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
Organisational Requirement No. 1 • The SAI shall design, implement, and operate a system of quality management taking into account the changing nature and circumstances in which the SAI operates, and changes in its engagements. The system shall cover all types of engagements covered by the ISSAIs and may also cover jurisdictional and other activities carried out by the SAI. The system shall be integrated into the SAI's operations. • The head of the SAI shall take the ultimate responsibility for the system of quality management. • The SAI shall design and implement a risk assessment process to: a. establish quality objectives;			

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
b. identify and assess quality risks; and c. design and implement responses to address the quality risks. • The SAI shall incorporate into the system of quality management the objectives that are relevant to ensure its independence and ability to carry out high quality work in compliance with the principles and organisational requirements of ISSAI 130 - Code of Ethics and ISSAI 150 – Auditor Competence as well as the ISSAIs applicable to the individual engagements.			
Organisational Requirement No. 2 • The SAI shall establish quality objectives, appropriate to its nature and the circumstances in which it operates, that the system of quality management is intended to address. The quality objectives shall relate to each of the components of governance and leadership; relevant ethical	**Example:** *Established guidelines in conducting Quality Risk Management which cover the following:* • *Establishment of responsibilities and committee/group who will perform the risk management*	**Example:** *SAI XYZ has Quality Risk Management Manual which was adopted in 2015. Among others, the manual requires the Head of Offices and Divisions to identify general risks that affect core processes in their respective units. These risks are communicated to the risk*	**Example:** *There is a need to revise the existing Risk Management Manual to define or introduce the concept of quality objective, and integrate the establishment of quality objective which will set direction to the risk identification process. The SAI needs to identify the most suitable approach in*

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
requirements; acceptance, initiation, and continuance of engagements; performing engagements; SAI resources; and information and communication. • The SAI shall assess whether changes to quality objectives are needed to reflect changes in the nature and circumstances in which the SAI operates and/or its engagements. If such changes are needed, the SAI shall establish additional quality objectives or modify quality objectives already established. **Organisational Requirement No. 3** • The SAI shall identify and assess quality risks. • The SAI shall assess whether changes to quality risks or assessments of quality risks are needed because of changes in the nature and circumstances in which the SAI operates or its engagements. If such changes are needed, the SAI shall identify	• *Definition of quality objectives; prescribed procedures in identifying quality objectives and writing quality objectives* • *Definition and steps in identifying quality risks; writing quality risk statements; scope of review to identify quality risks* • *Procedures in rating/assessing the quality risks* • *Prioritisation and development of effective responses to quality risk* • *Tools to document the quality objectives, quality risks, assessments made, and designed responses* *Requirements in updating the quality objectives, quality risks, assessments made, and designed responses when new information arises*	*assessment committee who is responsible for the overall process. The risk assessment process is conducted by the committee every three years, but the concerned heads are required to report to the committee any changes that may occur. The committee, in consultation with the concerned heads, assesses each risk (High, Low) to provide the basis for the risk response. Designed responses are agreed with the respective heads and submitted to the head of SAI for approval. In the past, the committee encountered difficulties in the assessment due to inconsistencies in the level and structures of writing of the risk communicated to them. This is due to the lack of guidance on how risk should be written.* *The manual provides a risk register to summarise the risks identified and a template that*	*establishing and/or writing quality objectives. The template needs to be enhanced to include documentation of the established quality objectives.* *There is also a need for basic guidance on how the risks are identified and written to avoid inconsistencies on the depth of risks communicated by the concerned heads to the risk assessment committee. The need to link the risk identification to the quality objectives need to be emphasized to help in identifying the risks that are relevant.* *The SAI may also explore other methods in identifying quality risks. For instance, the result of recent SAI PMF assessment and monitoring can be used by the committee, in addition to the risks from the respective heads to identify and validate actual risks that exist. Also, the respective*

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
and assess new quality risks or modify the assessments of quality risks already identified.		*will facilitate the assessment of risk and identification of actions to respond to the risks. The template allows the committee to.......*	*heads may also be involved in the establishment of quality objectives.*
Organisational Requirement No.4 • 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. • The SAI shall assess whether changes to responses are needed because of changes in the nature and circumstances of the SAI or its engagements. If such changes are needed, the SAI shall design and implement additional responses or modify responses already implemented.			*Implementation strategies may include publication of the recent developments in the quality management standards and training of relevant..........*
Organisational Requirement No. 5 • The SAI shall establish a monitoring and remediation process to: a. provide relevant, reliable and timely information about the design,	**Example:** • Monitoring and remediation process covering organisational level review of the SoAQM and inspection of completed audit engagements (for financial,		

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
implementation and operation of the system of quality management; b. identify potential strengths and deficiencies in the design, implementation 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 ISSAIs and applicable legal and regulatory requirements and with policies and procedures it has established to address quality risks. • The monitoring and remediation process shall include: a. evaluating findings to determine whether deficiencies exist; b. evaluating the severity, pervasiveness and root	performance and compliance audit engagements) • Individual(s) or group performing the monitoring should have the competencies, authority and independence required for the function. • Establish appropriate reporting line of the function. • Established criteria in defining scope and selecting completed audit engagements for inspection • Analysis of monitoring findings to determine whether they constitute deficiencies in SoAQM • Root cause analysis • Design and implementation of remedial actions • Criteria used in monitoring should be derived from		

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
cause of identified deficiencies; c. designing and implementing appropriate remedial actions to address those deficiencies; and d. evaluating whether the remedial actions have been appropriately designed, implemented and are effective. • The SAI shall respond to circumstances when quality management findings indicate that required procedures were omitted during the performance of an engagement or the report issued may not comply with ISSAIs and applicable laws and regulations. • The monitoring and remediation process shall include reviews of completed engagements. Based on the identified quality risks, the SAI shall establish criteria for selecting completed engagements for review.	ISSAI, and supplemented by other good audit quality management practices as appropriate • The procedures and tools should be defined in a policy (and supported by implementing guidelines if needed) approved by the head of SAI. Appropriate information dissemination should be made to create awareness.		

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
• The SAI shall establish policies and procedures that address the objectivity of the individuals performing the monitoring activities.			
Organisational Requirement No. 6 • The person or persons assigned responsibility and accountability for the system of quality management shall evaluate and conclude on the system of quality management. The evaluation shall cover a defined period and be performed at least annually.			
Organisational Requirement No. 7 • 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			

[1] System of Audit Quality Management (SoAQM) Requirements	[2] What "should be" included in the SAI policies and procedures to implement the SoAQM requirements?	[3] What are the existing SAI policies and procedures that can address the SoAQM requirements? Describe existing issues, if any.	[4] If the existing SAI policies and procedures are not adequate, identify the SAI needs and propose actions to address these needs
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. • The SAI shall establish a period of time for retaining documentation for the system of quality management taking into account relevant standards, laws and regulations.			