

# GUIDANCE 1: SAMPLE SYSTEM OF AUDIT QUALITY MANAGEMENT POLICY<sup>1</sup>

## NOTE:

The sample below does not cover the entire components of the SoAQM as the policies and procedures on the components should be “fit for purpose” to meet the specific needs of the SAI. For instance, SAI may have a specific design of Human Resources, or Information and Communication depending on the size and complexity. As such, the sample only covers the backbone of the SoAQM which covers the ‘processes’ components such as risk management, and monitoring and remediation processes. Additional sample policies for evaluation and engagement quality review, among others, are provided since these areas can become common among SAIs. It is expected that the policies and procedures on other components can be defined after performing the needs analysis and the initial quality risk management process. Further enhancements will be made through the continuous operation of the SoAQM.

As part of its commitment to promote excellence and relevance, the SAI continuously strives to improve its processes to deliver high-quality and value-adding audits. Recent developments in global practices call for a need to have a robust system and risk-based approach in managing audit quality. In response, a needs assessment was conducted in the SAI to analyse its existing policies and procedures, and identify opportunities for further improvement. Thus, it was concluded that the SAI needs to have a policy which encapsulates all the relevant policies and procedures relating to audit quality, including the necessary enhancements and additional guidance to meet the quality management standards.

This policy is hereby adopted to define the broad structures and mechanisms building the SAI’s system in managing audit quality which will assist the SAI and its personnel in achieving objectives, conducting high-quality audits, fulfilling responsibilities in accordance with the professional standards and applicable legal and regulatory requirements, and contributing value. This policy covers:

- Objectives of the policy;
- Basis of the policy;
- Establishment of a System of Audit Quality Management;
- Quality Risk Management Process;
- Monitoring and Remediation Process;
- Evaluation of the System; and
- Documentation.

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<sup>1</sup> SAIs may have fragmented policies/procedures/manuals relating to audit quality management, especially when there are already existing mechanisms in the SAI with continuing relevance based on the SAI’s needs analysis. In such a case, it may be useful for the SAI to have a centralised document showing the interconnections of these policies. Alternatively, the SAI may prepare separate policy and provide references to these external policies.

## I. Objectives of the policy

The objective of the policy is to establish a fit-for-purpose System of Audit Quality Management (SoAQM) that defines the framework including the quality risk management process, monitoring and remediation process, and evaluation of the system.

## II. Basis of the policy

The SAI is bound by its legal mandate to implement measures that are appropriate in the circumstances to promote delivery of high-quality and value-adding audit services. With the adoption of ISSAI 140 as part of the SAI's strategic goals in ensuring audit quality, the SAI is required to design, implement and operate a system of quality management. To the extent that it applies to the audit mandate of the SAI, it is therefore its responsibility to adopt a policy that will provide broad framework for the design, implementation and operation of an SoAQM fit for the SAI context.

## III. Establishment of a System of Audit Quality Management

A fit for purpose SoAQM is established which covers the following components:

1. Quality Risk Management Process
2. Governance and Leadership
3. Relevant Ethical Requirements
4. Acceptance, Initiation, and Continuance of engagements
5. Performing Engagements
6. SAI Resources
7. Information and Communication
8. Monitoring and Remediation Process

The system integrates a self-correcting mechanism that will promote continuous improvement through the following processes:

- Risk management process
- Monitoring and remediation process
- Evaluation of SoAQM

Consistent with the roles set out in the regulation, the Head of SAI takes the ultimate responsibility and accountability of the SoAQM. The operational responsibilities are shared among the relevant SAI personnel as will be identified on quality risk management, monitoring

and evaluation processes involved in operating the system. The specific responsibilities shall be set out in the implementation guidance of this policy.

The SAI policies and procedures that remain relevant under the SoAQM based on the needs analysis are summarised herewith. All other policies and procedures not listed are deemed superseded. Subject to the result of the operation of the key quality management processes in the succeeding period, the following may still be revised or revoked, or supplemented with new policies and procedures:

Relevant SoAQM Components	SAI Policies and Procedures
Governance and Leadership	...
Relevant Ethical Requirements	...
Acceptance, Initiation and Continuance	...
Performing Engagements	...
...	...

#### IV. Quality Risk Management Process

The system will follow a risk-based approach in managing audit quality. The SAI shall implement a well-defined and iterative process in risk management. The structure, methodology and other aspects of the process are broadly defined as follows:

##### **IV.a: Quality Risk Management Function and Structure**

Due to the size of the SAI, the head of SAI will be highly involved in this function. The existing SAI's Strategic Risk Management Committee (SRMC) consisting of the head of SAI and the two directors shall lead the risk management relating to audit quality. The SAI's ad-hoc process of Risk Management Manual shall be enhanced to expand the scope of quality considerations covering the components of the SoAQM, and to define quality objectives and risks in the SAI's local context. The SRMC shall apply combination of top-down and bottom-up approaches throughout the quality risk management process. The SAI shall develop guidelines to put the practices in writing for consistency of implementation. During the transition period, the SAI shall collaborate with the IDI Shared Services arrangement to obtain advice on the appropriateness of implementation.

##### **IV.b: Development of quality objectives**

The quality objectives shall be developed based on the SAI context, and in consultation with the audit divisions in all the regions. The quality objectives shall cover the relevant components of the SoAQM. Sub-quality objectives may be required to meet the specific desired outcomes in the different types of audit engagements and classes of audited entities in the SAI's audit universe. As a baseline, the SRMC shall ensure that quality objectives are aligned with those listed in ISSAI 140.

#### **IV.c: Identification, assessment and response to quality risks**

Based on the review of relevant information affecting the quality objectives set, quality risks shall be identified. Assessment of quality risk shall follow the procedures and parameters set out in the implementing guidelines. Prioritisation of the assessed quality risk shall be made in consideration of the SAI's resources.

Responses shall be designed to address the reasons for the assessments made on the quality risks. Implementation of the responses shall be constantly monitored.

In addition to specific responses that may be identified to address quality risks, the SAI shall intensify implementation of the procedures involving:

- Compliance with relevant ethical requirements including independence – the SAI shall strengthen its process in reporting and addressing any breaches in a timely manner to the appropriate division.
- Engagement Quality Review – the SAI shall enhance its existing procedures to clearly define parameters in identifying the audits that will undergo review, and individuals who are to be appointed as reviewers to comply with the objectivity requirements of the function. The SAI shall continue the existing approach in creating an ad-hoc committee for each calendar year, which will be responsible in conducting all the engagement quality reviews during the period. If needed, the SAI shall also collaborate with the IDI Shared Services Arrangements to supplement the capacity in performing the review.
- Internal consultations and resolving differences of opinion – The SAI shall create an Expert Group composed of senior members from the different audit divisions. The required qualifications shall be defined in the implementation guidelines. The Expert Group shall be the focal for consultations involving highly technical audit issues. When there are differences of opinion that could not be resolved at the audit division level, the issues shall be elevated to the Expert Group for resolution.

#### **IV.d: Quality Risk Management Tools**

Appropriate tools shall be developed to facilitate the establishment of quality objectives, identification and assessment of risks, design and implementation of responses, and updates or revisions made, as necessary.

#### **IV.e: Communication**

The results shall be communicated to all SAI personnel through the Information and Records Division. This shall also be discussed during the strategic and annual meetings.

#### **IV.f: Frequency of Quality Risk Management Process**

The frequency of the quality risk management process shall coincide with the SAI's overall strategic risk management conducted every 5 years. The risk management is considered iterative in nature; thus, the committee shall revisit the assessment at least annually, or when new information becomes available affecting the initial assessments made.

## V. Monitoring and Remediation Process

The SAI shall have a monitoring and remediation process to provide SAI with relevant, reliable and timely information about the design, implementation and operation of the SoAQM, and to take appropriate and timely actions to address the identified deficiencies. This will enable SAI to assess compliance with ISSAIs, regulatory requirements and SAI policies and procedures.

### Monitoring Function and Structure

An independent ad-hoc unit shall be established to manage the monitoring function. This unit will be responsible for carrying out the monitoring activities in the SAI and will report directly to the Head of SAI to ensure its independence. Depending on the availability of SAI personnel, internal peer reviews may be used when performing reviews of audit engagements. The SAI shall ensure that the selection of ad-hoc unit members and peer reviewers will comply with the eligibility and objectivity requirements for monitoring. During the transition while the SAI is building internal capacities, the SAI shall collaborate with IDI's shared services arrangements to perform the monitoring activities.

Among others, the responsibilities of the ad-hoc unit include:

- Preparation of an annual monitoring plan and individual plan and programme;
- Determination of the overall scope of the monitoring using the criteria in this policy;
- Setting the annual target timeline and resources needed;
- Conduct training about the monitoring function to the selected personnel of the SAI and create an appropriate awareness; and
- Recommendation for the amendment of the monitoring policy, whenever necessary.

### Authority and qualifications of the ad-hoc unit

The unit shall be headed by a senior official with at least ten (10) meaningful experience in the audit, and with significant involvement in quality management in the SAI.

The monitoring unit shall collectively possess the following competencies, including those that will be engaged under the IDI Shared Services Arrangements:

- in-depth knowledge of quality management standards and monitoring criteria (i.e., IFPP documents)
- analytical skills
- interpersonal skills
- communication skills
- facilitation skills
- audit experience
- managerial abilities

The members of the monitoring unit shall have the appropriate authorisation from the Head of SAI to perform the monitoring activities.

### Nature, frequency and scope of monitoring

The SAI shall have ongoing and/or periodic monitoring activities covering the design, implementation, and operation of the SoAQM. These include review of the eight components of the SoAQM at the organisational level, and review of sample financial, performance and compliance audits at the engagement level. Depending on the monitoring unit's assessment, review of audit may cover completed or ongoing audit engagements.

*Criteria for determining the overall scope of the monitoring*

- Selecting areas within the components of the SoAQM for review
  - significant quality risks assessed during the SAI's risk assessment
  - significant deficiencies identified in the previous monitoring activities
  - there are new SAI policies and procedures, or INTOSAI pronouncements affecting the design, implementation and operation of the system
  - there are areas that have not been subject to monitoring in the last monitoring activities
- Selecting audits for review

The monitoring unit shall identify the appropriate means of selecting audits for review. For this purpose, the monitoring unit may use the audit engagements and/or audit directors/supervisors as the sampling units.

When audit engagements are used as the sampling unit:

- auditees are listed entities
- the audit has been classified as high risk (e.g., involving a high level of complexities and judgment)
- parliamentary or media interest in auditees or audit
- the auditees face problems that may lead to contentious and difficult circumstances
- significant shortcomings were identified during the audit team's previous review
- a new area of auditing
- the audit was conducted by a private auditing firm in full or jointly with the SAI

When audit directors/supervisors are used as the sampling unit:

- period when the audit director/supervisor has been subject to monitoring
- results of previous review on the audits conducted by the director/supervisor
- complaints/allegations involving the audit director/supervisor
- special requests

The sample of individual engagements selected for review must be representative of all audits conducted by the SAI. When audit directors/supervisors are used as the population, the size, complexity and risks involved are considered in choosing the sample from the audit engagements conducted by the audit director/supervisor.

### Reporting requirements

The monitoring involves formulation of remedial actions that address the cause of any deficiencies in the SoAQM. The observations and recommendations shall be formally communicated through a monitoring report.

The following factors shall be considered in concluding the monitoring:

- the monitoring unit shall prepare an overall summary report
- the monitoring observations shall be discussed with the responsible officials for the reviewed unit and the Head of SAI prior to finalisation
- summarised results and the follow-up recommendations for improvement shall be prepared and presented to the Head of SAI
- The report shall contain:
  - details of the timing of the monitoring and the names of the monitoring team members
  - a description of the scope of the monitoring

The monitoring unit shall highlight other pertinent issues that may be relevant for further strengthening the SAI's SoAQM.

### Methodology

The monitoring processes involve the following:

- a. Annual Planning – involves preparation of an annual monitoring plan that sets the targets of the monitoring function for the period
- b. Individual Engagement Planning – includes development of monitoring strategy and designing of monitoring procedures for each monitoring activity
- c. Conducting – includes gathering of data to using the monitoring tools
- d. Completion and Review – requires evaluation and validation of findings, design of remedial actions, and drawing of conclusion
- e. Reporting – involves preparation of the monitoring report and conduct of exit meeting
- f. Follow-up – ensures that the action plan proposed by the SAI management or the Head of the SAI to continuously improve the quality has been implemented

### Monitoring Tools

Appropriate monitoring tools shall be developed to support the conduct of the monitoring from the annual planning to follow-up. For the assessment proper, the tool for the organisational level monitoring shall cover key aspects in each component of the SoAQM. For the audit engagement level review, the tool shall consider the detailed requirements of ISSAI in the respective audit stream.

### Requirement to Follow-up

Audit teams and departments reviewed shall compile action plans on how the deficiencies identified in the monitoring will be corrected. These action plans shall indicate what, who, where, when and how these will be corrected. The action plans shall be consulted with the monitoring unit and approved by the Head of the SAI or a staff member with the required delegation. The audit teams and the departments shall report back on their progress with the implementation of the corrective actions.

The monitoring unit shall perform validation to confirm the effectiveness of the corrective actions. The SAI shall also use the results of the monitoring to determine the training needs of its staff in general and compile training programme to address these issues.

## **VI. Evaluation of the System**

### Evaluation Function

The Head of SAI, being ultimately responsible and accountable for the SoAQM, is assigned to evaluate the SoAQM. The evaluation shall take into consideration the result of the monitoring during the year, and results of any assessments undertaken in the SAI. Based on the result of the evaluation, the Head of SAI shall develop a conclusion as to whether the SoAQM is providing SAI with reasonable assurance that the objectives of the SoAQM are being achieved. The Head of SAI shall be assisted by the monitoring unit as necessary. When the monitoring unit is engaged, the Head of SAI still retains the overall responsibility for the evaluation process including the conclusion. The Head of SAI may also seek assistance from the IDI's shared service arrangements to evaluate the SoAQM.

### Methodology

The evaluation shall involve assessment, at the individual and aggregate level, of the deficiencies noted as to their severity and pervasiveness. This shall also take into account whether the effect(s) of the deficiencies is(are) corrected.

The Head of SAI shall also evaluate the existence and effectiveness of the remedial actions provided by the monitoring unit. The result will form part of the evaluation of the monitoring component of the SoAQM.

With due consideration of the results of the evaluation of deficiencies, including the evaluation of the remedial actions, the Head of SAI shall form a conclusion on the SoAQM. The conclusion shall be based on the form defined in the implementing guidelines.

### Evaluation Tools

Appropriate evaluation tools shall be developed to document the evaluation of findings, conclusions reached and the justification thereof.

### Frequency of Evaluation



The evaluation is performed annually and commences after the completion of the monitoring activities.

## **VII. Documentation**

All the documentation relevant to the design, implementation and operation of the SoAQM shall be organised and kept in accordance with the SAI's archiving policy. At the minimum, the documentation shall include:

- a. This policy and any implementing guidelines including handbooks and manuals, and other enhancements on the existing policies and procedures as a result of the establishment of the SoAQM;
- b. Identification and assignment of the overall responsibility and operational responsibilities relating to the SoAQM;
- c. The risk management tools documenting the quality objectives, identified risks, assessments made, and responses provided, including any updates to the assessment made;
- d. When applicable, the names of the engagement quality reviewers, identification of the engagement documentation reviewed, conclusions reached, and completion date of the review;
- e. Monitoring tools documenting the work performed from annual planning to follow-up;
- f. Evaluation tools showing the analysis of findings and the conclusion reached by the Head of SAI; and
- g. All relevant communications that are significant to the SoAQM.

### **Operational mechanism**

To support the operationalisation of this policy, Technical Working Group(s) shall be created to develop audit quality management guidelines, manuals, handbooks, procedures and tools, as appropriate within the year after effectivity of this policy. The technical working groups shall refer to the result of the needs assessment conducted to analyse the existing quality mechanisms in the SAI in terms of their relevance to transition to the new SoAQM and identify areas where enhancement or development of additional guidelines is necessary to cover all the requirements in this policy.

The functional leadership shall implement effective change management strategies and conduct capacity building and awareness raising activities for the proper implementation of this policy.

## Approval

All other SAI policies inconsistent with this policy are deemed repealed and/or superseded.

This policy shall take effect on \_\_\_\_\_.

Sgd.

**Auditor General**

Date: \_\_\_\_\_