GUIDANCE 5: OVERVIEW OF THE MONITORING AND REMEDIATION PROCESS

The revised ISSAI 140 requires SAI to establish the monitoring and remediation process to: (a) provide relevant, reliable and timely information about the design, 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 process involves the review of the design, implementation and operation of the system and the review of audit engagements.

Monitoring is conducted at the organisational level covering the SAI's policies and procedures (monitoring the SoAQM as a whole), and at the audit engagement level through the review of sample financial, performance and compliance audits. The results of monitoring provide useful information to:

- the Head of SAI or other appropriate individuals in the evaluation of the system of quality management. *Refer to Guidance 7 to know more.*
- the Engagement Quality Reviewer in identifying potential areas where deficiencies in the audit team's professional judgment exist. *Refer to Guidance 8 to know more.*
- the Audit Director/Engagement Supervisor to manage and achieve quality by focusing on identified deficiencies in the audit process and applying the monitoring remedial actions as applicable.

Monitoring process at the organisational level

The monitoring process at the organisational level encompasses the review of the components of the system of audit quality management, including whether the SAI's audit manual, methodologies and tools are in accordance with professional standards and relevant regulatory requirements. The review of the system will provide the SAIs with reasonable assurance that the policies and procedures are relevant and adequately designed, and are being effectively implemented. The nature, timing and extent of the monitoring activities consider:

- SAI's size and structure
- Justifications in the quality risk assessment
- Design of responses
- Design of risk management process
- Changes in SoAQM
- Results of previous monitoring

Monitoring process at the audit engagement level

At the audit engagement level, the monitoring process involves the review of sample audits to determine whether audits and reports issued are in accordance with the standards and whether the audits add value. review is normally conducted on completed audits, but when needed, it may be performed in ongoing engagements. In general, the core function of any SAI is to audit and report on the public-sector operations to the relevant stakeholders. The SAI needs to establish criteria for selecting engagements or engagement partners for review, frequency of review and individuals who will perform the reviews.

Audit Engagements Subject to Review

Financial Audit

"Financial audit involves determining, through the collection of audit evidence, whether an entity's financial information is presented in its financial statements in accordance with the financial reporting and regulatory framework applicable. In the case of fair presentation frameworks, the auditor assesses whether the information is fairly presented. In the case of compliance frameworks, the auditor assesses the extent to which compliance is achieved."

The objective of the financial audit is defined in ISSAI 200.

Compliance Audit

"Compliance auditing is the independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities which govern the audited entity."

The objective of compliance audit is defined in ISSAI 400.

Performance Audit

"Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement."

The objective of performance audit is defined in ISSAI 300.

The monitoring and remediation process should duly incorporate approaches that will provide assurance that quality measures put into these core functions are adequate and serve their intended purposes. The monitoring process is the same for all types of audits, except for the monitoring tools that have been developed separately.

Structure and Operational Responsibilities

SAIs may choose an appropriate model and structure for the monitoring function. The SAI should ensure that the monitoring function is adequately resourced and that the staff is selected based on the competencies and skills required to perform the monitoring, as identified in the policy.

As presented in the Playbook, the SAI's decision to establish the function depends on the resources and the specific circumstances of the SAI. If the SAI has the existing QA function, the SAI needs to reassess any enhancements needed to comply with the revised ISSAI 140. If the SAI has no existing function relevant to monitoring, and has limited human resources, the SAI may engage external parties to perform the monitoring activities or aspects of the activities. The SAI may also collaborate with IDI Shared Services Arrangement. Subject to objectivity and independence considerations, the SAI may also implement peer reviews at the engagement level. On the other hand, if the SAI can sustain and maintain internal units, the SAI can assess the audit universe whether a standalone unit is appropriate or whether an ad-hoc committee can accommodate the monitoring needs.

The following guidance will provide useful information when the SAI decides to establish an internal monitoring function, either as a standalone unit or ad hoc unit, and can also give reference when setting up the team when engaging external parties, IDI Shared Services or peer reviews.

Functions of Monitoring Team

The main functions of the monitoring team are to review the adequacy and operating effectiveness of the system of audit quality management at the SAI level as well as the review of the sample audit engagements. The reports produced should identify deficiencies including root causes, and propose remedial actions for consideration by the management. The team should also conduct a follow-up of the implementation of remedial actions by the SAI management and the line function at the audit engagement level. The reasons for the non-implementation of remedial actions, if any, may be highlighted in the follow-up report.

Structure and Roles of Monitoring Team

SAI should determine the type of structure that suits its environment. The structure of the monitoring component should be designed to allow for a clear line of responsibilities and reporting and to allow for the necessary reviews of individual work. An example of a suggested structure is depicted below:
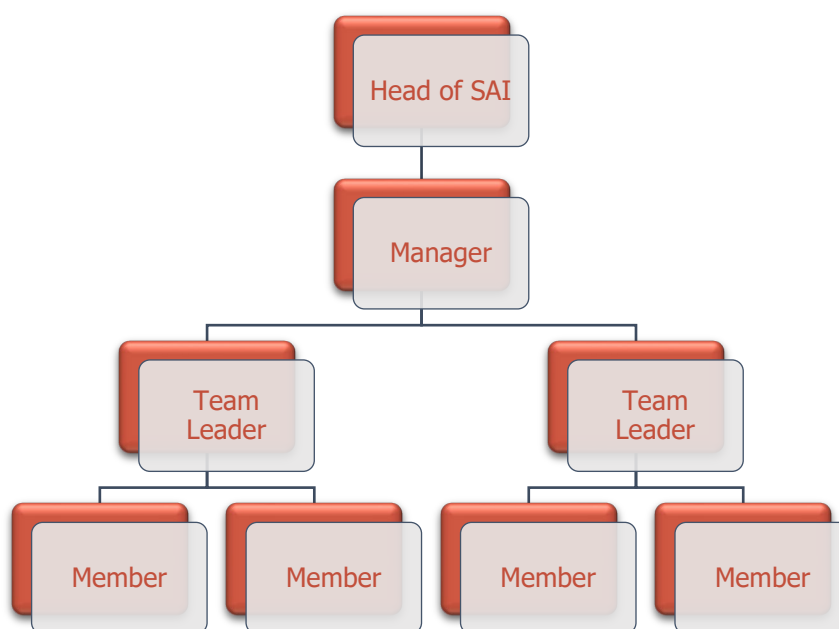
It would benefit the SAIs to develop a job profile for each role within the monitoring function as depicted in the suggested structure. Having a job profile in place would enable the SAIs to determine the level of qualification, skills and experience required of each member at different level within the monitoring function.

The roles of the different levels of staff are briefly explained below based on the procedures and tools introduced in the "Monitoring and Remediation Process" resource material. The SAI may include additional responsibilities to fulfil the SAI protocols and rules of procedures.
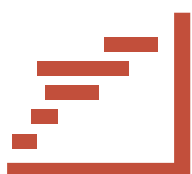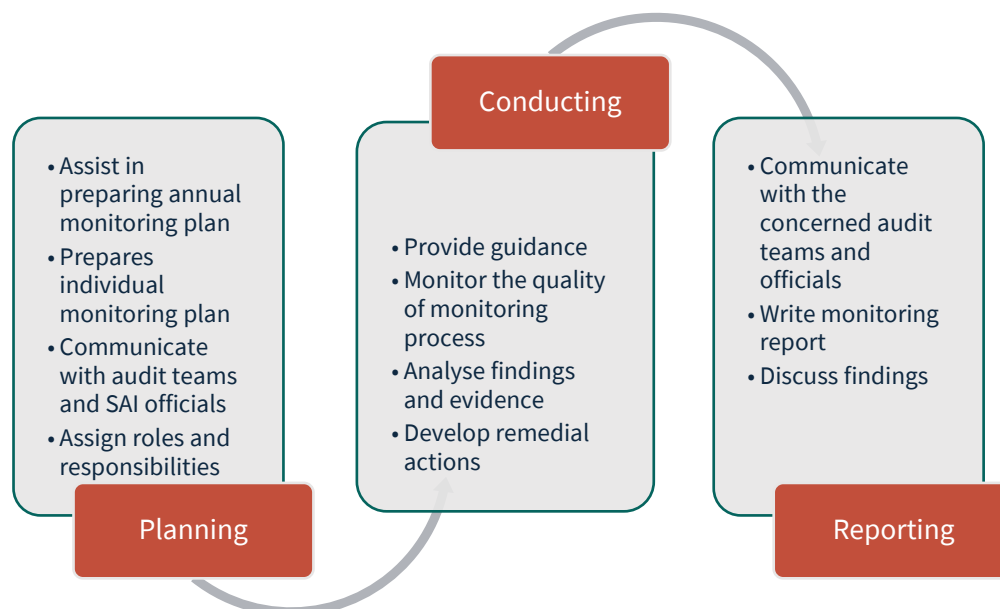
Manager

The manager, as the head of the monitoring unit, should report directly to the Head of the SAI and be responsible for overall aspects and supervision of the monitoring component. This includes responsibility for the development of the strategies and operational plans and reporting on the results of the monitoring. The monitoring plan includes the review strategy, the objective of the review, and the scope, timing and methodology

Throughout the monitoring, the manager needs to ensure the quality of the work. In doing such, the manager may use the suggested checklist which can assist in focusing on critical areas. The accomplishment of the checklist may be delegated to the Team Leader.
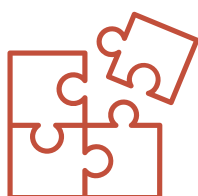
Team Leader

The team leader should report to the manager and assume the overall responsibilities of individual monitoring engagements.

The duties of the team leader should include at a minimum the following:

Planning
- Assist in preparing annual monitoring plan
- Prepares individual monitoring plan
- Communicate with audit teams and SAI officials
- Assign roles and responsibilities

Conducting
- Provide guidance
- Monitor the quality of monitoring process
- Analyse findings and evidence
- Develop remedial actions

Reporting
- Communicate with the concerned audit teams and officials
- Write monitoring report
- Discuss findings

At the planning stage. The team leader should assist the manager in preparing the annual monitoring plan and should prepare the individual monitoring plan for each monitoring engagement. The team leader will also lead the communication with the selected audit teams (engagement level) and SAI officials (organisational level) to discuss the objective and details of monitoring and requesting the needed documents. While planning, she/he should also assign roles and responsibilities to the team members. The team leader should also be responsible for the appropriate application and use of the monitoring Tool.

At the conducting stage. The team leader should provide the necessary guidance and coaching to the team members about the plan, and objectives and be involved in the monitoring process. The team leader should supervise the monitoring process to ensure that the process is in accordance with the SAI policies and procedures. The team leader should also be responsible for analysing the findings, ensuring sufficient evidence is obtained, and proposing remedial actions.

At the reporting stage. Prior to writing the monitoring report, the team leader needs to ensure that observations and other potential issues are discussed with the audit teams or SAI officials. This will allow the team to obtain further information in verifying the issues and analysing the related cause. For some SAIs, discussion with audit teams or officials is part of the conducting stage where observations are immediately communicated as the team identified the conditions. The team leader should be responsible for presenting a report and discussing the findings with the manager. The team leader should also follow up on any outstanding issues.

Team Members

The team members report to the team leader and should conduct the review based on the plan agreed in the planning stage and in accordance with the SAI's policies and procedures. The team

members should gather evidence to support the findings and document the work carried out. The team members may also be responsible for assisting the team leader in preparing a draft report.

The team members need to ensure that all monitoring working papers are timely prepared and should complete the assembly and archiving within the period prescribed in the policy.

Competencies of the Monitoring Team

In selecting the monitoring team, the SAI should consider the competencies of the individuals it intends to assign to the monitoring component to ensure its efficiency and effectiveness. The team manager, team leader and the team members must possess <u>collectively</u> all the required competencies and experience. These should include:
- in-depth knowledge of SoAQM and monitoring criteria (i.e. IFPP pronouncements)
- analytical skills
- interpersonal skills
- communication skills
- facilitation skills
- audit experience
- managerial abilities

If the SAI cannot identify and establish a team with all the necessary competencies, the senior management may consider using external experts (external approach).

Principles of the Monitoring Team

To ensure that the monitoring process provides useful outcomes and ultimately leads to improved audit quality, the following principles must be adhered to by all members of the Monitoring Team. At all times, the members of the monitoring team should demonstrate:

Professionalism, by having sufficient knowledge and application of ISSAIs on financial audit or performance audit or compliance audit, and other IFPP pronouncements relevant to audit quality. The SAI may develop the competency framework aligned with ISSAI 150.

Compliance with ethical requirements, through the demonstration of ethical principles in ISSAI 130.

Evidence-based approach, through the analysis of evidence that is verifiable and based on samples.

? *Does monitoring refer to Quality Assurance?*

Prior to the endorsement of the revised ISSAI 140, monitoring activities of some SAIs may have been referred to as 'Quality Assurance Review'. With the transition to the concepts of a robust system of audit quality management, the need for reference to 'monitoring' in lieu of 'quality assurance review' becomes important to avoid the notion that the latter modifies the approaches in the private practice (i.e., in accordance with the International Federation of Accountant's (IFAC) Statement of Membership Obligation 1 on Quality Assurance) to fit the SAI environment. While the discussion related to monitoring assimilates what was referred to as 'Quality Assurance Review', the Playbook and related resource materials nevertheless avoid the reference to such and strictly use the terminologies and concepts in monitoring under the ISSAI 140. The previous QA concept is reserved for future developments but is currently in practice for external reviews on IDI-supported cooperative audits