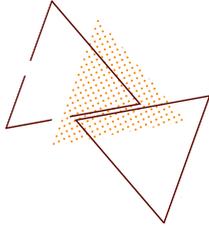
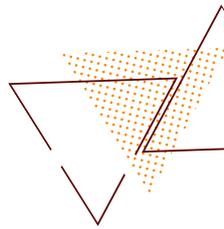


Quality Assurance Review Handbook

QUALITY ASSURANCE SYSTEM



Chapter 1

Introduction to Quality Assurance Review

Purpose and Overview

The purpose of this chapter is to emphasise the objective and importance of quality assurance (QA) in audit as it relates to the Office of the Auditor General, Nepal. The main purpose of this handbook is to provide a step-by-step approach for performing internal Quality Assurance Reviews.

The chapter describes the basic concepts relating to quality, quality control and quality assurance. Distinctions of these concepts are achieved through the sections that explain the characteristics of quality and the differences between quality assurance and quality control. Quality Control (QC) and Quality Assurance (QA) are two different aspects of a robust quality control mechanism, and both are critical to the effectiveness of an SAI's performance. Quality control is a term that encompasses the policies and procedures that are put in place in an OAGN to ensure that its audit work is of consistently high quality. Since the quality of OAGN products and services is of utmost importance in creating the desired impact on the external stakeholders, a Quality Assurance function needs to be established (or strengthened) in OAGN.

The study of quality assurance is anchored on the related and appropriate quality standards and guidelines taken from the INTOSAI and ASOSAI which highlight the requirements for quality services and outputs of an SAI.

This chapter concludes with a brief discussion on the types of QA reviews which can either be performed internally or by external persons, or may pertain to pre-issuance or post-audit reviews. Such reviews may also be undertaken on the OAGN as a whole, and/or for a specific audit.

1. Quality, Quality Control and Quality Assurance

1.1 Quality

Quality has been defined as the totality of the features and characteristics of a product or service that bears on its ability to satisfy stated or implied needs. In public audit, quality management involves a system composed of an organisation, the Office of the Auditor General (OAGN) - its people – the auditors – and the audit process - all working together to produce the outputs that fulfil the requirements of its stakeholders and the general public. For the OAGN to be able to do this, it needs to define what these requirements are and how it will be able to satisfy them. Provision of the highest degree of satisfaction of its stakeholders' or clients' needs requires setting up quality measures which should drive the OAGN's processes and outputs.

It should seek to carry out its audit work at a consistently high level of quality in order to increase the OAGN's productivity and effectiveness.

1.2 Characteristics of Quality

There are certain characteristics or attributes by which the quality of an audit is measured. The general characteristics of the quality of an audit may include:

Significance	How important is the subject matter that was examined in the audit? This, in turn, can be assessed in several dimensions, such as the financial size of the audited entity and the effects the audited entity has on the public at large, or on major national policy issues.
Scope	Did the audit task plan properly address all elements needed for a successful audit? Did the execution of the audit satisfactorily complete all the needed elements of the task plan?
Reliability	Are the audit findings and conclusions an accurate reflection of actual conditions with respect to the matter being examined? Are all assertions in the audit report or other product fully supported by the data gathered in the audit? Is all material evidence that was gathered in the audit properly reflected in the opinion or findings and conclusions?
Objectivity	Was the audit carried out in an objective and fair manner, without favour or prejudice? The auditors should base their assessment and opinion purely on the facts and sound analysis of the available information.
Timeliness	Were the audit results delivered at an appropriate time? This may involve meeting a legal or statutory deadline, or delivering audit results when they are needed for a policy decision, or when they will be most useful in correcting management weaknesses
Clarity	Was the audit report clear and concise in presenting the results of the audit? This typically involves being sure that the scope, findings and any recommendations can be readily understood by busy executives and parliamentarians who may not be experts in the matters that are addressed, but may need to act in response to the report.
Efficiency	Were the resources assigned to the audit reasonable in light of the significance and complexity of the audit?
Effectiveness	Did the findings, conclusions and recommendations get an appropriate response from the audited entity, the government and/or parliament?

1.3 Quality Control

Quality control within an OAGN consists of policies and procedures that are put in place to assure that its audit work is of a consistently high quality. An OAGN establishes and maintains a system of quality control to provide it with reasonable assurance that:

- The OAGN and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- Audit reports issued by the OAGN are appropriate in the circumstances.

Quality Control is implemented with respect to the OAGN's activities that support the audit process and for all aspects of the audit process including:

- Selecting matters for audit;
- Deciding the timing of the audit;
- Planning the audit;
- Executing the audit;
- Evaluating audit findings;
- Reporting audit results, including conclusions and recommendations; and
- Following up audit reports to ensure that appropriate action is taken.

1.4 Quality Assurance Review

Quality Assurance is the process that provides **independent** assurance to the Auditor General that the quality control systems and practices in the organisation are working effectively and that the OAGN is issuing appropriate reports. Thus, Quality Assurance is the process of comparing what is required of a product and what is actually being provided to the users of that product.

Quality Assurance is the process established by an OAGN to ensure that:

- a) The OAGN and its personnel have adhered to professional standards and applicable legal and statutory requirements;
- b) Necessary quality controls are in place;
- c) Quality controls are being properly implemented; and
- d) Potential ways of strengthening or otherwise improving quality controls are identified.

As such, Quality Assurance is an assessment process focusing on the design, operation, outputs (reports) and outcomes of the quality control system by persons independent of the system/audit under review. The purpose of Quality Assurance is not to criticise specific systems/audits but to help ensure that the audit products and services meet the required international best practices and the needs of the OAGN's stakeholders.

1.5 Quality Assurance Review versus Quality Control

Although at times QA and QC are used interchangeably, there is a clear difference in scope and meaning of the two terms.

As already stated above, QC involves the policies and procedures through which an OAGN **ensures** that all phases of an audit process (planning, execution, reporting and follow-up) are carried out in compliance with OAGN auditing standards, rules, procedures and practices in line with the best international practices. Basically it is a responsibility of each line function in an OAGN. QA is also a responsibility of management.

On the other hand, Quality Assurance is a process through which an OAGN **assesses** and monitors the system of quality control, to provide reasonable assurance to its top management that its process and product meet quality standards. This assessment is designed to ensure that the OAGN's system of quality control is working effectively and that individual audits are carried out in compliance with OAGN standards, rules, practices and procedures. These should be in line with best international practices as reflected in INTOSAI Standards of Supreme Audit Institutions (ISSAIs) and ASOSAI Guidelines or pronouncements on auditing standards and the code of ethics, appropriately adapted to suit the needs of national regulations and standards.

1.6 Benefits of the QAR

The benefits that can be derived from an effective quality assurance function include the following:

- ✓ Ensure a high standard of audit work by improving audit performance and results;
- ✓ Ensure that the audit is conducted in the most efficient and cost effective way; which can lead to savings in audit time and cost;
- ✓ Improve the capability of the OAGN;
- ✓ Maintain a high degree of integrity, accountability and competence;
- ✓ Enhance the credibility and reputation of the OAGN;
- ✓ Improve training and identification of additional training needs;

- ✓ Motivate the personnel of the OAGN;
- ✓ Facilitate self-assessment of audit work performed;
- ✓ Provide a management tool for measuring the performance of the OAGN; and
- ✓ Avoid possible litigation by ensuring the OAGN's work is of high standard and quality.

1.7 Quality Standards and Guidelines

1.7.1 Quality Standards and Guidelines of OAGN

The following guidelines and directives have been issued in order to maintain impartiality, making the audit a system-based and to enhance quality of audit function that ensures compliance with standards and professional conduct pronounced by the International Organization of Supreme Audit Institutions:

- Government Auditing Policy Standards,
- Operational Guide on Government Audit,
- Procurement Audit Guide,
- Administrative Expenses Audit Guide,
- Revenue Audit Guide,
- Performance Audit Guide,
- Project Accounts Audit Guide,
- DDC Audit Guidelines,
- Directives to the Auditors for the Audit of Public Enterprises,
- General Directives on Government Auditing,
- Directives of Auditor General of Nepal, and
- Other Directives and Circulars Relating to Audit.

In addition to the directives on audit and audit standards, following internal guidelines have been applied consistently in order to maintain uniformity in audit methodology:

- General Directives on Audit of Revenue and Deposits,
- General Directives on Audit of Foreign Assistance (Grant and Loan),
- Checklist relating to Accounting and Financial Management,
- Directives to Composite Audit Team,

- System of Monitoring and Reviewing Audit,
- Guidelines on Irregularities common on nature and Language to be Used,
- Guidelines on Segregating Irregularities to be expressed in terms of Amount and Thematic Issues.

1.7.2 International Standards of Supreme Audit Institutions (ISSAIs)

INTOSAI has issued a number of standards which are relevant to quality assurance in OAGN. They have been placed along with other standards in the framework of International Standards of Supreme Audit Institutions (ISSAIs). These are classified in the following table:

Table 1: Summary of International Standards of Supreme Audit Institutions

S.N.	Level	Name of Level	Range of Standards	Name of Standards or Guidelines
1.	1	Founding Principles	1-9	
2.	2	Prerequisites for the Functioning of SAIs	10-90	
3.	3	Fundamental Auditing Principles	100-900	
4.	4	Implementation Guidelines	1000-2999	Financial Audit Guidelines
			3000-3999	Performance Audit Guidelines
			4000-4999	Compliance Audit Guidelines
5.	4	Specific Guidelines	5000-5999	Guidelines on Specific Subjects
			5000-5099	Guidelines on Audit of International Institutions
			5100-5199	Guidelines on Environmental Audit

		5200-5299	Guidelines on Privatization
		5300-5399	Guidelines on IT-audit
		5400-5499	Guidelines on Audit of Public Debt
		5500-5599	Guidelines on Audit of Disaster-related Aid
		5600-5699	Guidelines on Peer Reviews
6.	INTOSAI GOV	9100-9199	Guidance on Internal Control Standards
		9200-9299	Guidance on Accounting Standards

1.7.3 ASOSAI Guidelines

ASOSAI has issued a number of guidelines which are relevant to quality assurance in OAGN. These are classified in the following table:

Table 2: Main guidelines issued by ASOSAI

S.N.	Guidelines	Issuing Institution
1	Guidelines on Audit Quality Management System (AQMS)	ASOSAI
2	Performance Audit Guidelines	ASOSAI
3	Quality Assurance Handbook in Financial Auditing, A Handbook, 2009	IDI-ASOSAI
4	IDI-ASOSAI Handbook on Quality Assurance in Performance Auditing	IDI-ASOSAI

1.8 Ethical values

ISSAI-40 Quality Control for the SAIs requires that the OAGN shall establish policies and procedures designed to provide it with reasonable assurance that the OAGN, including all personnel and all parties contracted to conduct work for the OAGN, complies with the relevant ethical requirements. OAGN will consider the following matters relating to ethical values in staff in QA function:

- The relevant ethical requirements will include matters set for the OAGN and its employees by provisions contained in the legal framework governing the operations of the OAGN;
- OAGN's ethical standards has incorporated the INTOSAI code of ethics (ISSAI 30) wherever appropriate and relevant to its mandate and circumstances;
- OAGN will ensure its policies and procedures are in place to reinforce the fundamental principles of professional ethics as defined in ISSAI 30 of:
 - ✓ Integrity;
 - ✓ Independence, objectivity and impartiality;
 - ✓ Professional secrecy; and
 - ✓ Competence.

1.8.1 Independence, objectivity and impartiality

The reviewer should be independent from the audited entity's and the audit team. This implies that reviewers should behave in a way that increases, or in no way diminishes, their independence. The following criteria should be considered in this regard:

- The review team member should not be a member of the audit team, and should not be selected by the audit team;
- A QA committee should be responsible for selection and appointment of the reviewers;
- It may be considered to appoint reviewers at the OAGN's central level;
- The reviewer should not otherwise participate in the audit during the period of review; and
- The reviewer should not make decisions for the audit team.

1.8.2 Integrity

- Integrity is the core value of a Code of Ethics. Reviewers have a duty to adhere to high standards of behaviour (e.g. honesty and openness) in the course of their work and in their relationships with the staff of audited entities. In order to sustain confidence, the conduct of reviewers should be above suspicion and reproach. Reviewers should not indulge in any corrupt practices.
- Reviewers should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing their independence and integrity.

1.8.3 Conflict of interest

Care should be taken that advice and consultation of the reviewer do not lead to a conflict of interest.

1.8.4 Professional secrecy

Reviewers should not disclose information obtained in the reviewing process to third parties, neither verbally nor in writing, except for the purposes of meeting the QAR objectives.

1.8.5 Competence

Reviewers have a duty to conduct themselves in a professional manner at all times, and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality. Reviewers must not undertake work they are not competent to perform. Reviewers should know and follow applicable auditing, accounting and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the OAGN.

1.9 Types of Quality Assurance Review

There are different types of Quality Assurance Reviews (QARs) which are described below:

1.9.1 Institutional level QAR

The objective of an institutional level QAR is to assess whether the OAGN has an adequate quality management system (QMS) in place, and the extent to which it is functioning effectively. An institutional level QMS is not specifically focused on any specific type of audit; rather, it affects all types of audits and services that an OAGN is expected to deliver as per its mandate. As such, an institutional level QAR can provide useful input for developing, or updating, the OAGN's strategic plan.

1.9.2 Individual audit level QAR

These are QARs done at the level of individual audit engagements. The primary objective of individual audit level QARs is to assess the extent of compliance by audit teams with the OAGN's approved audit methodology for the given type of audit. They may also help draw conclusions on the extent to which the OAGN's approved audit methodology is aligned with international good practice. Individual audit level QARs may be conducted before issue of the audit report (pre-issuance) or after (post audit).

1.9.3 Internal review

An internal review is a QAR carried out by **person/s within the OAGN**, with knowledge of the audit procedures, practices and standards. This could be conducted through different mechanisms, such as by an established QA unit or through a peer review mechanism involving different divisions, units, directorates or sections.

1.9.4 External review

In an **External Review**, a peer SAI or other agencies such as a private auditing firm, management consulting firm, or academic expert could be asked to undertake a review at either the institutional level or at the audit level, or both. These reviews should be performed by qualified persons who are independent of the OAGN and who do not have any real or apparent conflict of interest.

An external review is performed by an independent entity to evaluate whether OAGN's internal quality control system is suitably designed and is operating effectively. The external review involves testing of the entire quality control system, and the reviewers will have to allow the entire system to operate before reaching their conclusion.

The main purpose of an external review is to help the OAGN make sensible decisions about how to enhance their own operation and mission performance and to align with or consider other international best practices. The aim is to make or keep them fit for their purpose of ensuring public sector accountability by providing high quality relevant audit reports and other output, in order to help ensure better and more cost effective public service delivery by the OAGNs.

Objectives of an External Review

The objectives sought by carrying out a peer review should be defined and determined formally in written form before taking the decision to embark on a peer review. The objectives are of key importance for the contents and the procedures of the peer review.

In addition, in the course and at the end of the review exercise, it should be possible for Reviewer in a peer review to check if and to what extent the initial objectives set have been achieved even if new objectives have been added in the meantime.

The following objectives may be worthwhile:

- Enhancing or improving specific procedures
- Identifying weaknesses and training needs
- Reducing input (in specific fields)
- Improving audit impact
- Increasing the number of reports issued
- Improving or ensuring quality of work
- Certification of work
- Improving or ensuring the quality of management and organization
- Confirmation if the internal manuals are in line with the INTOSAI standards / other relevant standards and international best practices.

Selection of an External Reviewer

Even before contacting the potential external reviewer for the first time, the OAGN should duly consider if the external reviewer is the adequate partner for the external review proposed, i.e., if there is reasonable assurance that the potentially external reviewer can actually accomplish the objectives set.

For this reason it may be useful to examine well in advance if the external reviewer -

- Possesses sufficient quantitative and qualitative resources for conducting the external review proposed,
- Is successful and enjoys a high reputation,
- Has a similar organisational structure (at the time proposed for the external review, i.e. auditor general, court or board system),
- Is known for having a vast experience in the fields to be covered by the external review,
- Acts in a similar environment as the reviewed SAI.

Having a broadly based external review team undertake the review might be of particular benefit. In this way different experiences and perspectives can all be brought to bear in undertaking the external review. When OAGN has decided to review OAGN by another SAI, a sample Terms of Reference (TOR) for external QAR is included in **Appendix 1**.

Scope of an External Review

The scope of the peer review should cover the following:

- Whether the auditing services performed are in accordance with the OAGN's auditing standards, departmental manuals, and policy instructions;
- Whether the standards, manuals, instructions and systems enable the OAGN to fully execute the audit mandate and its duties; and
- Whether the auditing methodologies and practices conform to the best international practices.

Requirements for External Review

For the peer to be eligible to review, the following requirements need to be met:

- Each member of the peer review team should have good **knowledge** of auditing standards, the government environment relative to the work being reviewed, and the methods and techniques of performing a peer review;
- The review team should be **independent** of the audit organisation reviewed, its staff and the audits selected for peer review; and
- Separate **terms of reference** need to be drawn up for each of the areas to be reviewed, and the scope of review should be clearly defined.

Conducting External Review

The external review team will develop a plan and programme for conducting the work. OAGN will provide the review team with all necessary documentation, manuals, policy instructions, and guidelines. The external review should be based on the OAGN's audit documentation and interviews of the OAGN's staff members. The external reviewers will not interview staff of the organisations that the OAGN audits, or have access to their records. In addition, they will not interview or survey readers of the OAGN reports, including legislators.

The external review team will also rely on internal QAR and internal audit reports to reduce the scope of its work. The external review team will treat the inspection report and its findings as part of the evidence for reaching its opinion. The external review team leader will provide a briefing for OAGN top management before issuing the report. The briefing will allow for discussion and suggestions to improve the OAGN's QC system and procedures.

Suggestions on the potential contents and subject matters of peer reviews which are suggested on Peer Review Checklist Appendix to ISSAI 5600 is included in **Appendix 2**.

Reporting the results of the External Review

The review team should communicate the results of the peer review in writing. The report should indicate the scope of the review, including limitations. It should express an opinion on the OAGN's system of internal QC. When there are expressions of opinion on inadequacies of internal control, the review team should report a detailed description of the findings, recommendations and suggestions to improve the OAGN's QC system, either in the peer review report or in a separate letter of comment or management letter, to enable the reviewed organisation to take an appropriate action. The peer review should identify areas for improvement in the quality of the audit, including planning, evidence gathering, documentation, and reporting, as well as overall performance of the OAGN. The external reviewers will issue their report to the OAGN's top management. A senior management functionary of the OAGN should be made the point of contact for the peer review, and the contact person will be responsible for disseminating the findings of the peer review within the OAGN for appropriate action by the concerned groups and monitoring the progress of implementation of its recommendations. A periodic report will be placed before the top management of the OAGN to this effect.

Feedback from the audited entity and/or other external stakeholders

This provides inputs to identify the strengths and weaknesses of the OAGN's audit processes. In the case of pre-issuance reviews, discussion with the audited entities on the audit observations help in improving the quality of the audit report before it is finally issued.

1.9.5 Pre-issuance QAR

A pre-issuance review is a review conducted **before** the audit report has been issued to ensure that the audit complies with the audit methodology and practices and any other legal and regulatory requirements, and that the report is appropriate in the circumstances.

A pre-issuance review should not be confused with the supervision and review. Supervision and review are quality controls in the audit process, and part of the line function of the audit departments. Pre-issuance QAR on the other hand,, is conducted by someone not associated with the day-to-day management of the audit.

A pre-issuance review:

- Considers the significant risks identified and the responses to those risks;
- Considers judgments made with respect to materiality;

- Examines whether appropriate consultation has taken place on matters involving differences of opinion;
- Ensures that working papers selected for review reflect the work performed in relation to the significant judgments and supports the conclusions reached; and
- Considers the appropriateness of the report to be issued.

The review provides an independent and objective evaluation of significant judgments made on accounting, auditing and reporting matters, in order to be able to conclude that, based on all the relevant facts and circumstances known by the pre-issuance reviewer, no matters have come to his or her attention that would cause the reviewer to believe that the conclusions reached are not appropriate.

It should be noted that the pre-issuance review:

- Does not reduce the review responsibilities of the audit team; and
- Does not relieve the manager from the final responsibility for the issuance of the audit report.

The audit team may consult the pre-issuance reviewer during the audit. Such consultation should not compromise the pre-issuance reviewer's eligibility to perform the role. Where the nature and extent of the consultations becomes significant, however, care should be taken by both the audit team and the reviewer to maintain the reviewer's objectivity. In situations where this is seen not to be possible, another individual should be appointed to take on the role of the pre-issuance reviewer, or alternatively, another person should be consulted.

While pre-issuance QARs may be conducted on all audits, it is more common to undertake such QARs only for high risk and sensitive audits.

1.9.6 Post audit QAR

The post audit review is that the review is conducted **after** the audit reports have been issued by the OAGN. A qualified reviewer from the OAGN or outside of the OAGN may do this kind of review.

The primary distinction between a pre-issuance QA review and a post audit QA review is that the former is conducted **before** finalisations of audit reports, while the latter is conducted **after** the audit reports have been issued by OAGN. Another distinction that arises from the difference in timing between the two types of QARs is that post audit QARs can also review the follow-up phase of an audit, while that is not relevant in the case of pre-issuance QAR, since the question of follow-up of an audit obviously does not arise before the audit report has been issued. A further distinction is that pre-issuance

QARs are often conducted only for **high risk and sensitive audits**, while post audit QARs are usually conducted for a **representative** set of completed audits.

However, the nature of checks from the planning to reporting phases of an audit is the same for both pre-issuance and post issuance QARs.

A qualified reviewer from the OAGN or outside of the OAGN may conduct post-audit QARs, while pre-issuance QARs are generally conducted by staff of the OAGN not associated with the audit engagement.

1.10 Quality Assurance Review Process

The QAR process ensures that a comprehensive review is carried out in accordance with international standards. Generally, it involves the standard four phases i.e. planning, conducting, reporting, and follow-up.

1.10.1 Planning Phase

This is where the review team plans the review before it takes place. At the OAGN level QAR, the reviewer gathers information to understand the environment upon which the OAGN operates. On the other hand, at the financial audit (FA) or performance audit (PA) level, the review is intended to understand the FA or PA environment.

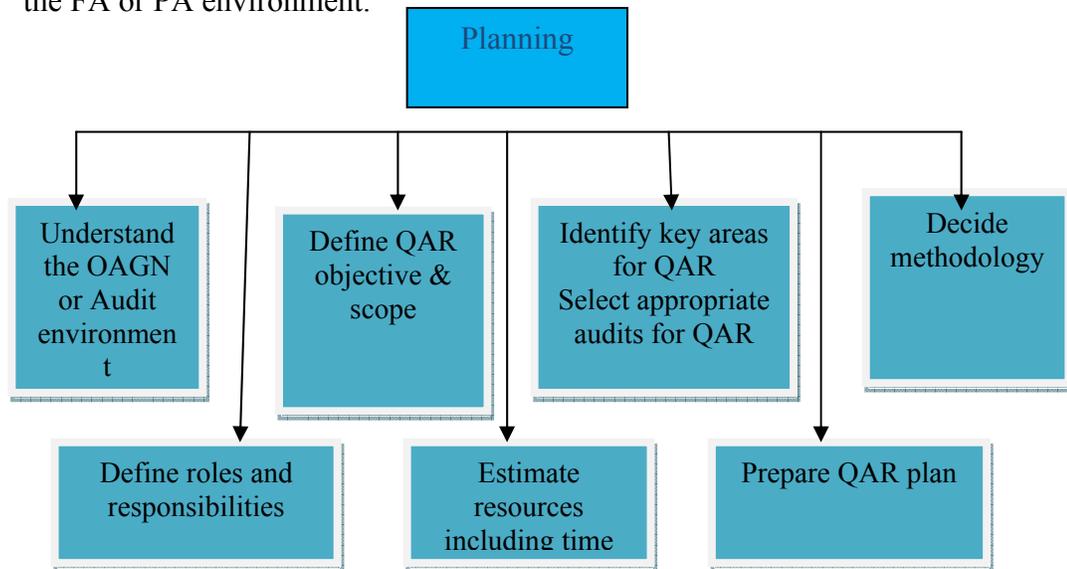


Figure 1: Planning of QAR

This initial step provides the reviewer inputs to be able to define the QAR objective and scope, identify the key areas for QAR at the OAGN level or select appropriate audits for QAR at the FA or PA level, decide methodology and define

roles and responsibilities of the QAR team, The other inputs include the terms of reference, budgets and background information. The output of this phase will be a plan for conducting the review. This can be a long-term plan in the case of an OAGN level review, and an annual plan in the case of a financial or performance audit level review. The expected deliverable from this phase is a QAR plan. Once the plan has been approved, it becomes the input to the second phase.

1.10.2 Conducting Phase

In the second phase, the review team conducts the review using the QAR plan to guide the gathering of evidence.

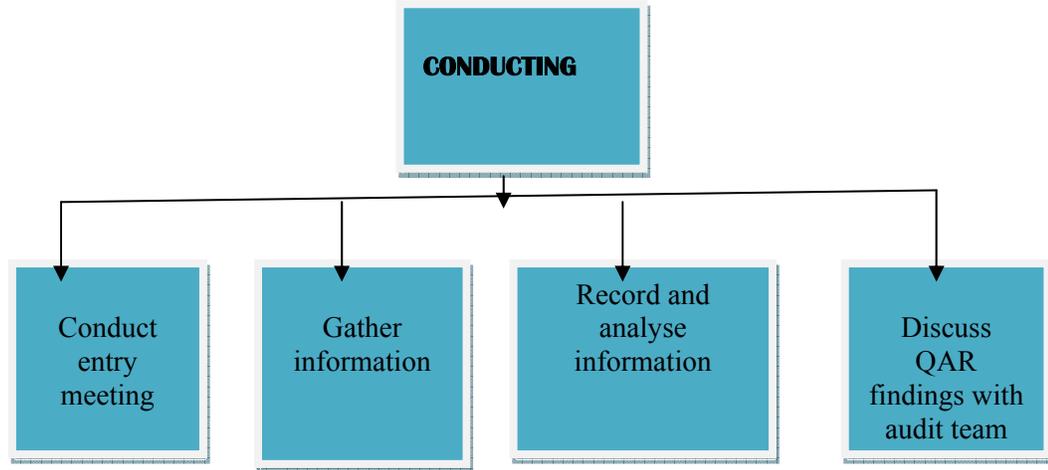


Figure 2: Conducting of QAR

A suggested first step in this phase is to conduct an entry meeting with the OAGN top management concerned (for OAGN level QARs) and the audit team that completed the audit (FA or PA level QAR), to explain the objectives and scope of the QAR to be done. The outputs of this phase are the draft findings and recommendations. This should be discussed with the senior management in the case of the OAGN level review, and with the audit teams and management for the individual audit level reviews to obtain feedback.

1.10.3 Reporting Phase

The third phase is where the review team uses the outputs (preliminary findings and recommendations) of the conducting phase as inputs to prepare a draft QAR report.

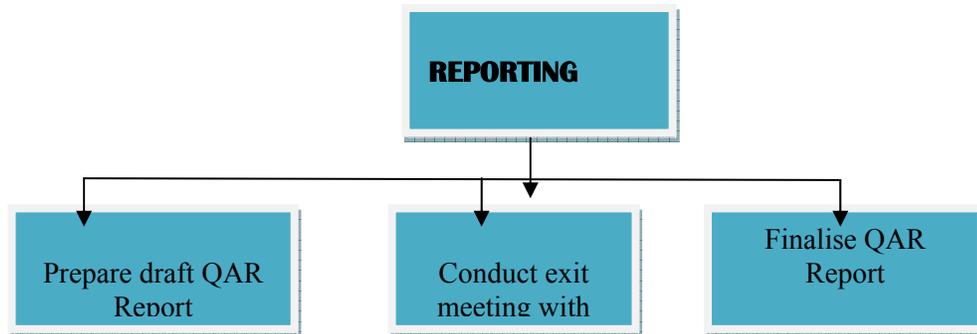


Figure 3: Reporting of QAR

The findings and observations are discussed with audit management in an exit meeting. After soliciting their comments, the QAR report is finalised.

1.10.4 Follow-up

The final phase is where the review team uses the action plan prepared by the audit line functions as inputs, and assesses the extent of implementation of the QAR recommendations and reasons for non-implementation, if any.

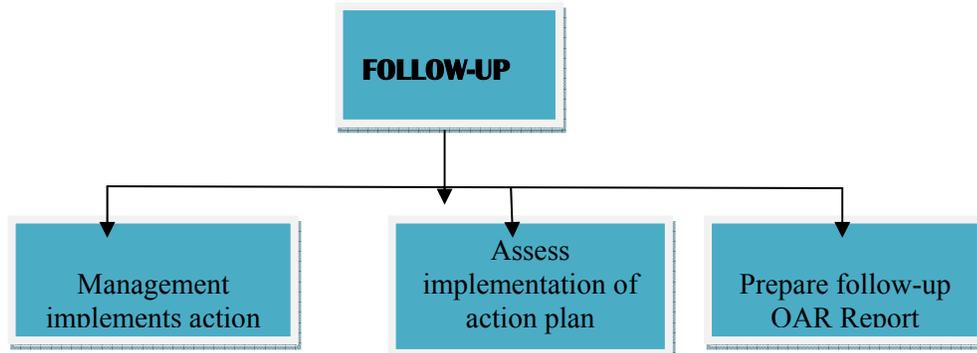


Figure 4: Follow up of QAR

Appropriate follow-up actions are necessary to ensure that the agreed action plan is implemented or adequate steps are being taken to implement it. The output of this stage is a follow-up QAR report.

1.11 Methodologies and Techniques for Conducting QA Review

Following methodologies and techniques can be used for conducting Quality Assurance Review:

1. **Interview** is seeking appropriate information from the audit team. In the context, quality assurance team could ask audit team for information, listen to and consider their responses, ask follow-up questions and corroborate information, as appropriate. Interview technique can be also used to collect the information from the audited entity.
2. **Observation** is looking at a process or procedure being performed by others. It provides evidence for that point in time and by them, which cannot be used to draw conclusions about matters that have occurred over a period of time.
3. **Documentation review** is reading records or documents either visually or electronically. Examples of records/documentation are correspondences, memorandum, minutes, reports, etc.
4. **Re-performance** is walking through or repeating operational steps. For example, to check the accuracy of efficiency measures, the auditor may replicate procedures used to measure efficiency. Replication can help the auditor confirm or deny the system or some part of it works as claimed.
5. **Confirmation** is a response, ordinarily in writing, to an enquiry, also ordinarily in writing, to corroborate information. It can be used to verify that an activity was carried out in the field.
6. **Analysis** visually or electronically identifies what is the same and what is different between two or more documents, tangible items or data. Analytical evidence should be derived by experts/people who are knowledgeable about the matters analysed and have the ability to make logical inferences and value judgements from the data collected. Different statistical tools can be used to analyze data or information.
7. **Focus group discussions** are a selection of individuals brought together to discuss specific issues on audit topics. They are primarily used to collect qualitative data and information. Focus groups techniques are used to obtain information on the implementation and impact of government programs based on the prospective of the beneficiaries and other stakeholders.
8. **Seminars and hearings** can be organized to obtain knowledge of specialist area, discuss problems, observations and find out possible solutions. The participants of seminars may be interested parties, stakeholders and experts.

- 9 Survey Questionnaire** is used to gather detailed and specific information from group of people or organizations. This technique is useful when one needs to quantify information from large number of individuals in audit topics. Questionnaires are mainly used to collect facts that are not available in any other way and that are important as a reference to substantiate a viewpoint.
- 10 Case study** is a method for learning about the complex issue, based on a comprehensive understanding of the particular instance. It involves an extensive descriptions and analysis of the particular issue.

Chapter 2

Quality Assurance Review Policy of OAGN

2.1. Background

The key objective of the quality assurance function is to assist the Office of the Auditor General to provide reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and functioning effectively. As described in **ISSAI 200, paragraph 1.25**, OAGN should adopt policies and procedures to review the efficiency and effectiveness of the OAGN's internal standards and procedures. Given the importance of ensuring a high standard of work by the OAGN, it should pay particular attention to the quality assurance function to improve audit performance and results, and also to meet professional requirements and standards (**ASOSAI Performance Auditing Guidelines**).

The ISSAI-200 INTOSAI Auditing Standards-General Standards, **paragraph 1.29 states that, "It is appropriate for SAIs to institute their own internal audit function with a wide charter to assist the OAGN in achieving effective management of its own operations, and sustain the quality of its performance."** Generally, some kind of a Quality Assurance function already exists in an OAGN. However, OAGN should continuously strive to raise the level of that existing function and to achieve international standards, and improving the existing QA function requires a systematic OAGN-wide approach. For that reason, it is required that the OAGN should have their QA policies, procedures and a system in place for their effective implementation. **The ISSAI-200 INTOSAI Auditing Standards-General Standards Paragraph 1.30 states that, "The quality of the work of the SAI can be enhanced by strengthening the internal review, and probably by independent appraisal of its work."** Improving the existing QA function requires a systematic OAGN-wide approach. For that reason, it is required that the OAGN should have its QA policies, procedures and a system in place for their effective implementation.

2.2 Introduction

The OAGN aims to continually improve the quality of its processes, products and services. Towards this end, the OAGN has decided to issue a quality assurance (QA) policy in order to comply with the relevant and applicable quality control standards, thereby improving the quality of engagements performed by the OAGN.

2.3. Purpose and Objectives

The purpose of the policy is to ensure that the Quality Assurance Review process is approved and implemented in line with the OAG/N's strategic imperatives / the Directives.

The QA function is responsible for coordinating and managing all activities intended to review and strengthen the quality management system of the OAGN. For this purpose it will develop and implement strategic and annual quality assurance plans for regular conduct of quality assurance reviews at both individual audit and OAGN level. It will submit proposals on the appropriate approach to be adopted for different quality assurance reviews. It will be responsible for monitoring ongoing quality assurance reviews, and follow-up of actions taken on quality assurance recommendations. It will also submit annual reports to the Auditor General on the various quality assurance reviews undertaken during the year and the significant actions that need to be taken to address gaps in the OAGN's quality management system.

2.4. Policies on Quality Assurance Review

OAGN has taken following policies on QAR to strength audit capability of office:

2.4.1 Generating awareness about the Needs for a QA

In order to set up a QA function successfully, OAGN has conducted an assessment of the needs of the QA function. The purpose of conducting the assessment exercise was to identify the gaps between the best practice and actual practice of the QA within the OAGN. The assessment also helped to determine the requirements of the quality assurance policy, detailed guidelines, tools, staff, budget as well as other infrastructure relating to the QA function.

The assessment exercise was conducted either by the internal staff of the OAGN at middle and higher management levels and also by another organization such as IDI-ASOSAI. While conducting an assessment the following aspects were considered:

- ✓ Qualifications of the team members;
- ✓ Positioning of the team members with respect to management's influence;
- ✓ Consideration of the future involvement of the team members in QA activities;
- ✓ Terms and reference aspects such as duties, responsibilities, time frame, etc.

The assessment tools were QA surveys, questionnaires, interviews, focus group discussions and reviews of documents, including documents of OAGN. While assessing the needs of the QA function, the following factors were considered:

- ✓ Size of the OAGN;
- ✓ Current QA practices in OAGN with more experience in this subject;
- ✓ INTOSAI and ASOSAI guidelines on audit quality management;
- ✓ Rules and regulation regarding the requirement of a QA function;
- ✓ Nature and average annual number of audits undertaken by the OAGN;
- ✓ Status of quality controls in the OAGN;
- ✓ Number and level of qualifications of OAGN staff; and
- ✓ Media/stakeholder interests.

The OAGN top management should ensure appropriate actions to implement the findings of the assessment.

2.4.2 Creating Awareness among Staff on QA

Quality Assurance is the process established by an OAGN to ensure that:

- a) Needed quality controls are in place;
- b) Quality controls are being properly implemented; and
- c) Potential ways of strengthening or otherwise improving quality controls are identified.

Quality assurance is, therefore, a constant process to improve the quality control system and ensure compliance with the quality controls. This, in turn, should increase the quality of the OAGN's processes, products and services, with consequent positive impact on the OAGN's credibility. Although it may be possible to produce isolated audits of high quality without a proper system of quality assurance, it is not possible to do it continually for all the audit products issued by the OAGN unless there is widespread awareness among and acceptance by, the OAGN staff of the importance of quality. Ultimately, it is the OAGN's employees who are the key driver of its performance. Therefore, staff awareness of quality requirements and the OAGN's QA policy is of critical importance.

Quality assurance is the responsibility of all the staff at the OAGN, right up to the AG. Quality assurance also requires a clear understanding of where the responsibility lies for particular decisions. Thus, the OAGN's general quality assurance policies and procedures should be clearly communicated to its personnel in a manner that provides reasonable assurance that the policies are well understood and implemented. The responsible unit of the OAGN together with the top management should prioritise the generation of awareness at all levels of staff on QA matters. Staff awareness can be created through staff meetings, discussion forums, office circulars, newsletters, essay-poster

competitions, etc. Above all, the OAGN top management must, through its actions and communications, repeatedly spread the message about the importance of quality.

2.4.3 Develop and Adapt the QA Handbook

After adopting a QA policy and creating awareness on it, there will be a need for the OAGN to compile a more detailed handbook or guidelines that specify how to conduct QA in practice. The handbook should form the basis of standard operating procedures (SOP) of the QA function. For the easy implementation of the handbook, it should incorporate related toolkits as well as required checklists that are developed based on INTOSAI Auditing Standards, ASOSAI AQMS Guidelines, ASOSAI Performance Auditing Guidelines and other relevant guidelines.

2.4.4 Establishing a QA Function

The ISSAI -200 INTOSAI Auditing Standards paragraph 1.29 states **“It is appropriate for SAIs to institute their own internal audit function with a wide charter to assist the SAI in achieving effective management of its own operations, and sustain the quality of its performance.”** OAGN has formed QA Committee and established separate QA Unit under the QA Committee. OAGN has allocated required staffs to QA unit. Trained QAR team members are also assigned to QAR duties. OAGN can also arrange QA reviews by other SAIs, other professional bodies; and can hire external experts to periodically assess the OAGN’s quality control systems.

OAGN may acquire expertise from qualified specialists, consultants and technical experts, professional associations and other organisations as needed to conduct QA reviews. The experts may give technical advice to the OAGN. The OAGN should ensure that the specialists and experts are qualified and have competence in their areas of specialisation, and should document such assurance.

2.4.5 Continuous Professional Staff Development

The OAGN must ensure that their entire audit staffs are aware of the function and importance of QA as soon as the QA policy and QA handbook have been finalised, so that the concepts and new practices are well understood and accepted. OAGN should invest considerable resources in providing effective training for the staff. Workshops, seminars, talk programmes, focus group discussions, and panel discussions, should be organised regularly to upgrade the competence of QA staff in the following aspects:

- Importance of QA;
- Quality control system in audit;
- QA standards, procedures and best practices;
- Roles and responsibilities of QA staff;

- Roles and responsibilities of auditing and support staff vis-à-vis the QA function;
- Ethical requirements; and
- Soft skills relating to presentation, negotiation, group leading, etc.

OAGN may also consider secondment of QA staff to, and from other SAIs with proven strong QA practices and traditions.

While managing the QA function in the OAGN, the management should also consider availability of appropriate working environment of the QA staff. Following training are conducted to develop professional skills of staffs:

- In-house training courses based on individual needs, as well as OAGN core curriculum, including performance audit methodologies.
- In-house seminars and workshops covering a wide variety of topics focusing on developing a well-rounded workforce.
- On-the-job training by arranging for new entrants to work under the guidance of experienced staff.
- Improving and standardising courseware to maintain training quality; if necessary, outsource development of courseware.
- Encouraging audit personnel to become members of various professional bodies relevant to their work for continuing professional education, and to participate in the activities of professional bodies through suitable incentives given by the OAGN.
- Encouraging audit employees to enrol in academic institutions to obtain relevant professional certifications.
- OAGN may assist in developing a certificate course in public sector auditing in collaboration with a university or any other reputed academic institution. The certificate should be designed to provide a structured development programme for performance and financial auditors.
- Providing audit employees with the opportunity to have work experience in other public or private agencies, including other SAIs to gain insights into the operations of other peers.
- In addition to the secondments of OAGN staff to other agencies, OAGN may accept staff on secondment from other agencies and other SAIs, who can share their knowledge and experiences with the OAGN staff.

- Providing opportunities to participate in training courses, seminars and workshops held by international or regional institutions, universities and other SAIs, e.g. training courses provided by ASOSAI and the IDI.
- Equipping personnel to audit effectively in new areas such as privatisation, revenue audit, sustainable development, environment auditing, forensic auditing, and IT auditing.
- To assist newly employed staff to assimilate into the new work environment, the OAGN should develop and implement an induction programme or orientation programme, giving an overview of OAGN vision, mission, core values, audit methodologies and techniques, policies, procedures and practices and general information relating to OAGN operating environment.
- Audit of financial statements requires training in accounting, knowledge of legislation and executive orders affecting the accountability of audited entity. Performance audit requires training in public administration, management, economics and social sciences.
- As a part of knowledge dissemination, audit reports from different SAIs may be reviewed and discussed in presentation sessions participated by staff at all levels.
- The OAGN personnel should be encouraged to prepare individual development plans, in consultation with a designated performance manager. The approved plan should be an action-oriented plan that should focus on a few specific competencies to address individual development needs.
- Continuing professional education should be established at each level of OAGN, which should be monitored and appropriate documentation maintained. Professional development programmes should be reviewed periodically.

2.5 Institutional Arrangements

2.5.1 Formation of Quality Assurance Committee

AG formed Quality Assurance committee comprising following members:

- Deputy Auditor General – Co-ordinator
- Assistant Auditor General, Human Resource Development and International Division- Member
- One Assistant Auditor General- Member
- One Director- Member
- Director, QA Directorate – Member Secretary

The Director of Assurance Directorate also will be the Team Manager of the QA function of OAGN. QA committee may invite other expert or professional persons as invitee. This committee will be responsible for carry out overall QA function of OAGN and responsible to Auditor General. Other Responsibilities of the Quality Assurance Committees are as follows:

- Prepare annual QA Operation plan for Institutional level as well as Individual Audit Level including follow up review;
- Select appropriate audit files using the criteria mentioned in the handbook;
- Recommend the name of staff to the Auditor General to constitute the review teams. Every year Auditor General constitutes necessary numbers of review teams. The review teams may be constituted deputing the members of the QA committee and other trained staff from different Directorates of the Office of the Auditor General. The reviewer should not be the same person who is involved as audit team member on the same assignment. Such review team are constituted for the post quality assurance review;
- Approve the customized questionnaire/checklist for the review;
- Supervise and monitor the review assignments;
- Conduct training to the personnel of the OAGN and create appropriate awareness program in the Office;
- Develop courseware for training;
- Determine the policy, procedure and areas for pre- issuance review;
- Monitor and provide suggestion for pre- issuance review.
- Amend QA policy, whenever necessary, and communicate the same to the relevant audit division; and
- Liaise with the HRD and IR Division.

2.5.2. Quality Assurance Directorate

OAGN will establish a separate Quality Assurance Directorate, which works under QA committee. QA Directorate will report with QA committee. The size of the Directorate will depend on the decision of AG and size of audit coverage of OAGN and also the stage of its technical development. The Director of QA Directorate will be the Team Manager of QA function of OAGN and necessary team leader, team member and supporting staffs are provided to assist him or her. OAGN will use only auditors who have demonstrated a good understanding of the OAGN's audit procedures. However, the OAGN should not put too many resources to QA so that it will compromise the timely

completion of the actual audits. There could be exceptional cases which might demand that the OAGN increases its number of reviewers in case of OAGN is in the process of rolling out new audit procedures and systems, there are new standards to comply with; and/or there are new audit areas to review.

The increase in the number of QA reviewers should ensure that implementation problems during the audit process are quickly identified and rectified. The prevalence of deficiencies does not necessarily signal the need to increase the number of reviewers. It might mean that the audit manual and other guidance need revision, or that there is need for staff to be trained on certain areas.

2.6 Roles and Responsibilities

2.6.1 Team Manager

The team manager, as the head of the QA unit, will report to QA committee or AG, and will be responsible for overall aspects of the QA function. He or she will also formulate strategies to undertake the QA function and measure outcomes of the QA function.

The team manager will be responsible for the overall performance of the unit. This will involve setting out the strategic direction and ensuring that it has appropriate capacity to fulfil the demands set. The performance will also be assessed on a pre-determined basis, and information systems will be put in place to provide efficient reporting on performance. Key discussions and negotiations with, in particular, senior personnel to resolve disputes and disagreements will be required, and ongoing monitoring of staff performance will be expected. Key responsibilities of team manager will includes:

- Approving and implementing any strategic planning and operational planning documentation in line with current OAGN management practices.
- Delivering the following reports:
 - OAGN level report on an agreed periodic basis;
 - Report on progress with institution level recommendations on an annual basis; and
 - Summarizing the key findings on the individual level reviews and preparing annual report.
- Updating policies and procedures relating to quality assurance as they are required;
- Preparing and presenting a budget in line with OAGN practices;
- Ensuring adequate management of human resources, including identifying recruitment needs, training requirements and other areas of development of staff;

- Liaison with senior management as and when required for among others, dispute resolution;
- Commenting on advice, guidance and documents issued within the OAGN from a quality assurance perspective;
- Tracking the progress of the review;
- Considering the capabilities and competence of individual members of the team, whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the review;
- Addressing significant matters arising during the review, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced staff during the review.

2.6.2 Team Leader

The team leader for the QA review will report to the Team Manager, and should assume the overall responsibilities of the QA review. Team Leader will establish review objectives, scope, time and targets and formulate the review methodology. He or she will delegate the responsibilities to team members, and design the review program. The team leader will provide advice and necessary guidance to the team members about the plan, objectives and on actually conducting the review. He or she will also monitor and assure the QAR process is in accordance with QA standards, policies and procedures. He or she will analyze the findings and articulate the conclusions and recommendations and the write or review the audit working papers and reports and discuss and present the findings to OAGN management. He or she will also follow up on any outstanding issues.

The team leader is responsible for the day-to-day activities of the QA function involving: preparing planning, progress or final reports for the Team Manager. The team leader also should undertake function of Team Leader in his/her absence. The management and the development of the reviewers is a fundamental part of the leader's role, and they need to ensure they support reviewers when dealing with the audit teams during various interactions. Key responsibilities of team leader may include:

- Preparing strategic planning and operational planning documentation in line with current OAGN management practices;
- Preparing the following reports:

- OAGN level reports on an agreed periodic basis;
- Report on progress with institution level recommendations on an annual basis; and
- Summarizing the key findings on the individual level reviews.
- Commenting on policies and procedures relating to quality assurance as they are required;
- Providing inputs into the budget submission;
- Identifying resource requirements and training needs for the review team;
- Maintaining relevant management information to be used for reporting purposes;
- Coordinating arrangement for the reviewer's visits and liaising with the audit teams accordingly;
- Commenting on advice and guidance and documents issued within the OAGN from a quality assurance perspective;
- Managing the reviewers in terms of planning and controlling;
- Undertaking reviews of the work completed by the reviewers to ensure that:
 - Sufficient evidence has been gathered to support the findings;
 - work is carried out in line with prescribed methodology of quality assurance function;
 - Findings and recommendations are appropriately based on sound analysis and evidence;
 - Assessment of the significance of the findings is appropriate;
 - Judgment are reasonable and appropriately documented;
 - Time management of reviewers is in line with budget, or other measures; and
 - Reviewer conduct is professional and all feedback from the audit team is noted and/or followed up.
- Leading discussions with the audit teams' management to discuss review findings and recommendations;
- Monitoring progress from management information on a regular basis and identifying any corrective steps required to be taken;

- The work has been performed in accordance with professional standards and regulatory and legal requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of review work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the reviews report; and
- The objectives of the review procedures have been achieved.

2.6.3 Team Members

Team members for the QA review will be responsible to the team leader, and will conduct the review based on the plan agreed upon in the planning stage and according to standards and procedures. They will gather evidence to support findings through interviews, documentation reviews, and observations. They will also prepare and document necessary working papers to support their findings. Finally, they will prepare a draft report on the findings.

The Team Member will be responsible for assessing whether the overall quality of the audits is in line with the audit methodology and standards. This will be undertaken through selected reviews over a number of audits and audit teams. The reviewer will be responsible for assessing audit files and other documentation. Based on the above, the reviewer will often be expected to justify findings in discussion with more senior managerial level personnel. The reviewer will also be required to assist management as and when they require it. This can include: assistance with information gathering, maintenance of information systems, and providing assistance with logistical arrangements such as meetings. Key roles and responsibilities of team members may include:

- Obtaining information for supporting management in arranging OAGN level and individual level reviews;
- Making arrangements for ensuring the availability of information and personnel to ensure that the operational planning requirements are met;

- Maintaining any information systems / records required for reporting on the QA function;
- Undertaking preparation for reviews including keeping up to date with auditing developments within the profession, as well as practice developments within the OAGN. Ensuring that other changes within the OAGN policies and procedures are identified and considered for the SAI level review / monitoring reports;
- Undertaking reviews in line with prescribed QA function methodology in a professional manner;
- Documenting findings and providing sufficient and appropriate review evidence for discussion with the audit team and for the review of the team leader;
- Contributing to discussions with the audit team on the findings identified;
- Evaluating the findings from the review, including consideration of causes of findings and relevant recommendations; and
- Attempting to resolve any dispute with the audit team wherever possible, before involving the team leader.

2.7 Skills and Competencies of QA Staffs

The QA staffs should collectively possess the competencies, Analytical skills, Ability to synthesis, Interpersonal skills, Communication skills, Facilitation skills, Audit experience in all areas and Managerial abilities. QA reviewers should be dedicated to the QA function. The reviewers should be auditors who have demonstrated a good understanding of the OAGN's audit procedures. Possession of the above mentioned skills will enable the team members to use all the review practices effectively. It should also add value if the team is multidisciplinary, consisting of practitioners who have audit (regularity, performance, IT, etc.) and management experience. Understandably, it can be a significant challenge to identify and establish such a team, and in many cases all the requisite skills and experience may not be available in the QA team. In such cases, the possibility of using experts for limited purposes should be considered.

2.7.1 Team Manager

a. Soft skill competencies

- Strong facilitation skills to guide the team on issues arising requiring changes to the QA methodology;

- Communication, negotiation and interpersonal skills to motivate staff and undertake dispute resolution; and
- High level of integrity to not be affected by the influences such as seniority and personnel relationships.

b. Experience and Qualifications

- Understanding the OAGN (SAI) environment at an operational and management level, with at least five years working knowledge;
- Management experience in line with any OAGN policies for a similar level of seniority; and
- At least three years auditing and/or review experience

2.7.2 Team Leader

a. Soft skill competencies

- Strong facilitation skills to guide the team on reporting on common issues consistently, leading brainstorming and other sessions to assist in enhancing the QA methodology;
- Articulated Communication, negotiation and interpersonal skills to motivate staff and undertake dispute resolution; and
- High level of integrity not to be affected by various influences such as seniority and personnel relationships.

b. Experience and qualifications

- Understanding the OAGN (SAI) environment at an operational and management level;
- At least three years working knowledge;
- Management experience in line with any OAGN policies for a similar level of seniority;
- A formal auditing qualification;
- At least three years auditing and/or review experience; and
- Project management experience and training is desirable.

2.7.3 Team Member

a. Skill and competencies

- Strong facilitation skills to guide the team on reporting on common issues consistently; leading brainstorming and other sessions to assist in enhancing the QA methodology;
- Articulated communication, negotiation and interpersonal skills to motivate staff and undertake dispute resolution; ability to analyze information and present the findings in a user friendly manner;
- Strong application of professional skepticism to assess responses provided by the audit or management to initial findings; and
- High level of integrity to not be affected by the influences such as seniority and personnel relationships.

b. Experience and qualifications

- Understanding the OAGN (SAI) environment at an operational level;
- At least three years working knowledge;
- A formal accounting / auditing qualification; and
- Project management experience and training is desirable.

2.8 Applicable standards for QAR

Following standards, guidelines, manuals may be used to QAR:

- International Standards on Quality Control (ISQC) and International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC).
- International Standards of Supreme Audit Institution (ISSAI) issued by International Organization of Supreme Audit Institution (INTOSAI)
- Handbook on Quality Assurance in Financial Auditing issued by INTOSAI Development Initiative (IDI) and Asian Organization of Supreme Audit Institution (ASOSAI).
- Handbook on Quality Assurance in Performance Auditing issued by INTOSAI Development Initiative (IDI) and Asian Organization of Supreme Audit Institution (ASOSAI).
- Quality Assurance Hand Book issued by Office of the Auditor General Nepal

- Policy Standards, Operational and sector-wise Guidelines, Manuals, and circulars issued by Office of the Auditor General, Nepal.

2.9 Managing the QAR Function

2.9.1 Planning the QAR

The planning process involves the preparation of an operational plan and selection of the type of review to be conducted according to the conditions present at the OAGN.

• Annual Operational plan

The OAGN's QA function should prepare an annual operational plan, which should be approved by the QA committee. While the Operational Plan may cater for QARs at both the OAGN and individual audit levels, the review at the OAGN level is comprehensive in scope, addressing all areas within the OAGN that affect its audit performance, while the individual audit level reviews will be for selected audits only.

Elements of a Annual operational plan

The Operational Plan for QA may contain, among others, the following components:

a. Types of review to be conducted during the year

The reviews may include both the OAGN Level Review and the Individual Audit Level Reviews. The plan should also indicate the nature of the reviews – i.e., internal or external, pre-issuance or post issuance.

b. Scope and approach of the reviews

The scope of the reviews may vary according to the type of review to be conducted (pre-issuance or post audit, internal or external). In some cases, the QA review may be restricted to only one stage of the audit (e.g., planning stage), while in others, all stages of the audit may be included in the scope of the review. In the case of OAGN-level review, the scope may be restricted to selected domains of the OAGN's quality management framework or may include all domains. Ideally, the operational plan should also provide for follow-up QA reviews to assess the extent to which action was taken on previous QAR recommendations.

c. Timing of the reviews

Generally, the individual audit level review should be conducted every year depending upon the availability of resources. However, the OAGN level review needs a longer timeframe, and ideally, after conducting such a review for the first time, it can be conducted at the beginning of each strategic planning cycle of the OAGN.

d. Budget for the reviews

The QA function needs to have sufficient resources to conduct the reviews; therefore, a separate budget for the reviews may be included in the operational plan for approval and subsequent incorporation in the OAGN's overall budget.

e. Team Composition

Ideally, a team leader should be nominated for each review and the review team should consist of staff with suitable qualifications and experience to conduct these reviews, depending on the type of review. If possible, the names of the team members for each review, or at least that of the team leaders, should be mentioned in the plan.

f. Special considerations, if any

Special considerations if any, such as engagement of external reviewers or experts for certain reviews, or reasons for significant increase/decrease in the number of reviews as compared to earlier years, should be separately stated in the plan.

• Scope

The scope of quality assurance reviews (QARs) can extend to all the activities being carried out by the OAGN.

OAGN level QAR: The QAR at the OAG level is a comprehensive review that deals with various aspects of the OAGN, such as audit methodology & standards, human resource development, stakeholder relations, etc. Conducting QAR's at the OAGN level is discussed in detail in Chapter 3 of this Handbook.

Financial audit level QAR: Conducting a QAR at the individual audit level is discussed in detail in chapter 4 of this Handbook.

Performance audit level QAR: The performance audit level review needs to be carried out on a selection of individual performance audits to ascertain whether the OAGN's instructions—as codified in the standards and guidance manuals, policies and procedures were applied by the audit team/unit while carrying out individual audits. Conducting a QAR at the performance audit level is discussed in detail in Chapter 5 of this Handbook.

2.9.2 Conducting the QAR

Conducting the QARs should be based on the approved QAR plans. The plans should be supported by appropriate checklists to ensure comprehensiveness and consistency of checks. The checklists for the OAGN level and individual audit level QARs and the methods for gathering and analysing evidence are documented later in this handbook. However, they may have to be customised to suit the needs of each audit assignments. The primary purpose of the conducting stage is to collect reliable, relevant and sufficient evidence to support all QAR observations and recommendations.

2.9.3 Reporting the QAR findings

ASOSAI Performance Audit Guidelines, paragraph 8.20 states that "the result of the independent peer reviews of activities undertaken within the SAI to assess the overall quality of the work performed should be reported to the SAI management at least annually". The ultimate purpose of conducting regular quality assurance reviews even at individual audit levels is to help strengthen the overall quality management system (QMS) of an OAGN. As such, it is important that the QA unit of the OAGN submits annual QA reports to the QAC and QAC submits to AG, in addition to the usual reports based on individual QARs. Unlike individual QAR reports, the annual QA reports should summarise the variety of QARs completed during the year, as well as the significant findings from those QARs in a way that will help the OAGN top management to take appropriate decisions on the actions necessary to further strengthen the overall QMS of the OAGN. Paragraph 8.23 of the ASOSAI Performance Audit Guidelines provides some guidance in this regard:

“The report on the quality assurance review program should summarise the results of all the reviews including the tasks selected (number and type), the findings and any recommendations. The report should not focus on individual audits but be a summary of those findings identified during the review programme.”

In view of the above considerations, it could be helpful to the OAGN’s top management if two types of annual QA reports are submitted to them. One could be a statistical report stating the various types of audits reviewed and the different types of QARs conducted, while the other report could be a summary of the significant QAR findings across audits and their relationship to the overall Quality Management System of the OAGN.

As in the case of audit work, all QA findings and observations must be supported by sufficient, relevant and reliable evidence. Working papers of the QAR team should be documented methodically to enable easy referencing. The draft findings and recommendations should be discussed with management of the OAGN before including them in the final report. The report should include a summary of observations and recommendations on how to improve.

The primary objective of the review will be to formulate recommendations that address the cause of any shortcoming in quality to ensure that appropriate corrective actions are taken. The objective will be achieved through the process of reporting and following up QA review findings and recommendations. The findings of the review should be formally tabulated and communicated by means of a report in a prescribed format. The following factors should be considered in concluding the review:

- At the end of the review, the reviewers should prepare an overall summary report for the Assistant Auditor General responsible for the audit;

- The reviewer's report on individual engagements should be discussed with the relevant AAG and Audit Director prior to finalisation;
- Upon completion of the review, every team should submit a report to the QA unit;
- Summarised results and the follow-up recommendations for improvement should be prepared and presented to the Auditor General:

The report should also contain:

- Details of timing of the review and the names of review team members; and
- A description of the scope of the review (general approach, extent of coverage of the general quality control aspects and the description of individual audit engagement).

The reviewer should highlight other pertinent issues that may be of interest to all other Audit Divisions.

2.9.4 Follow-up the QAR reporting

The reports of the QARs will not gain impetus if appropriate follow-up actions are not undertaken. Follow-up reviews may be undertaken either by the Quality Assurance Units or other QA committees. On the other hand, such a responsibility can also be passed on to the QA review team. Based on the QAR report, the line functions should prepare and implement the Action Plans. The Action Plans will facilitate undertaking proper follow-up of the QAR report.

Requirement of QA follow-up

Audit teams and the departments reviewed should compile action plans on how they are going to correct the shortcomings stated in the QA review reports.

These action plans should indicate what, who, where, when and how these are going to be corrected.

The action plans should be prepared in consultation with the QA unit, and approved by the Auditor General or a management member with the required delegation.

The audit teams and different Directorates should report back on their progress with the implementation of the corrective actions.

The QA unit should perform tests to confirm the effectiveness of the corrective actions.

The OAG should also use the results of the QA reviews to determine the training needs of its staff in general, and compile a training programme to address these issues.

Some consideration for QA follow-up

Soon after receiving the quality assurance review (QAR) reports, the concerned audit department/division in the OAGN should prepare Action Plan/s to implement the recommendations provided in the QAR reports.

• QA Follow-up Action Plan

All deficiencies and recommendations pointed out in the QAR report should be communicated to the respective officials or units for taking appropriate measures and remedial actions. Thereafter, the OAGN should organise a brainstorming session involving people from all levels of the management. The session could focus on, at least, the following areas:

- a) Those needing improvement/recommendations;
- b) Areas covered that the OAGN considers to be its priorities;
- c) Proposed action/s;
- d) Responsible official/unit/division/department required to implement the action; and/or
- e) Deadline for the implementation of the actions and/or recommendations adopted.

Since there could be shortcomings and recommendations related to the policy decisions or requiring amendment to the existing policies or introduction of new policies, it would be appropriate for the AG or an appropriate representative of senior management to chair the session. The final Action Plan should be signed by the AG or the competent delegated authority. Although Action Plans are normally prepared after receiving the QAR reports, they can also be prepared during the Exit Meetings of the Quality Assurance Reviews, and incorporated in the final QAR Reports.

Depending on the level of the QAR, the recommendations or the areas needing improvements must be prioritised for their effective implementation. Although the QAR team may rate the risk of each of their findings and observations as High, Medium and Low, the OAGN management should again go through the same process of prioritising the same findings and observations. However, besides prioritising as High, Medium and Low, it must also see whether they are applicable given the circumstances under which the OAGN is operating. In addition, the criteria for prioritising/rating is also different and is normally decided during the brainstorming session. The following are some of the commonly used criteria:

- a) The expected impact on the OAGN and the individual audit that will include both the positive impact from implementing the recommendation, and negative impact from not implementing the recommendation or not taking action/s;
- b) Seriousness of the deficiency;
- c) The applicability in relation to the OAGN mandate, overall government policy and the country's development stage; e.g. one cannot expect the OAGN to use the latest auditing software when there is hardly any IT development in the country itself; and
- d) Availability of resources, such as time and money.

Based on the above criteria, including other criteria identified during the brainstorming session, the recommendations or areas needing further improvements can be rated as High, Medium or Low

• QA Follow-up action

Based on the Action Plan, the follow-up can be undertaken to see whether the actions have been taken by the concerned person, units, divisions or departments within the given timeframe. Wherever possible, the follow-up team should also comment on the impact of the actions on the OAGN or an individual audit. The team should also look for reasons for not taking the actions, and suggest alternative options wherever possible. It could be possible that although the OAGN may have the will and desire to implement the actions but due to certain constraining factors such as time, resource etc. the actions remain unimplemented.

The follow-up action report should be submitted to the AG for taking further action/s. The further actions may include, but are not restricted to, the following:

- a) Seeking explanation against those who have not taken any action/done anything to implement the proposed actions;
- b) Cautioning those who are lagging behind the scheduled deadlines;
- c) Looking into the alternative options and making relevant persons/s or units study the options for their applicability and practicality; and
- d) Re-prioritising and dropping certain proposed plans of action that cannot be implemented at all.

The follow-up on QARs can also be conducted by the internal Quality Assurance Unit on a continuous basis by monitoring their implementation against the scheduled deadlines. Therefore, it is important to involve people from the internal Quality Assurance Unit during any Quality Assurance Reviews.

The results of QA follow-up can be utilised as input for the next QA planning process.

A good action plan has the following elements:

- Description of the specific detailed actions, described in clear concrete terms, that management intends to take with respect to each QAR recommendation;
- Deadlines for implementation of those actions; and
- Assignment of responsibility for implementation of the action plan.

QA Follow-up actions by QA Directorate

Follow-up can be undertaken by the QA unit to see whether the actions have been implemented within the given timeframe. The QA unit considers:

- If the proposed actions have been implemented; and
- If the actions taken correct the underlying deficiency that led to the original finding or observation.

If actions have not been implemented as planned, the QA function looks for reasons therein and suggests alternative options wherever possible. It may be possible that although the OAGN has the will and desire to implement the actions, constraining factors such as time, resources etc limit the OAGN's ability to implement the action plan.

The follow-up action report should be submitted to the AG or the relevant delegated authority for taking further actions. The further actions may include, but not restricted to, the following:

- a) Seeking additional explanations from those responsible for implementing the actions;
- b) Cautioning those who are lagging behind the scheduled deadlines;
- c) Looking into the alternative options and making relevant persons or units to study the options for their applicability and practicality; or
- d) Re-prioritising and dropping certain proposed plans of action, which are not be implementable.

2.9.5 Measuring Outcomes/Impacts of the QAR

Every function within the OAGN is accountable to deliver the desired results in order to demonstrate its value to the OAGN. This applies equally to the QA function. While the outputs of a QA function may be several QA reports, the outcomes –

1. Provide an assurance to the Auditor General that
 - The system of quality control is working effectively; and
 - The audit reports issued are appropriate under the circumstances.
2. Indicate the improvements in various OAGN work processes and greater effectiveness of audit reports and services as a result of implementing recommendations in QAR reports.

OAGN top management may select capable personnel or an external body such as a private professional entity to measure and evaluate the effectiveness of the QA function based on the improvement implemented as a result of the reviewing function. While evaluating the impact of the QA function on the OAGN as a whole, consideration may also be given to Public Expenditure and Financial Accountability's public financial management performance measurement indicators relating to external audit, particularly indicators Performance Indicator 26 "Scope, nature and follow-up of external audit", and PI-28 "Legislative scrutiny of external audit reports".

To measure outcomes of the QA function, the following are some of the performance indicators that an SAI may consider:

- The quality controls are designed, implemented and working effectively;
- The SAI's methodology is aligned to the international standards on auditing;
- Areas for improvement in technical knowledge and skills are identified;
- Improved job performance;
- Cost savings in performing audit functions;
- The audit reports are submitted on time;
- Key stakeholders, including audited entities, are satisfied with the OAGN's audit reports, and other products and services;
- Increased implementation of audit recommendations by the audited entities

2.9.6 Working Environment

While managing the QA function in the OAGN, management should also consider the appropriateness of the working environment of the QA staff. Availability of the infrastructure and resources required for comfortable working and well-being of the QA staff can contribute to their motivation and, consequently, the quality of their work.

2.10 Criteria for selecting audit files for QAR

Office of the Auditor General may consider the following criteria to select audit for QAR:

- The audit has been classified as high risk;
- Parliamentary or media interest in audited entities or audit;
- The audited entities face problems that may lead to contentions and difficult circumstances and may benefit from pre-issuance review to reduce the – Auditor General’s reputation risk;
- Significant shortcomings were identified during the audit team’s previous review;
- The audited entities changed its accounting framework;
- A new area of auditing; and
- Audit was conducted by an audit firm in full or jointly with the OAGN.

The sample of individual engagements selected for review must be representative of all audits conducted by the OAG and should include those engagements where the budgetary involvement is significant. But if the QA committee or AG feels it is a matter of public concern even if the budgetary involvement is not significant, those engagements can also be selected for review.

All audits determined as high risk from the selection criteria will be reviewed. QA Review of OAGN will be conducted when Auditor General requires but OAG-level reviews will be performed at the beginning of the OAG’s strategic planning cycle in order to provide inputs for developing the strategic plan. QA Team for OAGN-level is selected internally or externally by AG. In case of individual audit (Financial audit as well as Performance audit) level at least one audit file of every audit team leader will be reviewed each year after issuance of audit report. The pre issuance QAR is conducted on the basis of criteria approved by Quality Assurance Committee. OAGN can take service of external reviewer, if AG or QA Committee feels so.

2.11 Annual QAR Reporting

The ultimate purpose of conducting regular quality assurance reviews (QARs) even at individual audit levels is to help strengthen the overall quality management system (QMS) of an OAGN. As such, it is important that the QA unit of the OAGN submits annual QA reports to the top management. Unlike individual QAR reports, the annual QA reports should summarise the variety of QARs completed during the year, as well as the significant findings from those QARs – in a way that will help the OAGN top

management to take appropriate decisions on the actions necessary to further strengthen the overall QMS of the OAGN.

Paragraph 8.23 of the ASOSAI Performance Audit Guidelines provides some guidance in this regard:

“The report on the quality assurance review programme should summarise the results of all the reviews including the tasks selected (number and type), the findings and any recommendations. The report should not focus on individual audits, but be a summary of those findings identified during the review programme.”

In view of the above considerations, it could be helpful to the OAGN’s top management if two types of annual QA reports are submitted to them. One could be a statistical report stating the various types of audits reviewed and the different types of QARs conducted, while the other could be a summary of the significant QAR findings across audits and their relationship to the overall Quality Management System of the OAGN.

Appendix 3 gives an example of Summary Report of QAR findings with Sample Report pertaining to the QMS framework.

2.12 Monitoring and Supervision of QAR

A sound system of monitoring and supervision is essential for high quality QARs. Supervision involves directing QA staff and monitoring their work to ensure that the QA objectives are met. Supervision involves assigning responsibilities and providing sufficient guidance to staff members. It also involves staying informed about significant problems encountered, reviewing the work performed, overseeing individual development, coaching, and providing periodic feedback and effective on-the-job training.

QA staff should receive an appropriate level of leadership and direction so that they are encouraged to perform up to their potential and to ensure that reviews are properly carried out. All work is reviewed by the team leader before the QA reports are finalised. This is to bring more than one level of experience and judgment in the review process, and to ensure that evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable evidence as a foundation for the final opinion or report.

The Supervisor of the QA reviews should ensure that the reviewing team adheres and conforms to the policies and procedures prescribed by the QAR management.

The reviewing team should use the QA plan as a tool to ensure focused fieldwork by the audit team, and also to facilitate monitoring by the team leader of the progress of QA reviews.

In addition, the QA reviewer may use the following checklist as a guide in the supervision and monitoring function of QAR.

- Execution of QA review is carried out in accordance with policies, standards, manuals, guidelines and practices of the OAGN.
- QA team has a sound understanding of techniques and procedures for gathering information, such as inspection, observation, and enquiry to collect evidence.
- QA steps and procedures have been designed to obtain sufficient, reliable, and relevant evidence.
- All phases of the QA review have been carried out as planned and approved.
- Appropriate approval exists for non implementation, or significant deviations that have taken place from, approved quality control procedures.
- Staff resources used for QA are largely in line with those planned in terms of time, level of staff, and expenses entailed.
- Appropriate techniques and procedures are used to fulfil the QA objective in order to provide for effective evidence.
- Ensuring that all envisaged tests for evaluation and reliability of internal controls are used during audit process.
- The team leader should evaluate the effect of deficiencies noted as a result of the monitoring process, and should determine whether -
 - The review complies with QA standards; or
 - Systemic, repetitive or other significant deficiencies exist during the review that requires prompt corrective action.
- Ensure that appropriate analytical procedures are used and the reliability, independence and quality of relevant supporting data are assessed during the audit process.
- Sampling methods are used according to QA guidelines.
- All tests of transactions clearly indicate QA objectives, adequately explain nature and extent of QA work, and provide an overall conclusion as to the results of QA work.
- Full investigation is made of all queries during the QA review.
- Existence of adequate working papers for all phases of the QA reviews

2.13 Expected Output

Following strategic outputs are expected from implementation of QA policy:

- To improve the quality of audit services and its impact
- To strengthen independence
- To increase professional capacity for audit
- To enhance organizational efficiency
- To improve audit impact and communication system.

2.14 Review of QA Policy

The OAGN's QA policy should be reviewed periodically and updated, if necessary. While reviewing its QA policy, the OAGN should consider lessons learnt with regard to quality control and assurance, as well as international developments in auditing, quality control and quality assurance.

2.15 Repeal

The Quality Assurance policy approved in 27 February 2009 is, hereby, repealed.

Approved Date: 31th December 2012

Effective Date: 12th February 2013

Chapter 3

OAGN Level Quality Assurance Review

Section 1

Introduction

3.1 Purpose and Overview

To develop a sound understanding of, and be able to apply the Quality Management System (QMS) for OAGN based on international good practices. This section provides the background and the methodology for the OAGN to perform the quality Assurance assessment on overall functioning of an OAGN using an SAI-QMS framework. The chapter further discusses in-depth the seven domains identified in a suggested SAI-QMS framework that impact the functioning of the OAGN and its ability to effectively deliver its mandate. The chapter also explains on the planning Quality Assurance at an OAGN level focusing on the OAGN level questionnaires and other data gathering techniques generally practiced by review team including: **interviews; focus groups; examination of documented policies; procedures, and physical observations**. Gathering audit evidence, one of the key audit procedures that enables the auditors to draw conclusions on audit findings and observations and come up with effective audit recommendations is also explained in this chapter. This chapter further goes on to discussing the reporting on the Quality Assurance Review (QAR) stressing on how to prepare review report outline and report on review.

3.2 Objectives of QAR of OAGN

The objective of QAR of OAGN is to assess whether the OAGN has an adequate quality management framework in place to assure the quality of all its products and services, and the extent to which the system is functioning effectively. As such, while reviewing at the QAR of OAGN, the QA function may consider the following issues:

- ✓ Determine if the OAGN's legal framework is sufficient to meet the independence and mandate expectations of the Lima and Mexico declaration;
- ✓ Assess the process and systems in place to recruit, develop and manage the human resources of the OAGN, to ensure that there are sufficient competent and motivated staff to discharge its function effectively;

- ✓ Confirm that the audit methodology and practices are aligned with International Standards of Supreme Audit Institutions (ISSAIs), and other international good practices;
- ✓ Assess the extent to which the quality of systems and practices contribute to the effective leadership and internal governance of an OAGN;
- ✓ Identify ways to strengthen internal administration and support services;
- ✓ Assess the status of relations with key external stakeholders and need for improvement if any; and
- ✓ Determine the quality of audit reports and services and their impact on the accountability and transparency in the public sector, and the overall improvement in the financial management practices of the government.

3.3 Quality Control of OAGN

3.3.1 Framework for OAGN Quality Control system

Extracts of framework and guidelines of ISSAIs are given under for the better understanding of OAGN's framework of quality control system.

• Quality Controls for SAIs (ISSAI 40)

Quality Controls for SAIs (ISSAI 40)

(a) Elements 1: Leadership responsibilities for quality within the SAI

Key principle adapted for SAIs

An SAI should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all of its work. Such policies and procedures should be set by the Head of the SAI, who retains overall responsibility for the system of quality control.

Application guidance for SAIs

- The Head of the SAI may be an individual or group depending on the mandate and circumstances of the SAI.
- The Head of the SAI should take overall responsibility for the quality of all work performed by the SAI.
- The Head of the SAI may delegate authority for managing the SAI's system of quality control to a person or persons with sufficient and appropriate experience to assume that role.

- SAIs should strive to achieve a culture that recognizes and rewards high quality work throughout the SAI. To achieve that culture the Head of the SAI should set the right “tone at the top” which emphasis the importance of quality in all of the work of the SAI, including work which is contracted out. Such a culture also depends on clear, consistent and frequent actions from all levels of the SAI's management that emphasis the importance of quality.
- The strategy of each SAI should recognize an overriding requirement for the SAI to achieve quality in all of its work so that political, economic or other considerations do not compromise the quality of work performed.
- SAIs should ensure that quality control policies and procedures are clearly communicated to SAI personnel and to any parties contracted to carry out work for the SAI.
- SAI should ensure that sufficient resources are available to maintain the system of quality control within the SAI.

(b) Elements 2: Relevant ethical requirements

Key principle adapted for SAIs

An SAI should establish policies and procedures to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements.

Application guidance for SAIs:

- SAIs should emphasis the importance of meeting relevant ethical requirements in carrying out their work.
- All SAI personnel and any parties contracted to carry out work for the SAI should demonstrate appropriate ethical behavior.
- The Head of the SAI and senior personnel within the SAI should serve as an example of appropriate ethical behavior.
- The relevant ethical requirements should include any requirements set out in the legal and regulatory framework governing the operations of the SAI.
- Ethical requirements for SAIs may include or draw on the INTOSAI code of ethics (ISSAI 30) and the IFAC ethical requirements, as appropriate to its mandate and circumstances and to the circumstances of their professional staff.

- SAIs should ensure policies and procedures are in place that reinforce the fundamental principles of professional ethics as defined in ISSAI 30, i.e.:
 - Integrity;
 - Independence, objectivity and impartiality;
 - Professional secrecy; and
 - Competence.
- SAIs should ensure that any parties contracted to carry out work for the SAI are subject to appropriate confidentiality agreements.
- SAIs should consider the use of written declarations from personnel to conform compliance with the SAI's ethical requirements.
- SAIs should ensure policies and procedures are in place to notify the Head of the SAI in a timely manner of breaches of ethical requirements and the Head of the SAI to take appropriate action to resolve such matters.
- SAIs should ensure appropriate policies and procedures are in place to maintain independence of the Head of the SAI, all personnel and any parties contracted to carry out work for the SAI.
- SAIs should ensure policies and procedures are in place that reinforce the importance of rotating key personnel, where relevant, to reduce the risk of familiarity with the organization being audited. SAI may also consider other measure to reduce the familiarity risk.

(c) Element 3: Acceptance and continuance

Key principle adapted for SAIs

An SAI should establish policies and procedures designed to provide the SAI with reasonable assurance that it will only carry out audits and other work where the SAI:

- a) **Is competent to perform the work and has the capabilities, including time and resources, to do so;**
- b) **Can comply with relevant ethical requirements; and**
- c) **Has considered the integrity of the organization being audited and has considered how to treat the risk to quality that arises.**

The policies and procedures should reflect the range of work carried out by each SAI. In many cases SAIs have little discretion about the work they carry out. SAIs carry out work in three broad categories:

- **Work that is required of them by their mandate and statute and which they have no option but to carry out;**
- **Work that is required by their mandate, but where they have discretion as to the timing, scope and/or nature of work;**
- **Work that they can choose to carry out.**

Application guidance for SAIs

- For all audits and other work carried out, SAIs should establish systems to consider the risks to quality which arise from carrying out the work. These will vary, depending on the type of work being considered.
- SAIs normally operates with limited resources. SAIs should consider their work program and whether they have the resources to deliver the range of works to the desired level of quality. To achieve this, SAIs should have a system to prioritize their work in a way that takes into account the need to maintain quality. If resources are not sufficient and pose a risk to quality, the SAI should have procedures to ensure that the lack of resource is brought to the attention of the Head of the SAI and, where appropriate, the legislature or budgetary authority.
- SAIs should assess if a material risk to their independence exists in accordance with ISSAI 10. Where such a risk is indentified, the SAI should determine and document how it plans to address this risk and ensure an approval process is in place and is adequately documented.
- Where the integrity of the audited organization is in doubt, the SAI should consider and address the risks arising from the capability of staff, the level of resources, and any ethical issues which might arise in the audited organization.
- SAIs should consider procedures for acceptance and continuance of discretionary work, including work which is contracted. If the SAI decides to carry out the work, the SAI should ensure the decision is approved at the appropriate level within the SAI, and that the risks involved are assessed and managed.
- SAIs should ensure that risk management procedures are adequate to mitigate the risks of carrying out the work. The response to the risks may include:
 - Carefully scoping the work to be performed;
 - Assigning more senior/experienced staff than would ordinarily be the

case; and

- Doing a more in dept engagement quality control review of the work before a report is issued.
- SAIs should consider disclosing in their reports any specific matters that would ordinarily have led the SAI to not accept the audit or other work.

(d) Element 4: Human resources

Key principle adapted for SAIs

An SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources (personnel and, where relevant, any parties contracted to carry out work for the SAI) with the competence, capabilities and commitment to ethical principles necessary to:

- (a) Carry out its work in accordance with relevant standards and applicable legal and regulatory requirements; and**
- (b) Enable the SAI to issue reports that are appropriate in the circumstances.**

Application guidance for SAIs

- SAIs may draw on a number of different sources to ensure they have the necessary skills and expertise to carry out the range of their works, whether carried out by SAI personnel or contracted out.
- SAIs should ensure that responsibility is clearly assigned for all work carried out by the SAI.
- SAIs should ensure that personnel, and parties contracted to carry out work for the SAI (e.g. from chartered accountancy or consulting firms), have the collective competencies required to carry out the work.
- SAIs should recognize that certain circumstances personnel and, where relevant, any parties contracted to carry out work for the SAI, may have personal obligations to comply with the requirements of professional bodies in addition to the SAI's requirements.
- SAIs should ensure that Human Resources policies and procedures give appropriate emphasis to quality and commitment to the SAI's ethical principles. Such policies and procedures related to human resources include:
 - Recruitment (and the qualification of recruited staff);
 - Performance evaluation;

- Professional development;
 - Capabilities (including sufficient time to perform assignments to the required quality standard);
 - Competence (including both ethical and technical competence);
 - Career development;
 - Promotion;
 - Compensation; and
 - The estimation of personnel needs.
- SAIs should promote learning and training for all staff to encourage their professional development and to help ensure that personnel are trained in current development in the profession.
 - SAIs should ensure that personnel and any parties contracted to carry out work for the SAI have an appropriate understanding of the public sector environment in which the SAI operates, and a good understanding of the work they are required to carry out.
 - SAIs should ensure that quality and the SAI's ethical principles are key drivers of performance assessment of personnel and any parties contracted to carry out work for the SAI.

(e) Element 5: Performance of audits and other work

Key principle adapted for SAIs

An SAI should establish policies and procedures designed to provide it with reasonable assurance that its audits and other work are carried out in accordance with relevant standards and applicable legal and regulatory requirements, and that the SAI issues reports that are appropriate in the circumstances. Such policies and procedures should include:

- a) Matters relevant to promoting consistency in the quality of work performed;**
- b) Supervision responsibilities; and**
- c) Review responsibilities.**

Application guidance for SAIs:

- SAIs should ensure appropriate policies, procedures and tools, such as audit methodologies are in place for carrying out the range of work that is the responsibility of the SAI, including work that is contracted out.

- SAIs should establish policies and procedures that encourage high quality and discourage or prevent low quality. This includes creating an environment that is stimulating, encourages proper use of professional judgment and promotes quality improvements. All work carried out should be subject to review as a means of contributing to quality and promoting learning and personnel development.
- Where difficult or contentious matters arise, SAIs should ensure that appropriate resources (such as technical experts) are used to deal with such matters.
- SAIs should ensure that applicable standards are followed in all work carried out, and if any requirement in standard is not followed, SAIs should ensure the reasons are appropriately documented and approved.
- SAIs should ensure that any differences of opinion within the SAI are clearly documented and resolved before a report is issued by the SAI.
- SAIs should ensure appropriate quality control policies and procedures are in place (such as supervision and review responsibilities and engagement quality control reviews) for all work carried out (including financial audits, performance audits, compliance audits). SAIs should recognize the importance of engagement quality control reviews for their work and, where an engagement quality control review is carried out, matters raised should be satisfactorily resolved before a report is issued by the SAI.
- SAIs should ensure that procedures are in place for authorizing reports to be issued. Some work of SAIs may have a high level of complexity and importance that requires intensive quality control before a report is issued.
- If SAIs are subject to specific procedures relating to rules of evidence (such as SAIs with a judicial role), they should ensure that those procedures are consistently followed.
- SAIs should aim for timely completion of audits and all other work, recognizing that the value from the work of SAIs diminishes if the work is not timely.
- SAIs should ensure timely documentation (such as audit working papers) of all works performed.
- SAIs should ensure that all documentation (such as audit work papers) is the property of the SAI, regardless of whether the work has been carried out by SAI personnel or contracted out.
- SAIs should ensure appropriate procedures are followed for verifying

findings to ensure those parties directly affected by the SAI's work have an opportunity to provide comments prior to the work being finalized, regardless of whether or not a report is made publicly available by the SAI.

- SAIs should ensure that they retain all documentation for the periods specified in laws, regulation, professional standards and guidelines.
- SAIs should balance the confidentiality of audit documentation with the need for transparency and accountability. SAIs should establish transparent procedures or dealing with information requests that are consistent with legislation in their jurisdiction.

(f) Element 6: Monitoring

Key principle adapted for SAIs

An SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. The monitoring process should:

- a) Include an ongoing consideration and evaluation of the SAI's system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI;**
- b) Require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility;**
- c) Require that those carrying out the review are independent (i.e. they have not taken part in the work or any quality control review of the work.)**

Application guidance for SAIs

- SAIs should ensure that their quality control system includes independent monitoring of the range of controls within the SAI (using personnel not involved in carrying out the work).
- If work is contracted out, SAI should seek confirmation that the contracted firms have effective system of quality control in place.
- SAIs should ensure the results of monitoring of the system of quality control are reported to the Head of the SAI in a timely manner, to enable the Head of the SAI to take appropriate action.
- Where appropriate, SAIs should consider engaging another SAI, or other suitable body, to carry out an independent review of the overall system of

quality control (such as a peer review).

- Where appropriate, SAIs may consider other means of monitoring the quality of their work, which may include, but not be limited to:
 - Independent academic review;
 - Stakeholder surveys;
 - Follow-up reviews of recommendations; or
 - Feedback from audited organizations (e.g. client surveys).
- SAIs should have procedures for dealing with complaints or allegations about the quality of work performed by the SAI.
- SAIs should consider whether there are any legislative or other requirements to make monitoring reports public or to public complaints or allegations related to the work carried out by the SAI.

• Peer Review Guideline (ISSAI 5600)

Peer Review Guideline (ISSAI 5600)

Peer Review

Peer review refers to a review of an SAI by one or several partner SAIs. They volunteer to conduct or undergo such a review exercise. This means that neither the two SAIs nor other external parties have obliged the SAIs to do so. SAIs does not have any power of enforcing the results of the peer review. The participating SAIs are free to decide on the contents and exercise of the peer review as well as on the use of the findings generated. Peer reviews may cover the audit work and/or organisational functions of the SAI in general. They may also be limited to one activity of the SAI. As regards the audit area, peer reviews may be restricted to one type of audit area such as financial audit, regularity/compliance audit, performance audit, etc. As regards the organisational area of the SAI, peer reviews may for example be restricted to individual functions such as financial management, the strategic plan, internal control, information system, human resource management, training etc. Combining individual review topics from both audit areas and organisational areas is also possible. When making recommendations, the reviewing SAI(s) should pay due regard to the respective national context of the reviewed SAI. Any recommendations made need to be feasible and flexible.

Purpose of a peer review

The key purpose of a peer review is to help SAIs ensure that they comply with applicable professional standards and national regulations and rules governing audit work. A peer review may also pursue other objectives, such as

- To help an SAI to identify the areas and functions in which they need to enhance their
- capacities;
- To help an SAI make informed decisions about how to improve their own operation and mission performance and to align with or consider other international best practices;
- To provide SAIs with an independent opinion on the design and operation of the SAI's quality management framework;
- To provide assurance as to the appropriateness of SAI practices, reports and staff compliance.

The aim is to make or keep them fit for their purpose of ensuring public sector accountability by providing high quality relevant audit reports and other outputs, in order to help ensure better and more cost effective public service delivery.

There is likely to be a difference in peer review contents and procedures due to the stage of development of the individual reviewed SAI:

- On the one hand, a peer review that is undertaken to assess mature, well developed quality control policies and procedures and
- On the other hand, a peer review that is essentially an assessment of where an SAI currently stands, e.g. by performing a "gap analysis", and which can be, in effect, the first step in putting together a strategic development plan for the SAI and its audit practice.

The objectives sought by carrying out a peer review should be clearly documented and formally agreed in writing by the participating SAIs before the decision to embark on a peer review is taken.

The objectives are of key importance for the contents and the procedures of the peer review. In addition, in the course and at the end of the review exercise, partner SAIs should be able to check if and to what extent the initial objectives set have been achieved even if new objectives have emerged in the meantime.

Once the scope of the peer review is determined and before proceeding with more formal agreement, the reviewing SAIs need to ensure that they will be given

reasonable access to the documents, files, staff, stakeholders and all relevant divisions of the reviewed SAI. The participating SAIs need to be confident that the access granted is sufficient to meet the objectives of the peer review.

Apart from that, SAIs may decide on a timetable, period or date by which the objective sought should have been accomplished.

Impacts and benefits of a peer review may be:

- ✓ Reasonable assurance of mission performance;
- ✓ Strengthening the different audit approaches;
- ✓ Enhancing or improving specific procedures;
- ✓ Identifying good practices used by the reviewing and the reviewed SAIs that could be more widely distributed;
- ✓ Improving or ensuring quality of work;
- ✓ Applying effective audit tools;
- ✓ Improving or ensuring the quality of management and organisation;
- ✓ Identifying weaknesses and training needs;
- ✓ Confirming if the internal manuals, policies and procedures are in line with the International
- ✓ Standards of Supreme Audit Institutions (ISSAI)² and international best practices;
- ✓ Saving resources in the operation of the SAI;
- ✓ Improving audit effectiveness;
- ✓ Increasing the number of reports issued;
- ✓ Enhancing the credibility of the SAI vis-à-vis stakeholders.

Selection of partner SAIs

As a rule, an SAI wishing to have their organisational structure or procedures reviewed as part of a peer review contact other SAIs and invite them to be the reviewing SAI in any peer review proposed. The initial contact should be rather informal in order not to be detrimental to the reputation of either SAI in case the request is not successful. In order to provide the SAIs, who are invited to be the reviewing SAIs, with an appropriate information basis for their decision if to accept or not accept the invitation, the initial contact may be accompanied by basic information about the potentially reviewed SAI, such as legal bases, audit

standards, etc. Even before contacting the potential reviewing SAI for the first time, the potentially reviewed SAI should duly consider if the reviewing SAI is the adequate partner for the peer review proposed i.e. if there is reasonable assurance that the potentially reviewing SAI can actually accomplish the objectives set. For this reason it may be useful to consider well in advance if the reviewing SAI:

- Possesses sufficient quantitative and qualitative resources for conducting the peer review proposed;
- Has the flexibility to understand and contribute to reviews of SAIs with a dissimilar organisational structure;
- Has the flexibility to understand the legal, political, economic, budgetary and social environment of the reviewed SAI;
- Is known for having relevant expertise and experience in the fields to be covered by the peer review; and
- Has experience in the field of quality control reviews.

It should be taken into account that reciprocal peer reviews, i.e. two SAIs reviewing each other's practices on an alternate basis, may influence the objectivity and independence of the peer review team.

If there is more than one reviewing SAI, a team leader should be chosen. Usually, the reviewed SAI chooses the team leader, but it can also leave the decision to the team.

Having a broadly based team undertake the review might be of particular benefit. In this way different experiences and perspectives can all be brought to bear in undertaking the review.

A sound and broad composition of the peer review team can lead to a diversity of views and perspectives and allow for relevant recommendations. Nevertheless, there is a risk that traditional models and theories do not consider customer needs and expectations. An innovative approach, however, might cause reservations by the reviewed SAI who may not accept it. Therefore, the peer review team should act with integrity and have a constructive approach aimed at considering customer needs and expectations and at identifying better solutions. Their conclusions should be supported by sufficient and accurate evidence.

Peer review agreement (MoU)

Once the reviewed and the reviewing SAIs have reached a basic agreement on

conducting a peer review, the scope, objective, timing and criteria of the peer review proposed as well as the conditions to be met in order to help make the review a success can be incorporated into a written agreement, e.g. in the form of a Memorandum of Understanding (MoU). This exercise is meant to ensure mutual consent on the fundamental aspects of the review and to avoid any potential misunderstanding. The SAIs involved should decide and agree on the matters to be covered in the MoU and this should be before initiating the project. When preparing the MoU, they should take care not to limit the review team's scope to conduct the work necessary to accomplish the objectives of the review. The MoU is usually signed by the Heads or authorised representatives of the reviewing and the reviewed SAIs.

The following matters are typically included:

Definitions

The MoU should include the definitions of the main terminology used in the review in order to ensure that partner SAIs have the same understanding of the main aspects of the peer review. These include clear terms of reference for the peer review including the format of the review, its objectives, reporting arrangements and the principles or national and international professional and ethical standards to which those undertaking the review agree to adhere (e.g. impartiality, objectivity, confidentiality, frankness and transparency). The MoU may stipulate the application of ISSAIs, e.g. with regard to the ethical standards, the application of INTOSAI's Code of Ethics (ISSAI 30) may be agreed.

Objective

The MoU may state the reasons why the reviewed SAI has decided to undergo a peer review, e.g. as part of a regular review process, as part of putting in place a new system, or as part of an overall strategy review and development procedure. The purpose of the peer review should be stated in order to better explain the scope of the objectives pursued.

Timetable

The start and the end of the peer review as well as the main milestones of the project may be determined so as to help the reviewing SAI make informed decisions on the use of staff and the reviewed SAI to be informed on the development of the work and to forecast when the report on the findings will be available. Due care should be given to the fact that interpretation, translation and submission of documents, minutes and findings may significantly extend the overall timeframe. Furthermore both partners may reasonably forecast and agree on the

input of resources needed. The schedule should allow sufficient time to deal with any unforeseen aspect. Both the reviewing and reviewed SAIs need to ensure having sufficient free capacity. An appropriate lead time may be agreed, in order to enable the SAIs to include the peer review in their work plan.

Language

The reviewed and reviewing SAIs should agree on a working language.

Staffing

The number, functions and profile of the staffing needed by the partner SAIs should also be roughly determined, thus helping reach a better decision on what staff to assign to the exercise and better estimate the costs likely to arise. On the one hand, arrangements may be made on keeping staff originally assigned to the job to the extent possible so as to help implement the peer review speedily. On the other hand, SAIs may wish to make specific arrangements on any reasons for substituting staff assigned at the request of the reviewed SAI. It is of particular importance, that the staff maintains their independence, unbiased attitude, accuracy and objectivity, and treats the entire review process confidentially.

When selecting their team participants the reviewing SAIs need to assess and evaluate the particular skills required for the peer review focus. The team leader will need to confirm necessary skills, such as specific language and IT audit skills, prior to finalising the staffing structure proposed.

Where the team leader identifies gaps in the expertise of the staff proposed, it may be appropriate for the team leader and the reviewed SAI to consider relying on external experts at appropriate stages during the peer review.

Scope and contents of the peer review

The peer review may cover the audit area of the SAI and/or organisational functions of the SAI in general, or may be limited to specific matters (see chapter 2 Definition). In this case the matters exempt from review work should be explicitly stated to ensure that the review staff keep well within these borders. Matters to be exempt may be politically sensitive or classified procedures or topics/areas that are susceptible to lead to any unknown or undesired consequences once they are submitted to an external study.

SAIs may also place focus on any matters where expertise is sought or which should for other reasons be examined thoroughly. The peer review may be extended to additional focus areas if requested by the reviewed SAI.

A peer review may encompass the following topics:

- Legal, actual and financial independence of the SAI;
- Staffing (number, recruitment, initial training and continued training, staff assignment and motivation);
- Structural and procedural organisation;
- Planning and conducting audit missions, audit findings, reporting, follow-up;
- Quality control of audit work;
- Public relations, audit impact and reputation enjoyed by the SAI; and
- Review of compliance with professional, internal and/or ethical standards.

Files and other documents

The partner SAIs should expressly determine how and to what extent the reviewing SAI's staffs are granted access to the records held by the reviewed SAI.

The reviewers shall respect the confidentiality of information that comes to their attention during the review. As a rule, the reviewed SAI wishes that the contents of files and other records as well as of interviews conducted as part of the peer review are treated confidentially. SAIs may also determine – by taking into account any applicable standards or country-specific laws – whether the final report should be published fully or in part on the INTOSAI website or elsewhere. The reviewed SAI may also decide that the final report will not be published at all, and that it will be designed for internal use of the reviewed SAI only.

Procedural matters

To ensure the smooth conduct of the peer review all procedural matters may be determined beforehand in the MoU. Such matters may include the following:

- A peer review may require the reviewing SAIs to understand legal, accounting or regulatory requirements which are peculiar to the jurisdiction of the reviewed SAI.
- It is beneficial if, as part of the consultation process, the reviewed SAI nominates specific groups or individuals for different types of issues.
- The decision whether the delegates of the reviewing SAI may conduct interviews and if so with what officials and whether they may disclose the purpose of the peer review should be documented in the MoU. Free and

open access to the reviewed SAI's staff and other relevant aspects of the organisation are essential to the open and transparent conduct of the peer review.

- The participants may consider confirming the procedures for consulting with external local experts. Matters to be considered will include who the nominated experts will be, issues of confidentiality, cost and whether the consultation will be direct between the reviewing SAIs and the experts or via the reviewed SAI.
- It should be defined which documents may be transferred to the reviewer's home office, e.g. originals, copies, confidential documents. Arrangements to ensure the security of communication between the participating SAIs should be agreed in advance, particularly in respect of confidential documents which may need to be sent via the internet when completing work in the SAIs' home countries.
- The MoU should include a process to clear the facts.

Timing of communication and discussions

The partner SAIs may wish to discuss how to proceed with the peer review, initial results achieved and preliminary findings. Relevant dates, intervals, issues due to be discussed and reasons for such discussions may be stipulated in the MoU.

Documentation

Partner SAIs should determine how to record the peer review findings. Documentation requirements may include the overall strategy and review plan, the completeness of records and review evidence, the timing for communicating them to the reviewed SAI and their final destination. The MoU may specify if and what data should be retained by the peer reviewers, and for what periods. It may also stipulate, what data should not be kept by the peer reviewers once the review is completed. Partner SAIs might wish to avoid placing too high requirements on documentation, because this may render the whole procedure rather cumbersome. The reliability of findings should be the first priority.

Given the fact that the documents required by the peers are written in the reviewed SAI's language, translation requirements may be integrated in the MoU. Partner SAIs should agree on which documents need to be translated, who will be in charge of the translation, and how it will be funded.

Final report

The SAIs involved in the peer review may consider and agree beforehand on the nature and length of the final report, e.g. a short report setting out key findings, a detailed report of all findings or alternatively two reports – an abridged version for public use and a long form report for internal use.

The SAIs involved may also wish to determine what procedure to use for drafting the final report. For this purpose, they may arrange for preparatory liaison, e.g. establish an editorial team.

The decision on the timing of the implementation of recommendations will lie with the reviewed SAI. The reviewed and reviewing SAIs may agree to divide the recommendations into short-term (up to one year) and long-term (up to three years for implementation). Suggestions may be helpful if implementing one specific recommendation is a pre-condition for recommendations to follow.

The report will remain the property of the reviewed SAI. In case the reviewed SAI intends to involve further addressees, this might influence the drafting of the report especially so if audit concepts and terms need to be explained in the report. So it might be advisable to deal with the following topics within the MoU: To whom shall the report be addressed? Is it the reviewed SAI (most usually) only? Who will issue the report? Is it the team leading SAI or all SAIs involved? In addition, the parties may wish to clarify who in addition to the reviewed SAI shall receive the report and in what form: the internal INTOSAI website, the International Journal of Government Auditing, the Parliament of the reviewed SAI, the general public? This decision is normally made by the reviewed SAI and should be made at the MoU stage. The INTOSAI community is keen on receiving peer review reports in accordance with their principle of “*Experientia mutua omnibus prodest*”.

Cost

The SAIs involved should agree on who is to bear the cost which may be considerable for conducting the peer review (including report drafting and translation). Alternatively, each of the SAIs involved may bear its own cost or one partner receives a lump sum for its review services. The peer review programme might also be supported and funded by community donors in accordance with the INTOSAI principles of independence.

The SAIs may wish to agree on procedural and administrative matters on subsistence and travelling costs. In view of cost efficiency, the delegation should preferably be composed of staff directly connected with the review and should be limited to the minimum number of staff needed to perform it.

Support of the peer review

The reviewed SAI may provide support to the peer review exercise in manifold ways, for example by sending documents on the legal principles and the audit environment to the reviewing SAI's staff, making introductory presentations to help them familiarise themselves with these relevant situations before arriving in country, providing the review staff with office accommodation equipped with telephone and IT connections as well as security features necessary to protect the received information, designating contacts at the reviewed SAI, and providing hospitality to the review staff. These inputs may be documented in the MoU

Preparation and conduct**Initial Planning**

When embarking on the peer review, the staff assigned to the job by the reviewing SAI should be carefully selected and adequately prepared for the tasks awaiting them. The review staff should be communicated pertinent information to familiarise with the applicable legal authority, organisation charts, the environment and the major procedures used at the reviewed SAI. To the extent needed they should be taught the essentials about the working language used by the reviewed SAI. Generally, a glossary of the key terms used may be of help.

Before embarking on field work, a discussion should take place or other communication should be exchanged between the reviewed SAI's management and key contacts and the reviewing SAI's management and the review staff. The reviewed SAI may also inform all its employees about the project. This helps ensure a better reception for the review team and may even lead to beneficial „spontaneous“ inputs from staff that are not on the interview list. In addition, the reviewed SAI should contact its stakeholders to ensure they are available in case the reviewing SAI needs to interview them.

The reviewed SAI may wish to clearly outline and communicate the scope and process of the peer review internally prior to commencement of field work. This approach should assist in ensuring a smooth and efficient process.

The reviewing SAIs need to agree the timing and completion of field work. The process by which findings will be incorporated into the final report should be discussed and agreed at the planning stage, with the roles and responsibilities of the participants being clearly defined and delimited. Matters which may be discussed include responsibilities for the review of field work, process for ensuring consistency of conclusions and reaching consensus.

When planning the peer review, the reviewing SAIs may wish to build into their

timetable an opportunity to meet post field work, to discuss their findings and conclusions and consider the structure and subject matter of the peer review report.

Planning should be based on the MoU. It might be done beforehand on the reviewing SAI's premises, thus leaving more time for the implementation and reporting stages and thereby reducing costs.

Field work

When starting field work, an introductory discussion should be held on the basis of the arrangements made beforehand with the responsible officials of the reviewed SAI and the review team. The targets, limits and timetable for the peer review exercise should be explained and discussed as needed. Experience has shown that the following issues should be given particular regard:

- Costs incurred not only by translation but also by travel;
- Logistical assistance for the reviewing SAI's team; and
- Addressees of the final report.

In addition, the mandate of the review staff, the terms of reference and the procedures for solving misunderstandings or unpredictable challenges are highlighted. Finally at least those items of the MoU should be discussed that the review staff have to observe.

The Quality Assurance Questionnaire QAR SAI Level which is an appendix to this Guide furnishes detailed questions for selected review areas. Where appropriate, the answers to these questions may be based on a sample of audits.

For a peer review that is a prelude to putting together a strategic development plan, it will be important to be clear what the baseline or starting point is; what assessment criteria is being used; and, to be consistent with the approach that is increasingly common among donors, it should be stakeholder driven. For this reason, it would be useful to emphasise that not all the items set out for example in the checklist have to be covered in an initial review.

Building on this point, it would be useful to also take into account "INTOSAI Building capacity in Supreme Audit Institutions: A Guide" as a basis for the peer review process. This may help emphasise the common ground that the guide shares with the draft peer review documents.

Follow-up and Evaluation

It goes without saying that it is at the reviewed SAI's discretion to decide whether it will implement a recommendation or not. It may be agreed, that the reviewed SAI will provide a written response to the observations and recommendations set out in

the peer review report. An action plan may be included in this response. Apart from that, the reviewed SAI might request the peer review team to verify the extent to which recommendations have been followed after an agreed time (e.g.: one year, depending on the recommendations' priorities), to check whether and how their suggestions have been followed. After the verification, the team may prepare another report on the recommendations implementation. If any problem with the implementation occurs, the team may reword or modify recommendations.

Follow-up discussions between the reviewed and reviewing SAIs may be of great significance to both sides, as the SAI reviewed may receive feedback that the recommendations have been implemented properly or additional suggestions on how to do it. The reviewer may obtain feedback that good use has been made of the efforts put into the peer review work. All procedural matters such as the scope of the follow-up review, logistics, costs, schedule, etc. should be agreed in advance.

According to the INTOSAI Strategic Plan 2005-2010 existing peer review arrangements should be assessed and documented. Evaluation of such a project is thus not only in the individual interest of the participants but – in case the peers decide to share their lessons learnt from the peer review with others – in the general interest of all SAIs considering a peer review. SAIs is therefore encouraged to evaluate peer reviews in order to help INTOSAI establish best practices. Since the decision to conduct a peer review is by definition of a voluntary nature, retrospective evaluation is a voluntary exercise as well.

Adequate timing for an evaluation depends on the scope of the peer review, any long-term recommendations and other circumstances. In isolated cases, the evaluation may be carried out in several steps.

The post-review evaluation analyses and records the pre-set objectives and their target achievement degree. Furthermore, other peer review impacts that may not have been sought in the first place should be scrutinised and recorded.

Also, any findings on the peer review exercise conducted may be documented. This is especially of interest for those SAIs that wish to draw on the benefits of earlier peer reviews for their own peer review project. In accordance with the relevant MoU, the key findings produced in the evaluation should be incorporated in the internal section of the INTOSAI website to be available to the other INTOSAI members.

3.3.2 SAI-QMS Framework suggested by IDI

3.3.2.1 Overview

Every Supreme Audit Institution (SAI) is responsible for delivering its own mandate to the satisfaction of its stakeholders' needs. A useful tool for ensuring the achievement of

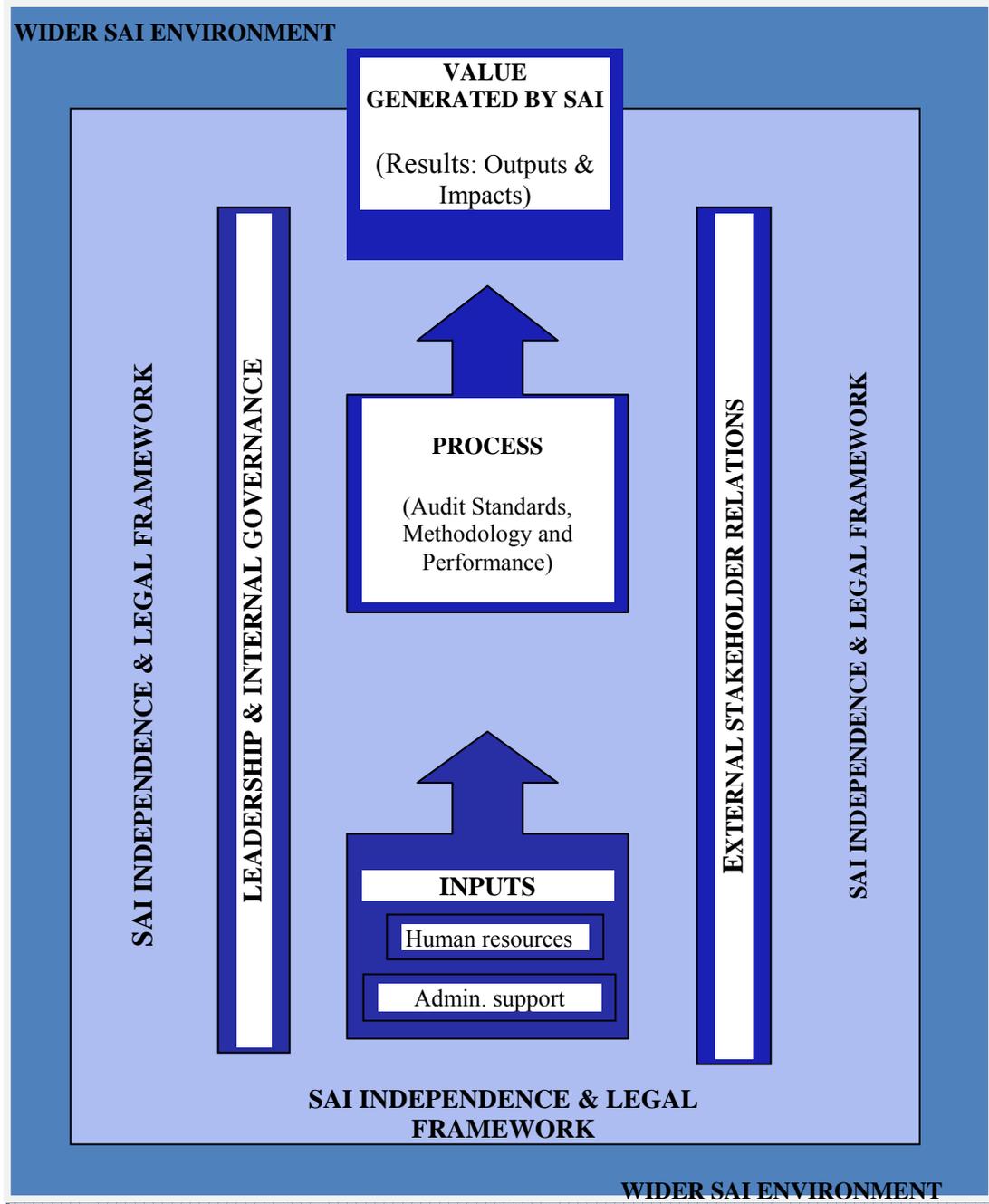
the goal is through the SAI establishing a Quality Management System (QMS) designed to provide it with reasonable assurance that:

- (a) The SAI and its personnel comply with professional standards, regulatory and legal requirements; and
- (b) The reports issued by the SAI are appropriate in the circumstances.

The QMS is a broad concept that comprises the organisational structures, resources, processes and products needed to implement a quality management framework. It involves all processes in the operational life cycle of an SAI's operations that affect quality – from initial identification of stakeholders' needs to final satisfaction of requirements. It is designed to give confidence to clients and stakeholders that quality requirements will be achieved in delivered products and services.

The SAI-QMS Framework consists of structures and processes relating to certain key management functions of any SAI. The SAI-QMS proposed in this chapter is based on a comparative study of various frameworks including ISSAI 40, AFROSAI-E Institutional Strengthening Framework for SAIs, ASOSAI AQMS Guidelines, INTOSAI Guidance on Building Capacity in SAIs, SAI UK's SAI Maturity Model and SAI USA's AQMS framework.

Figure 5: IDI's suggested SAI-QMS Framework



The above figure shows the SAI-QMS framework that identifies the following seven domains impacting the functioning of an SAI and its ability to effectively deliver its mandate:

1. Independence and legal framework.
2. Human Resources.
3. Audit Standards, Methodology, and Performance.
4. Leadership and Internal Governance.
5. Administrative Support.
6. External Stakeholder Relations.
7. Results.

If each of the above seven domains are functioning effectively and delivering the desired results, it can be reasonably assumed that the SAI as a whole will deliver products and services of high quality. While the above seven domains can be separated from each other and treated as standalone components, at the same time they interact and influence each other. As such, all the above seven domains with their inter-relationships constitute the quality management framework of a SAI.

Each of the overall domains has a pre-defined desired condition, which is the overall position the SAI should aim for with regard to the particular domain. The seven desired conditions and good international practices are summarised in **table 3** below:

Table 3: Desired Conditions and good international practices for the Seven Domain of the SAI-QMS

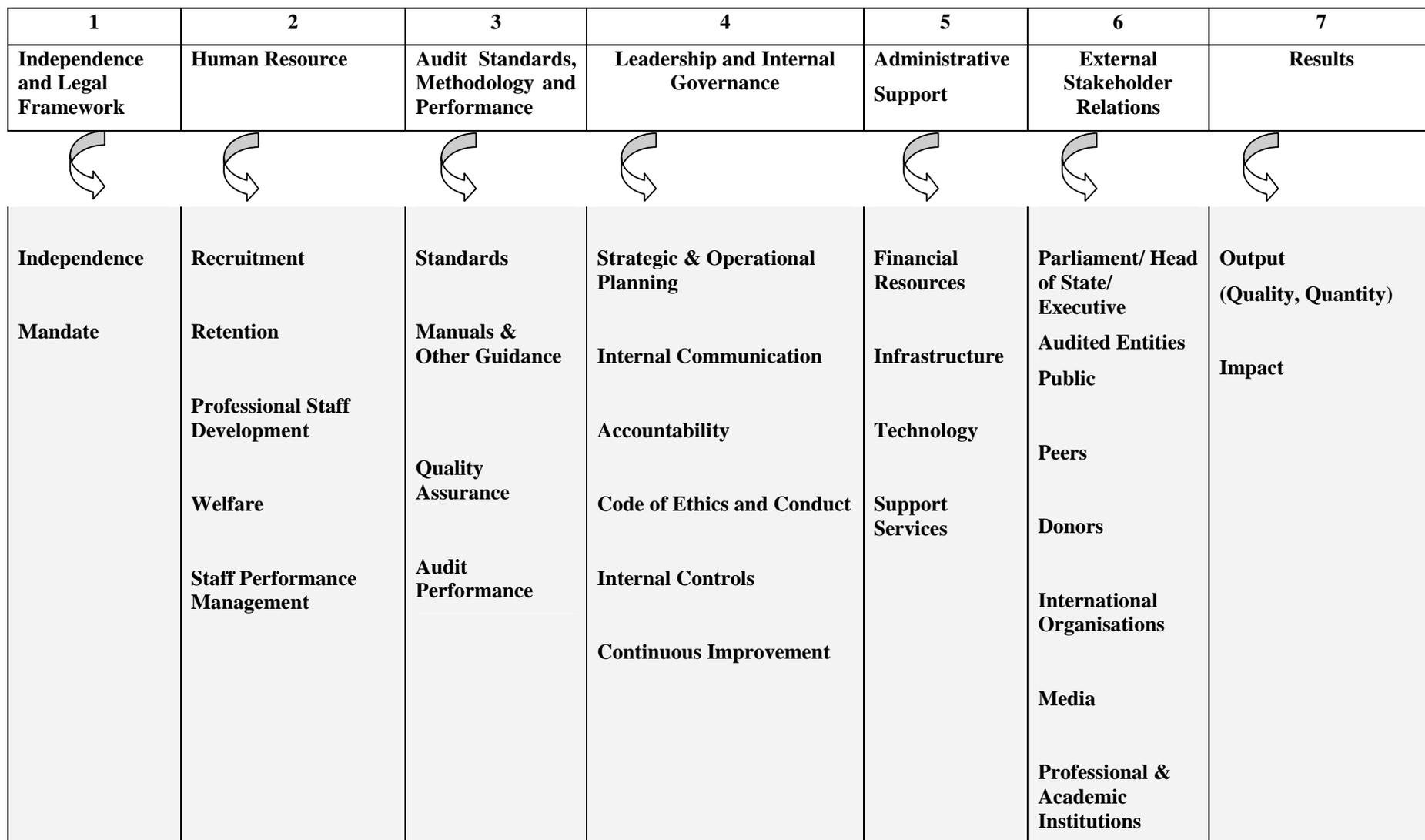
Domain of QMS Framework	Desired Condition	Good International Practices
Independence and legal framework	The independence and mandate of the SAI should be as comprehensive as laid down in the ISSAI 1 'INTOSAI's Lima Declaration on Auditing Precepts', ISSAI 10 'Mexico Declaration on SAI Independence' and ISSAI 11 'INTOSAI Guidance and Good Practices Related to SAI	The existence of the SAI and the appointment of the SAI Head should be provided for in the Constitution. All public bodies and related institutions shall be audited by the SAI. The SAI should have access to records and documents relating to financial management and be able to perform different types of audits.

Domain of QMS Framework	Desired Condition	Good International Practices
	Independence’.	
Human Resources	The SAI should have an adequate number of competent and motivated staff to discharge its functions effectively (ISSAI 200 Paragraphs 1.2(a) & (b) to 1.12).	The SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform its work
Audit Standards, Methodology and Performance	The SAI’s audit processes should be based on the INTOSAI Auditing Standards and other international good practices to the extent applicable to the national rules and regulations.(ISSAI 100 Paragraph 6(a), ISSAI 200 Paragraphs 1.2 (c), 1.13 and 1.35)	The SAI should establish procedures designed to provide it with reasonable assurance that audits are performed in accordance with professional standards and regulatory and legal requirements, and that the SAI issues reports that are appropriate in the circumstances
Leadership and Internal Governance	The top management of the SAI should ensure that the SAI’s decision making and control mechanism functions economically, efficiently, and effectively, and thereby serve as a model organisation in promoting good governance. (ISSAI 100 paragraph 6c).	The Head of the SAI and audit top managers should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing audits. The leadership of the SAI should assume ultimate responsibility for the system of quality control.
Administrative Support	The SAI should optimally manage to ensure timely delivery of support services and infrastructure to its departments/divisions/sections.	The SAI should optimally manage its finances to ensure timely delivery of support services and infrastructure to its departments/divisions/sections.

Domain of QMS Framework	Desired Condition	Good International Practices
External Stakeholder Relations	The SAI should establish and sustain effective working relationships and communication with external stakeholders to ensure higher impact of the SAI's audit reports and services.	Sustain effective working relationships and communication with external stakeholders to ensure a higher impact of SAI's audit reports and services
Results	The SAI should deliver quality audit reports and services that promote accountability and transparency in the public sector, more efficient management and utilisation of public resources, and contribute towards good governance.	SAIs should deliver quality audit reports and services that promote accountability and transparency in the public sector, more efficient management and utilisation of public resources, and contribute towards good governance.

Each of the seven domains, in turn, consists of various components or, what we call, elements. The IDI's suggested SAI-QMS framework with the domains and elements within each is shown in Diagram 2 below. The SAI should consider actions at the elements level when considering changes for improvements to the performance of the SAI.

Diagram 1: SAI-QMS framework with its elements



3.3.2.2 Independence and Legal Framework

A fundamental principle of auditing is to provide an independent opinion on the performance of the audited entities and its compliance to laws, rules and regulations. The elements of the domain are shown in the following flow diagram:

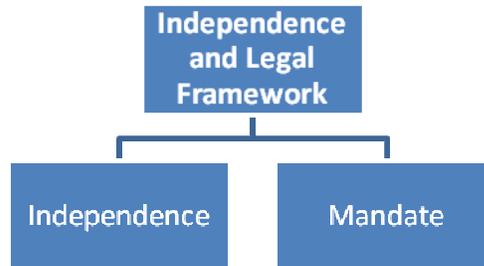


Figure 6: Independence and legal framework domain with its key elements

The above structure is explained below:

Independence

The auditing is to provide an independent opinion on the performance of the audited entities and its compliance to laws, rules and regulations. Consequently, the '*Lima Declaration on Auditing Precepts*' underscores that Supreme Audit Institutions (SAIs) can accomplish their tasks objectively and effectively provided they are independent of the audited entity, and are protected against outside influence. This was further elaborated in ISSAI 10 '*Mexico Declaration on SAI Independence*' and ISSAI 11 '*Guidance on Good Practices related to SAI Independence*'. These standards highlight the following dimensions of independence and mandate of SAIs that need to be in place:

a) *Independence of Supreme Audit Institutions*

Although state SAIs cannot be absolutely independent because they are part of the state as a whole, SAIs should have both the functional and organisational independence required to accomplish their tasks. The SAI should be free to determine the nature of its organisational structure and functional processes without outside interference.

Ideally, the establishment of SAIs and the necessary degree of their independence should be laid down in the relevant Constitution. The details, however, may be set out in legislation such as in a separate Audit Law. The Lima Declaration recommends that adequate legal protection by a supreme court against any interference with an SAI's independence and audit mandate should be guaranteed.

b) *Independence of the Head of the SAI and officials of Supreme Audit Institutions*

The independence of Supreme Audit Institutions is inseparably linked to the independence of its head and the staff working within it. The Lima Declaration recommends that the independence of the head should be guaranteed by the Constitution. In particular, the procedures for removal of head of SAI from office should be embodied in the Constitution in a manner that may not impair the independence of the head of the SAI.

In their professional careers, audit staff of Supreme Audit Institutions must not be influenced by the audited organisations, and must not be dependent on such organisations.

c) *Financial independence of Supreme Audit Institutions*

SAIs should be provided with the financial means to enable them to accomplish their tasks effectively. If required, SAIs should be entitled to apply directly for the necessary financial means to the public body deciding on the national budget, for example, the Parliament, instead of depending on the ministry of finance that is one of the audited entities of an SAI. In addition, SAIs should be entitled to use and re-allocate the funds allotted to them under a separate budget heading in ways that they consider to be appropriate.

Mandate

The mandate of the SAI shall be clearly defined in the country's constitution and/or in separate audit legislation. It should clearly spell out the powers and responsibilities of the SAI regarding access to information, the nature of entities over which it has audit jurisdiction and nature, scope and timing of audits. The Mexico Declaration on SAI Independence recommends the following on a SAI's mandate:

- ✓ A sufficiently broad mandate;
- ✓ Unrestricted access to information;
- ✓ Right and obligation to report on their work;
- ✓ The freedom to decide on the content and timing of audit report, and the freedom to disseminate such reports; and
- ✓ Existence of effective mechanism for the follow-up on SAI recommendations.

3.3.2.3 Human Resources

People are the most valuable assets of an audit institution. Sound human resources management should provide employees a rewarding and professional environment, as well as maintaining and enhancing the capabilities of the people. As a result, a motivated and professionally competent workforce plays a significant role in achieving the required high quality of audit processes and outputs.

It is a common practice to set up a human resources management function within an SAI as a part of the SAIs' management system. The following aspects need to be emphasised in regard to human resources management:

- Establish a policy and procedures regarding recruiting, training, motivation and professional development;
- Implement each set of procedures, such as organise and adapt training activities;

- Periodically review results of training and professional development programmes to evaluate whether they are being presented effectively and are accomplishing objectives;
- Establish performance-based promotion and advancement system, link performance management with personnel welfare and benefits; and
- Assign the responsibility for the professional development function to a person or group with appropriate authority.

The human resources domain along with its key elements is shown in the following flow diagram:



Figure 7: Human Resource domain with its key elements

The above structure is explained below:

a. Recruitment

ISSAI 200 (paragraphs 1.3 and 1.4) states, “The SAIs should adopt policies and procedures to recruit personnel with suitable qualifications”, and “SAI personnel should possess relevant academic qualifications and be equipped with appropriate training and experience. The SAI should establish, and regularly review, minimum educational requirements for the appointment of auditors”.

The following factors should be considered by the SAI to determine standards of qualification and competence of the staff members:

- Develop competency requirements for different functional and levels;
- Recruit multi-disciplinary personnel with suitable qualifications and experience;
- Supplement internal human resource and skills by seeking outside expertise from qualified specialists, consultants and technical experts, professional associations and other organisations as needed;
- SAI should ensure that the specialists and experts are qualified and have competence in their areas of specialisation and should document such assurance; and

- Outsourcing: Audits may also be contracted out to private firms, to undertake audits on behalf of the SAI or to participate in joint audits with the SAI's staff. However, the SAI remains responsible for the quality of the products and should, therefore, ensure strict quality control over the outputs delivered by such external parties.

b. Retention

Salaries and allowances, personnel welfare and benefits for SAI employees are usually covered under the public service regulations in most countries, and so it may not always be possible for SAIs to provide attractive salaries to retain qualified staff. Therefore, it becomes even more important that SAI management ensures that the working conditions are sufficiently attractive to retain the services of experienced personnel. At the same time, to the extent possible, SAIs may work towards a separate salary structure for its personnel. In cases where the SAI requires expert staff who cannot be recruited on the basis of conditions of the civil service, special arrangements should be concluded with them, placing them outside the regular wage scales.

c. Professional Staff Development

ISSAI 200 paragraph 1.5 explains, "SAIs should adopt policies and procedures to develop and train SAI employees to enable them to perform their task effectively, and to define the basis for the advancement of auditors and other staff." Training plays a critical role to enhance knowledge and skills of the staff to enable the SAI to deliver with quality audit products and services to its stakeholders. Training is one of the key components of the professional staff development activities such as upgrading professional related academic qualification, attachment with similar organisations, study tours, seminars and Workshops etc.

However, the Professional Staff development is a concept that goes beyond just training of individuals. The term staff includes people at all levels within SAI right from the SAI top management to those at the lower levels of the organisation hierarchy. Staff development is the process of managing the professional life, learning and work over the lifespan of an individual. It integrates, providing for career development priorities of the employees. It also needs to identify staff learning needs and provide for appropriate learning opportunities through which employees acquire knowledge and skills needed to accomplish their assigned tasks. To ensure proper career development the SAIs should specifically:

- Manage the careers of their staff within and between SAIs;
- Structure the career progress of their staff; and
- Manage succession planning, particularly with higher decision-making positions.

The SAI should take adequate steps to provide for continuing professional development of its staff, including, as appropriate, provision of in-house training and encouragement of attendance at external courses. The SAI should maintain an inventory of skills of

personnel to assist in the planning of audits as well as to identify professional development needs. The SAI should establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SAI. The SAI should also establish and maintain policies and procedures for the professional development of audit staff regarding the audit techniques and methodologies applicable to the range of audits it undertakes (ISSAI 200 Paragraphs 1.5 to 1.9).

d. Welfare

The SAI should take effective steps to create a motivating working environment that takes care of the psychological and physical well-being of its staff. Measures should include health care programmes, social, recreational and sporting facilities, fitness programmes, housing and counselling services. Some welfare measures could be gender-specific, such as flexible work timing for female staff who are nursing mothers, or who have children to look after.

e. Staff performance management

A performance management system should be developed to provide timely and constructive feedback to employees on their performance. The objective of performance management is to maximise the individual potential of the staff for further improvement. Two key aspects of the competency-based performance system are performance feedback and appraisal. While appraisals also include performance feedback, it is generally a more formal process conducted once or twice a year. Performance feedback on the other hand is a more informal, day-to-day process of the supervisor or manager offering relevant feedback to the staff members on their day-to-day performance.

The appraisal is an assessment of individual staff performance. The SAI should establish and publish performance standards for each core competency. Periodically, supervisors and managers should prepare and deliver performance appraisals honestly, accurately and consistently applying the competency-based standards.

The senior management of SAI should set the overall policy on performance management and monitor its implementation *vis a vis* the appraisal standards and policies.

The system should provide the SAI management with the information to recognise and reward high performers, as well as information needed to deal with inadequate performance. SAIs should have a suitable reward system to reward employees who meet or exceed clearly defined and transparent standards of high performance. In this connection, SAIs may consider the following kinds of incentives:

- Naming and honouring the Auditor(s) of the Year;
- Certificate of Excellence for outstanding performance;
- Additional financial remuneration/benefits to staff performing high quality work; and
- Performance-based promotions.

The performance management system should also enable SAI employees to discuss performance requirements with their supervisors, to become familiar with the critical elements and performance standards that apply to them, prepare self-assessments and seek feedback from the supervisors, when appropriate.

3.3.2.4 Audit Standards, Methodology and Performance

SAI top management need to steer the process of re-examining and refining the SAI's audit methodologies, processes and procedures and all other SAI factors affecting SAI's fulfilment of its mission and goals, and adherence to its professional standards and core values.

The quality management system designed by the SAI should provide reasonable assurance that appropriate standards, manuals, methodology, tools and techniques are in place, useful and applied consistently. The domain Audit Standards, Methodology and Audit Performance have five elements as shown below:



Figure 8: Domain of Audit Standards, Methodology and Audit Performance

The above structure is explained below:

a. Standards

Auditing standards constitute the criteria or yardstick against which the qualities of audit results are to be evaluated. The auditing standards governing the conduct of an audit determine what the auditor should do. The fact that an audit has been conducted in accordance with certain standards gives necessary reassurance to people making use of the accounts. The objectives of the particular type of work or the particular assignment should dictate the specific standards that are followed. Each SAI should develop or adopt appropriate standards which are preferably in compliance with national and INTOSAI standards. The SAI's policy should require all staff to comply with those standards relevant to the specific nature of their responsibilities.

ISSAI 100 (paragraph 6a) describes, "The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organised as courts of Account, or nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality". INTOSAI Auditing Standards (ISSAI 200 Paragraph 1.35) states that: "The SAI

Quality Assurance Review Handbook, 2012 Office of the Auditor General, Nepal
should ensure that applicable standards are followed on both pre-audits and post-audits and that deviation from the standards which are determined to be appropriate are documented.”

In addition to auditing standards, SAIs are also expected to comply with standards of ethics that determine the conduct of its staff. This is discussed separately later in this chapter, under the section ‘Internal governance’.

b. Manuals and other Guidance

The INTOSAI standard ISSAI 200, paragraph 1.2 (c) explains that the SAIs should “prepare manuals and other written guidance and instructions concerning the conduct of audits”. The audit methodology should be supported by manuals, guidance and other job aids. In addition to assisting the staff to effectively perform their duties, such guidance would constitute the quality control documents that would form the basis for planning and conducting quality assurance reviews. These manuals and guidance should, of course, be aligned to the auditing standards adopted by the SAI. SAIs should have in place detailed manuals and guidelines for three clear streams of audit, Performance Audit, Financial Audit and Compliance Audit regularity audit (financial and compliance) to help guide the audit teams in carrying out audits.

c. Quality Assurance

The purpose of the system of quality assurance is to have independence assurance that the SAI’s quality controls in placed are complied with. As explained in paragraph 8.17 of the ASOSAI Performance Auditing Guidelines, a system of quality assurance should provide:

- Indicators for recruitment and promotion;
- Guidelines for assignment of administrative and technical aspects of quality control to appropriate staff;
- A basis for communication of quality control policies, procedures and outcomes to all relevant staff; and
- Adequate monitoring and review of the quality assurance systems.

It is the responsibility of the quality assurance function to provide an independent, objective report to SAI top management on the adequacy of quality controls in different functions of the organisation, the extent of compliance to the controls, and recommendations for improvements. This should be done at regular intervals as spelled out in the QA policy of the SAI. It can also be useful to conduct SAI level quality assurance reviews at the beginning of each strategic planning cycle of the SAI. That could provide information on gaps in the SAI’s performance which, in turn, could be useful input to the development of the SAI’s next strategic plan.

d. Audit Performance

Audit Performance refers to the process, procedures and approach followed to conduct audit that the managers and the auditors should bear in mind to undertake any types of audit as per the ASOSAI AQMS guidelines. The following are the key components of the audit performance:

Figure 9: Audit Performance and its Key components



The above structure is explained below:

a) Audit Planning

In planning the audit, the most important process is to identify the audit scope, and determine audit objectives and methodology to enable auditors to focus on areas that needs review. The appropriate design of audit methodology will ensure sufficient, competent and relevant evidence to achieve the objective of the audit. (ASOSAI AQMS guidelines paragraphs, 4.8 to 4.17 may be considered while planning performance audit). ISSAI 300 (paragraph 0.3a) states that the auditor should plan the audit in a manner that ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

b) Staffing for the audit

The auditing should be taken up by the competent- Knowledge, abilities and skills, and dedicated staff for quality audit products. The SAI may consider ASOSAI AQMS guidelines Paragraphs 4.22 to 4.31 while staffing for the audit.

c) IT Tools

Paragraph 4.41 and 4.42 of ASOSAI AQMS guidelines suggest that SAIs may consider using IT-based tools for different states of the audit process, as well as for support activities e.g. Computer Assisted Audit Techniques to enhance their productivity and audit functions particularly in gathering audit evidence.

d) Other tools and Guidance

For other tools and guidance, refer *ASOSAI AQMS* guidelines paragraphs 4.43 and 4.44.

e) Conducting the Audit

Developing audit questions, audit programme, audit approaches, audit test programmes at the planning stage, developing findings and conclusions, and recommendations are the crucial process involved in implementing the performance audit. (ASOSAI AQMS Guidelines Paragraphs, 4.54 to 4.64).

f) Consultation and Advice

Paragraphs 4.66 to 4.72 of the ASOSAI AQMS guidelines provide recommendations on this issue. The SAI may consider consultation with external specialists and experts if available in-house staff lack required competencies in chosen audit areas.

g) Evidence and documentation

ISSAI-300 (paragraphs 0.3e and 5.1) states ‘Competent, relevant and reasonable evidence should be obtained to support the auditor’s judgement and conclusions regarding the organisation, programme, activity or function under audit’. Competent refers to the valid and reliable audit evidence, while relevant refers to logical, sensible and important relationship to the issue being addressed. Reasonable refers to what could reasonably be expected to be gathered and what conclusions could reasonably be expected to be drawn in the given situation. In addition, paragraphs 5.6 and 5.7 of the ASOSAI Performance Auditing guidelines stress the need for sufficient evidence. Sufficiency refers to the measure of quantity of audit evidence, while competence, relevance and reasonableness are measures of quality of audit evidence. The types of audit evidence are: Physical evidence; Testimonial evidence; Documentary evidence; Analytical evidence and Compliance and Substantive evidence. (ASOSAI AQMS Guidelines Paragraphs, 4.88 to 4.92).

ISSAI-300 paragraph 5.5 states, ‘Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit’. Also, ISSAI 300 paragraph 5.6 provides the following reasons for proper documentation:

- Confirm and support the auditor's opinions and reports;
- Increase the efficiency and effectiveness of the audit;
- Serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- Serve as evidence of the auditor's compliance with Auditing Standards;
- Facilitate planning and supervision;
- Help the auditor's professional development;
- Help to ensure that delegated work has been satisfactorily performed; and
- Provide evidence of work done for future reference.

h) Supervision and Review

ISSAI-300 paragraphs 0.3(b) and 2.1 states, 'The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff'. As per ASOSAI 300 paragraph 2.3, it is important that the supervision should be directed both to the substance and to the method of auditing. All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised, and it should be carried out as each part of the audit progresses. (ISSAI 300 paragraph 2.4).

i) Reporting and Follow-Up

The audit report is the reflection of the quality of all audit processes of an SAI, and thus, the SAI is ultimately judged by the quality or the kind of its audit report. The audit report has to be written to:

- Communicate the results consistently;
- Make the results less susceptible to misunderstanding;
- Make the results available for public inspection; and
- Facilitate follow-up to determine appropriate corrective actions have been taken by the concern entities or not.

The SAI has to develop a strategy and process for consistent and systematic follow-up process to enable it to contribute significantly to the effectiveness of audit in bringing systematic improvement in the functioning of the entity. The SAI may consider adopting the recommendation on reporting and follow-up as stated in paragraphs 4.123 to 4.160 of the ASOSAI AQMS guidelines.

3.3.2.5 Leadership and Internal Governance

The head of the SAI and the SAI top management need to set the appropriate tone and direction for the organisation. This is to ensure that the performance of the SAI is consistent with the highest professional standards or, at least, moving towards that goal in

the longer term. SAI top management, through its actions, will have to make clear that mechanisms are in place to ensure quality and high performance and to promote continuous improvement. They must continuously send appropriate signals that inspire the staff to comply with the approved standards and procedures, and make their best efforts to deliver quality services and products. The elements of the domain Leadership and Internal Governance are shown in following the flow diagram:

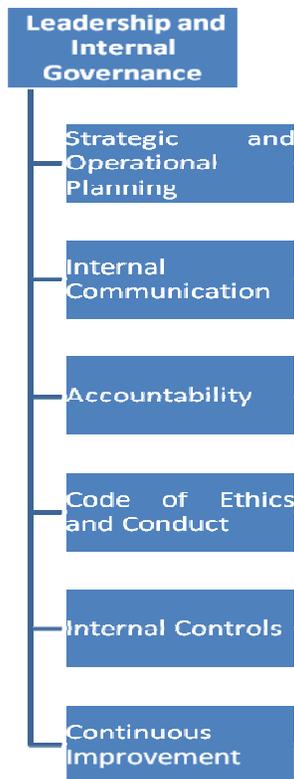


Figure 10: Leadership and Internal Governance domain

The above structure is explained below:

a. Strategic and Operational Planning

Organisations that consistently perform at high levels are generally those that are results-oriented and demonstrate a clear idea of their long-term intent. This is where strategic planning can play a pivotal role in ensuring consistent high quality performance by SAIs.

1. Strategic Planning

Strategic Planning in the context of SAIs is the process of identifying the long-term goals of the audit organisation and the best possible approach to be adopted for attaining these goals. The plan should outline the goals and objectives that need to be pursued to realise the SAI's vision and mission, identify strategies to attain them and

develop performance measures to assess achievement of the intended goals and objectives. The plan should also identify the supervisors and managers for each goal to ensure accountability.

Three key components of strategic plans – *Vision, Mission, and Core Values* – are discussed in the following paragraphs.

✓ **Vision statement**

Very early in the strategic planning process, the SAI's top management needs to pose a set of questions: "What is our vision for the SAI? Where should the SAI be heading and what should its future technology-resource product-client focus be? What kind of an organisation do we want to become?" Drawing a carefully reasoned conclusion about its long-term direction should push top management to take a long hard look at the SAI's external and internal environment, and form a clearer sense of whether and how its present operational needs will change over the years. The strategic vision can be an immensely valuable direction-setting and strategy-making tool. The vision statement should clearly state where the SAI wants to be positioned in the longer term. At the same time, it should be inspiring and galvanise organisation-wide commitment and action.

Ownership of the strategic vision by all levels of SAI staff is almost as important as setting the organisation's long-term direction. People need to believe in the destiny of their organisation, and that their efforts can make a difference in shaping that destiny.

✓ **Mission Statement**

A strategically revealing mission statement should incorporate stakeholder groups, their needs that the SAI needs to satisfy, and the SAI plans to meet those needs. A mission statement highlighting the boundaries of the SAI's current scope of activities is a logical vantage point from which to look down the road, decide what the organisation's make-up and stakeholder's focus needs to be, and chart a strategic path for the SAI to take. It conveys the essence of 'who we are, what we do, who we serve and how we serve'.

✓ **Core Values**

The SAI needs to identify the core values which constitute the defining principles of the organisation and individuals that work within it. These values should reflect the fundamental characteristics and criteria on which delivery of the vision and mission is based. In discharging their responsibilities, the government auditors need to observe the principles of serving the public interest and maintaining the highest degree of integrity, objectivity, professionalism and independence. These principles should be the cornerstone of the responsibilities and conduct of the auditors.

The mission, vision and core values need to be developed to ensure that they truly reflect the goals and aspirations of the SAI in relation to its mandate and those who work in it.

2. Operational planning

A strategic plan is only as good as its implementation. To facilitate implementation, the functional wings/units in the SAIs should draw up annual operational plans to reflect the requirements of the strategic plan. Resource commitments and specific activities will have to be incorporated in these plans.

✓ Organisational commitment and staff involvement

Once the overall direction and targets have been set, the SAI's commitment to them should be complete. Every target should be assigned to an organisational unit with specific individual responsibility for achieving the target in question. The responsible officials should have sufficient authority to be able to overcome any difficulties that may arise. The SAI should have proper dissemination of the organisational strategy and the progress reports so that the staffs are genuinely involved in its delivery, and they contribute to the planning efforts. To facilitate this, there should be a wide dissemination of ideas, information and good practices within the organisation.

✓ Performance Measurement

SAIs should develop a rigorous performance monitoring and review system to measure progress in delivering targets in line with expectations. Senior management should receive regular, timely and useful information and feedback for effective remedial action to be taken. The strategic plan should be reviewed annually for it to remain valid, relevant and useful. To facilitate performance monitoring, measurement and reporting, the SAI may consider setting up a unit or committee assigned with this responsibility.

b. Internal Communication

Internal Communication is crucial to share knowledge, disseminate information, strengthen understanding between management and staff, facilitate decision-making and support the changes and achievement of the SAI's strategic vision and mission. The commitment from the top management is important for effective internal communications. The SAI leadership should, therefore, put in place structures and processes for internal communications and periodically monitor whether their key internal messages are being received as intended and that they are inspiring the staff to take the desired actions. At the same time, effective communications is two-way; therefore, the SAI's leadership has to provide for mechanisms that allow them to receive critical feedback from the staff and follow up on them.

c. Accountability

While promoting accountability in the public sector, the SAI must remain accountable for its performance. In some countries, the legal framework requires the SAI performance to be independently evaluated by an external agency. Even where this is not a legal requirement, SAIs may consider periodic evaluation of its performance by external agencies, including peer SAIs. In addition, the quality assurance function of the SAI should periodically conduct institutional-level quality assurance reviews and report to the top management on the SAI's performance, along with recommendations for improvements. Accountability will also be promoted if the SAI implements a system of performance measurement and reporting discussed above under strategic planning.

d. Code of ethics or conduct

The SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI and its personnel comply with relevant ethical requirements.

Integrity is the core value of a 'Code of Ethics'. Auditors have a duty to adhere to the highest standards of behaviour in the course of their work and their relationships with the staff of the audited entities. An SAI should develop and disseminate to its staff a code of professional ethics and conduct that is applicable to the institution and to its employees. At the same time, there should be procedures in place that ensure compliance with the codes of ethics and conduct. The INTOSAI Code of Ethics highlights some of the major aspects of ethical conduct – namely, trust, confidentiality, credibility, integrity, independence, objectivity, impartiality, political neutrality, conflicts of interest, professional secrecy, competence, and professional development.

e. Internal controls

SAI top management should ensure the existence and implementation of appropriate structures, rules, regulations and procedures that ensure achievement of the desired objectives. These structures, rules, regulations and procedures in their entirety are what constitute the internal control system of an SAI. The quality of the SAI's products and services are ensured by the adequacy and correct implementation of the internal controls.

The Committee of Sponsoring Organisations of the Tread way Commission (COSO), a US private-sector initiative has established a common definition of internal controls, standards, and criteria against which companies and organisations can assess their internal control systems. The **COSO framework** defines internal control as a process designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance

with applicable laws and regulations. It follows that internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives.

The COSO framework provides for the following five interrelated components of an internal control system. These components provide an effective framework for describing and analysing the internal control system implemented in an organisation. The five components are:

I. Control environment

The control environment includes the governance and management functions and attitudes, awareness and actions of those charged with governance and management concerning the SAI's internal control and its importance in the entity. The control environment sets the tone of the SAI, influencing the control consciousness of its people. It is the foundation for effective internal control, providing the necessary discipline and structure.

II. Risk assessment

The SAI management should obtain an understanding of the SAI's processes for identifying business risks, and take actions to address those risks, and the results thereof. The process is described as the "entity's risk management process" and forms the basis for how management determines the risks to be managed.

III. Control activities

Control activities are the policies and procedures that help ensure that management directives are carried out; for example, that necessary actions are taken to address risks that threatens the achievement of the entity's objectives. Examples of specific control activities include those relating to: authorisation, performance reviews, information processing, physical controls, and segregation of duties.

IV. Information and communication

The information system comprises the procedures and records established to initiate, record, process and report on the SAI's performance against planned objectives.

V. Monitoring

Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It involves assessing the design and operation of controls on a timely basis, and taking necessary corrective actions modified for changes in conditions. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two.

It is the responsibility of each line functionary to ensure compliance with the internal controls relevant to the work of that functionary.

f. **Continuous Improvement**

The SAI should be in a state of readiness to address current issues more effectively, deal satisfactorily with emerging issues, and take advantage of new opportunities. The SAI should continuously upgrade its organisational capacity and competence of its personnel to remain abreast of developments in the field of auditing, and be able to address emerging issues in the rapidly changing audit environment. SAIs should update their strategic plans at periodic intervals to make sure that their efforts are aligned to the major auditable issues facing the particular country.

To ensure a system of continuous improvement, SAIs need to develop and implement strategies for professional staff development, research and development and organisational development. At the same time, improvement implies change. Often good intentions fail to become reality because SAIs do not have a well-developed change management strategy. Change management actions should be integrated with any action plan for initiating new approaches. For example, an SAI that does not have a QA function should include change management measures in its action plan for setting up the QA function. If necessary, SAIs should consider training some members of management and staff to become champions of change management, whose services could then be used to coordinate change management processes whenever the SAI undertakes any major change initiative.

3.3.2.6. Administrative Support

Effective performance of audit work is dependent on the timely and adequate provision of administrative support. In some SAIs, it is known by different names, such as office support or back office support. The elements of the domain are shown in the following flow diagram:

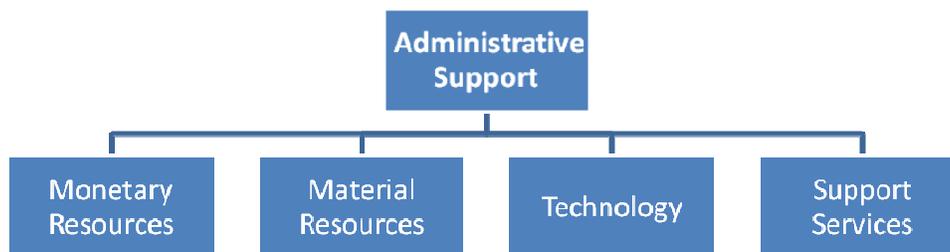


Figure 11: Domain of Administrative Support

The above structure is explained below:

a. Monetary resources

There are two dimensions to this element that need consideration. One is the availability of adequate budget for the SAI as a whole. This was discussed earlier under the section ‘Independence and legal framework’. The other dimension is the

optimal utilisation of the budget to procure and provide the required infrastructure and material support to the various functions. It is the responsibility of the administrative support division.

b. Material resources

The SAI should have sufficient material resources, including physical infrastructure, to enable its staff to perform their duties satisfactorily. Material resources include office buildings, working space for each employee, furniture and fittings, electric and water supply, training facilities, library, document storage facilities, and transportation. There might also be a need for gender specific infrastructure such as separate leisure rooms for female and male staff, depending on the cultural environment of the SAI.

c. Technology

Technology is another key element of material resources. However, in this age of information and knowledge, technology has become a driver of revolutionary change in work process. Therefore, SAIs need to leverage on technology to function efficiently and effectively. Technology includes telecommunications, information technology systems, internet and intranet, general office support software, information and decision-making systems, software for audit planning, documentation and reporting.

d. Support services

Support services include such items as secretarial assistance, security, transportation and event management. Depending on circumstances, it might be cost-effective to outsource some support services.

3.3.2.7. External stakeholder relations

The elements of the domain are shown in the following flow diagram:



Figure 12: Domain of External Stakeholders relation

The SAI should sustain effective working relationships and communication with external stakeholders to ensure sufficient impact of its audit reports and other products and services. It also needs inputs from external stakeholders in order to improve the quality of its work processes and products. The overall effectiveness of the SAI in promoting greater accountability, economy, efficiency and effectiveness in the functioning of public sector entities depends critically on the relationships it establishes and maintains with external stakeholders.

The SAI's stakeholders include the audited entities, parliament (or equivalent bodies), political executives, public, peers (other SAIs), donors, international organisations, media, professional and academic institutions, private sector auditing firms and others who have an interest or are affected by the SAI's products and services.

While it may not be feasible to deal with all stakeholders, SAIs should conduct stakeholder analysis to identify their significant stakeholders and their interests and influence on the SAI's functioning. Based on the stakeholder analysis, SAIs should implement measures to establish and maintain such relations with them that will help to leverage its efforts without compromising its independence and objectivity.

Developing and maintaining relationships appropriate to each category of stakeholder is likely to entail considerable effort by the SAI. As such, the SAI may consider developing and disseminating a standard document on external stakeholder protocols to sustain effective working relationships with them. The purpose of this document would be to provide clearly defined, consistently applied and transparent policy and practices on how the SAI will work with the stakeholders. It may identify what the external stakeholders can expect from the SAI and what the SAI expects of them. Such action may be particularly required because those relations may be at risk in a changing socio-political environment.

The following table briefly outlines the SAI's External Stakeholder Relationships, by stating the key requirement of each external stakeholder and key audit mechanisms that can help in meeting these requirements.

Table 4: SAI's External Stakeholder Relationships

Stakeholder	Requirement of the stakeholders from the SAIs	Key mechanism to fulfil stakeholders requirements
Audited entities	To provide value added information to enhance the performance of the entity	Audit Reports, Audit committees, Management letters, Certificates
Parliament / legislature	Receive appropriate, professional advice to facilitate effective oversight over the Executive	Audit reports and briefing sessions
Public	Receive reliable and relevant information that provides reasonable assurance about the performance of the Executive	Web sites, media reports and direct correspondence
Peers (other SAIs)	Knowledge sharing & organisational development	Training assistance, Peer review
Donors	Be assured of the quality of governance Utilisation of specific donor funding	Access to OAGN practices, Audit reports & certificates

Stakeholder	Requirement of the stakeholders from the SAIs	Key mechanism to fulfil stakeholders requirements
International Organisations	To fulfil the commitments with regard to organisational development	International & regional workshops, seminars, and board meetings
Media	Reliable information on performance of audited agencies	Press notes, releases, and interviews
Professional & Academic Institutions	Knowledge sharing	Contracts and other agreements for engaging external experts. Seminars and workshops
Private sector auditing firms	Their roles and responsibilities when undertaking audits on behalf of SAIs	Terms of engagement

3.3.2.8 Results

The elements of the domain are shown in the following flow diagram:

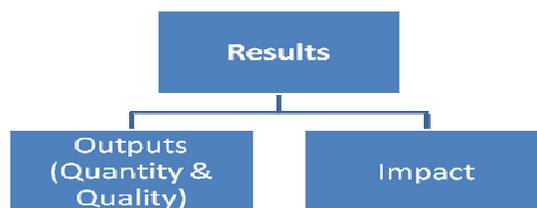


Figure 13: Results domain and its elements

The SAI is required to deliver quality audit reports and other services that promote accountability, transparency, value for money in the use of public resources and contribute towards good governance. Towards this end, SAIs should implement mechanisms for measuring the:

- Quality of its outputs (that is, the SAI's audit reports and services); and
- Longer-term impact of its products and services.

This issue of performance measurement was also highlighted earlier in the section on 'Internal Governance'. In order to implement a performance measurement system, the SAIs must develop performance measures for their various functions. In addition, they must develop and implement a system for regularly assessing the respective SAI performance against each of the performance measures.

Appendix 4 is an example of a checklist that may be used as a self-assessment tool as well as for obtaining the views of the audited entities with regard to the SAI's work or services.

With regard to their audit reports and management letters, performance measures could include:

Significance: How important is the matter that was examined in the audit? This, in turn, can be assessed in several ways, such as the financial outlay of the audited entities and the effects of the audited entity's performance on the public at large or on major national policy issues.

Reliability: Are all opinions and observations in the audit reports and management letters fully supported by valid and sufficient evidence?

Objectivity: Did the SAI duly consider the audited entity's responses to preliminary audit observations? Did the working papers demonstrate an impartial consideration and analysis of all evidence gathered?

Clarity: Are the audit reports and other products clear and concise in presenting the results of the audit? This typically involves being sure that the scope, findings and any recommendations can be easily understood by users of the audit report who may not be experts in the matters that are addressed, but that they may need to act in response to the report.

Timeliness: Were the audit reports, management letters and services delivered at an appropriate time? This may involve meeting a statutory deadline or delivering audit results when they are needed for a policy decision or when they will be most useful in correcting management weaknesses.

Impact measures could include:

- Progress that management has made in reducing the number of unresolved errors and irregularities identified during audits;
- Percentage of audit recommendations accepted by audited entities;
- Percentage of audit recommendations implemented by audited entities;
- Percentage of Public Accounts Committee (PAC) directives to audited entities that are based on audit observations; and
- Extent of satisfaction of PAC and audited entities with SAI's products and services.

3.4 Factors to consider prior to the implementation of the SAI-QMS framework

Before introducing OAGN QMS framework, there are certain issues to be considered, such as:

- **Who should make the decisions on quality?** Should there be a separate unit at the OAGN for quality issues, or should line managers make the decisions on quality issues and be responsible? What are the pros and cons of different solutions for the OAGN?

- **How should the OAGN secure the necessary knowledge and experience in quality issues – theories and procedures?** There is a clear need for an OAGN to have staff with experience in quality issues.
- **How should the quality assurance model be related to the existing “quality documents” such as manuals and guidelines?** How should the quality control model support and be supported by manuals and guidelines?
- **How is the OAGN going to ensure that the OAGN-QMS is kept relevant and not “shelved”, but updated as “a living thing” of interest to all?** To develop an OAGN-QMS takes a lot of effort, but it is potentially even more difficult to maintain.

Section 2

QAR of OAGN Process

3.5 Planning the QAR of OAGN

The QA review at the OAGN level is a comprehensive review that deals with the key result areas within the OAGN that affects its performance in all streams of auditing. Based on the observations, the purpose is to identify the gaps in relation to the desired condition for each key result area, the factors contributing to the gaps and strategies for addressing the gaps. Before starting the process of gathering data, the review team should carefully develop a QAR plan. The plan should, inter alia, state the review objectives, scope, likely sources of data and information, data gathering methods and tools to be used, limitations, if any in the review approach, resources required and timelines. **Appendix 5** has provided suggested format for QAR plan of OAGN. The plan should be supported with the tools proposed in the plan, such as survey questionnaire, document review checklists, interview questionnaires, focus group facilitation materials, and physical observation checklist.

A comprehensive OAGN-level QAR requires the use of a variety of data and information gathering methods other data-gathering techniques such as document review, interviews, focus groups, and physical observations. Information should be gathered from different levels of staff across functional units, and not from just the Head of the OAGN or a few functional units. This is important to ensure data quality, as well as to understand different perspectives on the same issues.

The team should set up contact meetings with the different department heads before starting the reviews. Personnel with the relevant skills should be involved in conducting the review. These skills include, amongst others, those relating to project management, facilitation, interviewing, communication, auditing and data analysis. If these skills are not all available within the Quality Assurance function, then the OAGN can consider seconding staff both internally and externally to the team. This can also assist in providing capacity building to the QA team members.

3.6 Conducting the QAR of OAGN

Once the OAGN has created its QMS, the Quality Assurance Review Team (QAR Team) is expected to conduct the review. This can be a very challenging task for several reasons, including:

- Dealing with senior staff and identifying deficiencies in their practices;
- Obtaining sufficient evidence on areas that can have some degree of subjectivity; and
- Inquiring about processes that may not fall within the expertise of the reviewer.

The issue concerning sufficiency of evidence is crucial. Some information may be provided to the reviewer through, for example, interviews that may not be supported by written documentation. The reviewer has to exercise professional scepticism when faced with information. Where there may be uncertainty or inconsistency, the reviewer should undertake further work or try and only report on what he or she has reliable evidence on, and state the uncertainties when reporting.

After receiving information, the reviewer has to undertake analysis to provide information that can be used for decision making by management. The purposes of the analysis will be to:

- (a) Assess gaps in the OAGN's QMS,
- (b) Identify factors contributing to those gaps, and
- (c) Suggest strategies for addressing those gaps.

3.7 Gathering Evidence

As mentioned in an earlier section, there are various methods of gathering evidence. The following is a brief discussion of the different methods that may be considered for obtaining evidence.

Table 5: Element-wise Suggested Methods for collecting evidence

	QMS Element	Sources	Methods
1	Independence and Legal Framework		
a	Independence	<ul style="list-style-type: none"> ◆ The Interim Constitution of Nepal, 2007 ◆ Audit Act, 1991 ◆ Specific Legislations related to Audit 	Document Review, Focus Groups
b	Mandate	<ul style="list-style-type: none"> ◆ The Interim Constitution of Nepal, 2007 ◆ Audit Act, 1991 ◆ Specific Act for the SAI ◆ OAGN's Websites 	Document Review, Interviews, and Browsing
2.	Human Resources		
a	Recruitment	<ul style="list-style-type: none"> ◆ Auditing Standards relating to resources and recruitment ◆ Act, Rules, Policies and Guidance related to Human Resources 	Document Review, Interviews, Focus Group Discussions, and

	QMS Element	Sources	Methods
		◆ Conditions of Service or Salaries Commission	Document Review
b	Retention	◆ OAGN Policy on retention of staff ◆ The AG ◆ OAGN Staff	Interview, Survey Group Discussions
c	Professional Staff Development	◆ OAGN Auditing Standards relating to professional staff development ◆ Strategic Plan & Training Plan of the OAGN ◆ Human Resources Policies and Guidelines ◆ Training Policies and Guidelines	Document Review Interviews Focus Group Discussions Browsing
d	Welfare	◆ Strategic Plan ◆ Human Resources Policies and Guidance ◆ Activities of the Staff Welfare Unit/Branch ◆ OAGN Staff	Interview Document Review Group Discussions
e	Performance Management	◆ Performance Appraisal System ◆ Human Resources Policies and Guidance ◆ Counselling, Guidance and Monitoring Processes ◆ Professional Development through such means as on-the-job training, self-directed studies, internal and external assignments	Document Review, Interviews, Focus Group Discussions, Browsing, Physical Observation, and Survey
3.	Audit Methodology, Standards and Audit Performance		
a	Standards	◆ Audit Manuals and Reports ◆ INTOSAI Standards ◆ ISSAI Standards ◆ NSA/ISA Standards	Document Review, Browsing, and Interviews
b	Manuals and Other Guidance	◆ Audit Manuals ◆ Audit Policy Instructions and Guidance ◆ OAGN Staff	Document Review, Browsing, and Focus Group Discussions

	QMS Element	Sources	Methods
c	Tools	<ul style="list-style-type: none"> ◆ OAGN Staff ◆ Audit Working Papers 	Document Review, Interviews, and Focus Group Discussions
d	Quality Assurance	<ul style="list-style-type: none"> ◆ AG ◆ QA Review Policy ◆ Audit Policy Instructions and Guidance ◆ QAR Team ◆ OAGN Staff 	Interview, Document Review, Interviews, and Focus Group Discussions
e	Audit Performance	<ul style="list-style-type: none"> ◆ AG ◆ Audit Manuals and Reports ◆ External Stakeholders ◆ Audit report 	Interview, Document Review, Interviews, and Focus Group Discussions
4.	Leadership and Internal Governance		
a	Strategic and Operational Planning	<ul style="list-style-type: none"> ◆ Strategic Plan, Acts & Constitution ◆ Annual Activity/Performance Report ◆ Auditing Standards of the OAGN ◆ Code of Corporate Governance 	Document Review, Interviews, and Focus Group Discussions
b	Internal Communication	<ul style="list-style-type: none"> ◆ Strategic Plan ◆ Annual Audit Plans ◆ OAGN's Organizational Structure or Organogram ◆ OAGN issuances and instructions 	Interview, Document Review, Browsing, and Focus Group Discussions
c	Accountability	<ul style="list-style-type: none"> ◆ Office Instructions Manual ◆ OAGN Annual Audit Report ◆ OAGN Annual Activity Report 	Document Review, Browsing, Interviews, and Focus Group Discussions
d	Code of Ethics or Conduct	<ul style="list-style-type: none"> ◆ Code of Ethics for Public Officers ◆ INTOSAI Code of Ethics 	Document Review, Browsing, and Focus Group Discussions
e	Internal Controls	<ul style="list-style-type: none"> ◆ Office Instructions Manual ◆ Organogram 	Document Review, Browsing, and Interviews

	QMS Element	Sources	Methods
f	Continuous Improvement	<ul style="list-style-type: none"> ◆ Strategic Plan ◆ Organogram ◆ Office Instructions Manual 	Document Review, Browsing, and Interviews
5. Administrative Support			
a	Monetary Resources	<ul style="list-style-type: none"> ◆ Annual Estimates ◆ Procedure Manual for preparing Budget for the OAGN 	Document Review and Focus Group Discussions
b	Material Resources	<ul style="list-style-type: none"> ◆ Annual Activity Report ◆ Annual Procurement Plan ◆ OAGN Staff 	Document Review, Interviews, and Focus Group Discussions Observation
c	Technology	<ul style="list-style-type: none"> ◆ Annual Activity Report ◆ OAGN Staff 	Document Review, Browsing, Focus Group Discussions, and Observation
d	Support Services	<ul style="list-style-type: none"> ◆ Annual Activity Report ◆ OAGN Staff 	Document Review, Interviews, and Focus Group Discussions
6. External Stakeholder Relations			
a	Key External Stakeholder Expectations	<ul style="list-style-type: none"> ◆ AG ◆ External stakeholders ◆ Annual Audit Report ◆ Annual Activity Report ◆ Strategic Plan 	Document Review, Browsing, Interviews, and Focus Group Discussions
b	Communicating with External Stakeholders	<ul style="list-style-type: none"> ◆ AG ◆ Communication Strategy ◆ OAGN's Press Relations Office, if any ◆ Annual Audit Report ◆ PAC Reports ◆ Websites & Media ◆ Professional and Academic Institutions 	Document Review, Interviews, and Focus Group Discussions

7. Results			
a	Outputs (Quality, Quantity)	<ul style="list-style-type: none"> ◆ AG ◆ Report on the QAR ◆ Annual Audit Report of the OAGN ◆ Performance Report of OAGN ◆ PAC Resolutions ◆ Parliament and Other Stakeholders 	Document Review, Browsing, and Interviews
b	Impact	<ul style="list-style-type: none"> ◆ External Stakeholders ◆ Audit Follow Up Report ◆ Annual Audit Report ◆ Audit Performance Reports ◆ Audited entities, PAC Members 	Document Review, Browsing, Interviews, and Focus Group Discussions

3.7.1 Document Review

Document review is the process of gathering information from various types of documents relevant to the different elements and sub-elements of the OAGN's QMS. The following principles could assist the review team in obtaining first-hand information on the OAGN:

- Establish contact with a coordinator at the OAGN well ahead of time;
- Provide a comprehensive list of documents that the QAR team would require from the OAGN to the coordinator;
- Agree with the coordinator on a date by which the documents would be made available;
- Once the documents are received, establish if they correlate to the documents requested; and
- Organize the material in such a way that it is available to all members of the QAR team.

Table 6: Reviewing method of guiding list of documents

QMS Framework	List of Documents
Independence and Legal Framework	
<ul style="list-style-type: none"> • Interim Constitution of Nepal with reference to articles referring to the external audit function 	<ul style="list-style-type: none"> • By-laws and regulations • Public Financial Management legislation • Any other documents that could clarify the mandate and legal basis of the OAGN

<ul style="list-style-type: none"> • Audit Act, 1991 • Financial Procedure Act and Regulation 	
Human Resources	
<ul style="list-style-type: none"> • Human Resource Management policy documents • Human Resource Development Plan • Conditions of service • Scheme of Service • Performance assessment results of the past three years per job level • Assessment results of staff for the last three years • Staff retention policy 	<ul style="list-style-type: none"> • Minimum qualification framework for new appointments • Performance Appraisal manual • Recruitment and selection procedures • Succession planning manual • Promotion policy, rules and regulations • Copy of the organisational structure of the OAGN • Promotion policy • Career development policy • List of qualifications of staff • Personnel Welfare policy
Audit Standards, Methodology and Audit Performance	
<ul style="list-style-type: none"> • Auditing standards of the OAGN (all types of audits conducted) • Audit manuals and guides of the OAGN (all disciplines) • Documents of the technical review process of the OAGN 	<ul style="list-style-type: none"> • Audit files (samples) of different types of the audit • Audit reports (sample) of different types of the audit • Documents relevant to audit tools used by the OAGN • QAR Policy of the OAGN
Leadership and Internal Governance	
<ul style="list-style-type: none"> • Annual Activity Report • Strategic plan • Operational plan • OAGN's communication manual • Delegations and management 	<ul style="list-style-type: none"> • Internal audit reports • Report on the performance report (activity report) • Self assessments (if any) <ul style="list-style-type: none"> • Training plan of the OAGN • Training manuals

<p>framework</p> <ul style="list-style-type: none"> • Code of professional ethics and conduct of the OAGN • Quality Assurance manual • External audit report • Peer review reports (if any) 	<ul style="list-style-type: none"> • Training courses (sample) • Annual training reports • List of research projects the OAGN has approved for the next year/two years • Co-operation agreements with professional associations • Continuous professional development (CPD) programme of the OAGN • Change management strategy of the OAGN
Administrative Support	
<ul style="list-style-type: none"> • Budget • Procedure manual for preparing a budget for the OAGN • Information Communication and Technology (ICT) strategic plan 	<ul style="list-style-type: none"> • Asset register • IT inventory • Management Information System (MIS) manual • MIS reports (sample) • Annual Procurement Plan
External Stakeholder Relations	
<ul style="list-style-type: none"> • Communication strategy • Press release (sample) • Public Accounts Committee (PAC) (or similar body) reports and resolutions 	<ul style="list-style-type: none"> • Previous assessment reports conducted by donors / peers / self assessment • Stakeholder survey results • Media clips • Website address of the OAGN
Results	
<ul style="list-style-type: none"> • Performance report of the OAGN • Annual activity report of the OAGN • Activity report of the OAGN • Individual audit reports • Benchmarks in the OAGN 	<ul style="list-style-type: none"> • Constitutional review reports • Public Accounts Committee (PAC) resolutions • Peer review reports (if any) • Any sources that might indicate impact

3.7.2 Physical Observation

Physical observation is a visual process made by the QAR team to record what they see using a checklist sheet. Observation may be on physical surroundings or of ongoing activities, processes or discussions. It is used to verify the existence and appraise the sufficiency, adequacy and convenience of the OAGN's material resources, technology and support services. Observation checklists can also be developed to observe the behaviours of the OAGN's personnel for the particular processes or activities offered at that particular time and whether these are in compliance with official requirements. In addition, it may provide an overview of the OAGN's relationship with its stakeholders (Audited entities, Parliament, Executive, etc.).

Appendix 6 provides a physical observation checklist for work environment and facilities.

3.7.3 Focus Group Discussion

A focus group discussion is a process of focused discussion on a given issue with a group of people. It involves the use of a sequence of key questions. This can be a powerful technique for gathering information on the OAGN's functioning, challenges and strategies. Unlike one-to-one interviews, focus groups allow participants to build on each other's comments and opinions and can, thereby, be a rich source of qualitative information. The QAR team should ensure that the focus group meetings are held for different categories of staff and management across functional units instead of engaging only a limited category of OAGN personnel. Strong facilitation skills are critical for the success of focus group discussions. Facilitation is a specialised skill acquired through training and experience. As such, it would be appropriate to ensure that at least some members of the QAR Team have such skills. **Appendix 7** provides guidance on conducting focus group discussion.

3.7.4 Interview

An interview is a data and information collection procedure in the form of a carefully planned set of questions that the QAR team asks the OAGN employees with a view to obtaining their in-depth ideas and perceptions regarding the OAGN. A proper set of key questions have to be drafted in advance for this purpose. **Appendix 8** provides guidelines on conducting interview.

3.7.5 Survey Questionnaire

For assessing an OAGN's QMS, the information presented in Paragraph 3.3 (Key domains and Elements of the SAI level QMS Framework suggested by IDI) provides a comprehensive framework. From this framework, a questionnaire for QAR of OAGN has been suggested which is included in **Appendix 9**. The questionnaire has been designed with reference to the relevant ISSAI and ASOSAI guidelines. The OAGN can obviously modify this survey questionnaire to suit their specific needs.

3.7.6 External Stakeholders

Although this is not an evidence gathering tool, an explanation below is provided to highlight the importance of this area. In normal circumstances, an OAGN's external stakeholders include Head of State, Parliament, Head of the Executive, Audited Entities, Internal Audit, Public, Media, Professional Associations and Private Sector Auditors, Peer SAIs, Aid Donors, etc.

In **Appendix 10** is an suggested method for getting information from external stakeholders, what information is required from them, how the information can be obtained, and how to deal with the information obtained.

3.7.7 Content Analysis

After gathering the evidence, the reviewer is required to undertake an analysis of information. Most of the information gathered using the techniques such as document review, interviews and focus groups is likely to contain qualitative data that requires analysis and classification. The QAR team may use the content analysis tool for this purpose. Guidance on content analysis of qualitative information is provided in **Appendix 11**. For quantitative data, the QA team can use common analysis tools such as percentages, ratio analysis, and trend analysis.

3.8 Reporting on the QAR of OAGN

3.8.1 Report preparation

Based on the observations and findings at the QAR of OAGN, the quality assurance review team should prepare a Quality Assurance Review Report.

3.8.2 Reviewing completeness of checklist

The QAR team should review the completeness of information collection by ensuring that all information related to the checklists has been collected and reviewed. The review team should go through all the documents and analyse the responses by making sure that there is a logical flow of information. The reviewer must exercise professional judgment when reviewing the information gathered. If information gathered is not consistent, the reviewer must seek further clarification from the working papers. If the working papers are not sufficiently clear, the reviewer should discuss it with the team leader and make a decision on how to resolve the situation.

3.8.3 Preparing a draft report outline

(A): As a first step for reporting and identifying individual findings, suggested template for recording QAR finding is included **Appendix 12**. the QAR team should consider the following information:

- **Findings:** All material negative findings should be recorded precisely by stating the nature and extent of the findings. While describing the findings in the draft QAR report, it should (a) list all findings or gaps for each sub-element of the

OAGN-QMS, (b) evaluate the risk of each finding or gap, and (c) identify the main reasons underlying each finding. However, findings need not always be negative. The QA team should keep a record of significant positive observations so that those can be included in the QAR report. This will ensure balanced reporting.

- **Impact:** This attribute identifies the real or potential effect of the findings. The review team should consider how the existence of problems, gaps or findings may influence the OAGN's policy, independence and audit processes in future.
- **Cause:** The reason for identified findings or gaps and problems. The reasons underlying the identified gaps or problems form the basis for making appropriate recommendations.
- **Comments made by the senior manager:** The reviewer should obtain and record all comments from the senior managers on the observations made.
- **Name of reviewer:** It is necessary to state the name of the reviewer who made a particular observation.

(B): The next step is to bring together all significant individual findings in a way that provides an effective overview. For this, the QA team may consider using an overview of findings recording form included in **Appendix 13**. This form records each material finding, the corresponding risk assessment, likely impact, probable causes, senior manager's comments, and the QA team's recommendations.

The summary recording form can help the review team to arrange their findings logically, and prepare for effective meetings with senior management of the OAGN.

3.8.4 Discussing findings with, and obtaining feedback from, OAGN senior management

The review team should meet with the OAGN senior management to discuss the findings or gaps and ensure they are clearly understood. If required, the gaps identified by the reviewing team should be corrected on the working papers.

Before the meeting, the team should:

- Go through the recorded observation forms, and summarise and agree on the observations;
- Agree on the most effective way of presenting the observations;
- Make an appointment with the Senior Management for the meeting;
- Arrange the documents that should be available during the meeting;
- Agree among the team who should lead the discussions, and who should record the conclusions arrived at; and
- Agree on the sequence of presenting the issues. It is advisable to start with the good practices (positive findings) before highlighting the weaknesses.

During the meeting, the team should:

- Give an opportunity to the Senior Managers to discuss the issues;
- Take note of all points that are clarified by the Senior Managers;
- Note all disagreements between the team and the Senior Managers, and consider whether there is a need to verify such issues;
- If necessary, agree with the Senior Managers for a second round of feedback; and
- Suggest recommendations for weaknesses accepted.

However, there are certain things the team should try to avoid when giving feedback to Senior Management. These include:

- An aggressive way of talking, especially when commenting on the gaps or weaknesses;
- Destructive criticism of the work of the OAGN;
- Giving unmerited praise; and
- Generalise comments that in fact only apply to a specific issue or audit work.

After the meeting, the team should:

- Verify the issues that the Senior Managers claimed are in place;
- Summarise the observations obtained during the discussion;
- Finalise the observations at this point; and
- Extend thanks for their cooperation during the meeting.

3.8.5 Preparing the Draft Report

After discussion with senior management, the QAR team is required to:

- Analyse the observations with the explanations received;
- Investigate further evidence to matters upon which there have been diverse opinions;
- Discuss and reach a consensus about the findings to be dropped;
- Agree on the amendments to be made on the draft report; and
- Discuss the recommendations and decide on the findings to be included in the report to be submitted to the AG.

Appendix 14 provides sample format for QAR of OAGN report.

3.8.6 Discuss the summary of findings with the AG

The QAR team leader should discuss with the head of the SAI the summary of findings and recommendations. To make the discussion effective:

- Be punctual;
- Start to present the good practices;
- Continue to present the weaknesses;
- Be brief and to the point with the presentation;
- Record both the matters that are accepted and not accepted by the AG;
- When disagreement arises, do not remove or disclose any findings on which the AG disagrees without being convinced with the evidence presented during the discussion;
- Note all disagreements for further clarification;
- Ask whether there are any questions, recommendations or comments;
- Thank the AG and staff for assistance; and
- Close the meeting.

3.8.7 Finalising the Report

To finalise the report, members of the team are required to have a meeting and discuss the observations obtained during the discussion with the AG.

The team is required to consider all the points indicated above, and to then prepare the final report. The final report should be signed by the QA Team Leader.

Chapter 4

QAR of Financial Audit

4.1 Financial Audit Process Overview

In conducting QAR for financial audit it is important to gain an understanding of the financial audit process and the OAGN's specific requirements and guidelines applicable to the audit. This will serve as the benchmark by which quality assurance in financial audit may be measured. It is also important to consider the requirements for quality control system for financial audit in accordance with International Standard on Supreme Audit Institution (ISSAI 1220).

In this chapter the different stages of the financial audit process and the detailed steps involved in each phase are explained to serve as a guide for the QAR team. The financial audit process discussed herein is based on the International Standards of Supreme Audit Institutions (ISSAI), International Standards on Auditing (ISA) and the INTOSAI Auditing Standards. The related auditing standards are discussed in each step where applicable. INTOSAI is in the process of adopting the International Standards of Auditing. Where these standards have been adopted by INTOSAI the ISSAI reference is used otherwise the ISA reference is used.

The steps in the audit process can be broadly grouped into: Pre-Engagement Phase; Planning Phase; Execution Phase; and Reporting Phase. A table showing the different stages and the different activities involved in each stage and the relevant auditing standard is shown in **Appendix 15**.

4.1.0 International Standard for Supreme Audit Institutions (ISSAI) 1220 “Quality Control for an Audit of Financial Statements”

ISSAI 1220 establishes standards and provides guidance on specific responsibilities of the audit team leader or audit director and audit team members regarding quality control procedures that are applicable to individual audit. The audit team must implement quality control procedures that are applicable to the individual audit.

In particular, the audit team leader or audit director should:

- a) Take responsibility for the overall quality on each audit to which he/she is assigned.
- b) Consider whether members of the audit team have complied with ethical requirements and document such an understanding.
- c) Form a conclusion on compliance with independence requirements and obtain information to evaluate whether there are potential threats to independence or any identified breaches; take appropriate action to eliminate such threats and document conclusions.
- d) Be satisfied that appropriate procedures regarding the acceptance and continuance of relationships with audited entities and specific audits have been followed, and that conclusions reached on this regard have been documented.

- e) Be satisfied that audit team collectively has the appropriate capabilities, competence and time to perform the audit in accordance with professional standards and applicable regulatory requirements, and to enable the issuance of an auditor's report in the circumstances.
- f) Be responsible for the direction, supervision and performance of the audit in compliance with professional standards and regulatory and legal requirements, and that the auditor's report issued is appropriate in the circumstances.
- g) Review the working papers in order to be satisfied that they demonstrate that sufficient appropriate audit evidence has been obtained to support conclusions reached for the auditor's report to be issued.
- h) Be responsible for the audit team undertaking appropriate consultation on difficult or contentious matters; be satisfied that the nature and scope of, and conclusions resulting from such consultations are documented and agreed with the party consulted; and determine that conclusions resulting from consultations have been implemented.

Differences of Opinion

Where differences of opinion arise within the audit team, with those consulted and, where applicable, between the audit team leader or audit director and the audit quality control reviewer, the audit team should follow the OAGN's policies and procedures for dealing with and resolving differences of opinion.

Audit Quality Control Review

For audits where the OAGN requires that an audit quality control review be performed for an audit, the responsible official should:

- a) Determine that an audit quality control reviewer has been appointed;
- b) Discuss significant matters arising during the audit, including those identified during the audit quality control review, with the audit quality control reviewer; and
- c) Not issue the auditor's report until the completion of the audit quality control review. An audit quality control review should include an objective evaluation of the significant judgments made by the audit team; and the conclusions reached in formulating the auditor's opinion and report.

Monitoring

The audit team leader or audit director should consider the results of the OAGN's quality assurance reviews to determine the impact if any, on the individual audit.

4.1.1 Pre-engagement phase

The pre-engagement phase refers to the basic considerations before starting a financial audit engagement. This has reference to the code of ethics and competency of the audit team.

a) **Compliance with the Code of Ethics** The IFAC Code of Ethics establishes ethical requirements for professional accountants and provides a conceptual framework for all professional accountants to ensure compliance with the five core principles of professional ethics, namely:

1. Integrity;
2. Independence;
3. Conflicts of interest;
4. Confidentiality; and
5. Professional competence and due care.

The INTOSAI Code of Ethics (ISSAI 30) also provided the following ethical requirements for OAGN officials:

1. Trust, Confidence and Credibility,
2. Integrity,
3. Independence, Objectivity and Impartiality,
4. Political neutrality,
5. Conflicts of interest,
6. Professional Secrecy,
7. Competence and
8. Professional Development

b) **Audit aspects to be considered during in planning and executing the audit**

1. Organizational environmental analysis such as potential new audited entities; policy changes like decentralization of local government functions; impact of donors and other institutional partners; changes to accounting standards(cash to accruals); delegation for signing off all audit opinions; changes to accounting and auditing regulatory framework; policy changes (centralization / decentralization functions); and outsourcing of functions.
2. Organisation's / OAGN's engagement risk such as audit complexity is greater than the in-house competence; planned resources are not realised (personnel and budget); limitation of audit scope (audited entity not providing information requested); increase in audit backlogs.

3. Assessment of capacity (skills and resources) such as targets for qualified personnel; provision for continued professional development; appropriate planning, development and training (against prescribed accounting and auditing standards; availability expertise to utilise information technology (audit working papers, audit tools)).

4.1.2 Planning phase

The planning phase covers the following steps / activities

A. Understanding the Entity and its Environment.

ISSAI 1315, “Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and its Environment” provides that the auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. The auditor understands of the entity and its environment consists of an understanding of the following aspects:

(i) Regulatory and other external factors including the applicable financial reporting framework

Legislative and regulatory requirements often determine the applicable financial reporting framework to be used by management in preparing the entity’s financial statements. In most cases, the applicable financial reporting framework will be that of the jurisdiction in which the entity is registered or operates and the auditor is based, and the auditor and the entity will have a common understanding of that framework.

(ii) Nature of the entity

The auditor should obtain an understanding of the nature of the entity. The nature of the entity refers to the entity’s operations, its ownership and governance, the types of investments that it is making and plans to make, the way that the entity is structured and how it is financed. An understanding of the nature of an entity enables the auditor to understand the classes of transactions, account balances and disclosures to be expected in the financial statements.

(iii) Objectives and strategies and related business risks

The auditor should obtain an understanding of the entity’s objectives and strategies, and the related business risks that may result in material misstatement of the financial statements.

The entity conducts its business and operates programs and project in the context of industry, regulatory and other internal and external factors. To respond to these factors, the entity’s management or those charged with governance define objectives, which are the overall plans for the entity. Strategies are the operational approaches by which management intends to achieve its objectives. Business risks result from

significant conditions, events, circumstances, actions or inactions that could adversely affect the entity's ability to achieve its objectives and execute its strategies, or through the setting of inappropriate objectives and strategies. Just as the external environment changes, the conduct of the entity's business is also dynamic and the entity's strategies and objectives change over time.

(iv) Measurement and review of the entity's financial performance

The auditor should obtain an understanding of the measurement and review of the entity's financial performance. Performance measures and their review indicate to the auditor aspects of the entity's performance that management and others consider being of importance. Performance measures, whether external or internal, create pressures on the entity that, in turn, may motivate management to take action to improve the business performance or to misstate the financial statements. Obtaining an understanding of the entity's performance measures assists the auditor in considering whether such pressures result in management actions that may have increased the risks of material misstatement.

Internally-generated information used by management for this purpose may include key performance indicators (financial and non-financial), budgets, variance analysis, segment information and divisional, departmental or other level performance reports and comparisons of an entity's performance with that of competitors.

(v) Internal control

The auditor should obtain an understanding of internal control relevant to the audit. The auditor uses the understanding of internal control to identify types of potential misstatements, consider factors that affect the risks of material misstatement, and design the nature, timing, and extent of further audit procedures.

Internal control is the process designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. It follows that internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives.

Internal control, as discussed in ISSAI 1315, consists of the following components:

(a) The Control Environment

The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for effective internal control, providing discipline and structure.

(b) The Entity's Risk Assessment Process

The auditor should obtain an understanding of the entity's operational process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof. In evaluating the design and implementation of the entity's risk assessment process, the auditor determines how management identifies business risks relevant to financial reporting, estimates the significance of the risks, assesses the likelihood of their occurrence, and decides upon actions to manage them. The evaluation of operational risk by the auditor serves to minimise the audit risk to the acceptably low level.

(c) The Information System, including the related business processes, relevant to financial reporting, and Communication

The auditor should obtain an understanding of the information system, including the related entity's business processes, relevant to financial reporting, including the following areas:

- The classes/items of transactions in the entity's operations those are significant to the financial statements.
- The procedures, within both IT and manual systems, by which those transactions are initiated, recorded, processed and reported in the financial statements.
- The related accounting records, whether electronic or manual, supporting information and specific accounts in the financial statements in respect of initiating, recording, processing and reporting transactions.
- How the information system captures events and conditions, other than classes of transactions, which are significant to the financial statements.
- The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures.

(d) Control Activities

The auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. Control activities are the policies and procedures that help and ensure that management directives are carried out to address risks that threaten the activities of the entity's objectives. Control activities, whether within IT or manual systems, have various objectives and are applied at various organizational and functional levels. Examples of specific control activities include those relating to: authorization, performance reviews, information processing, physical observation, and segregation of duties.

(e) **Monitoring of controls**

The auditor should obtain an understanding of the major types of activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates corrective actions to its controls.

Monitoring of controls is a process to assess the effectiveness of internal control over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. Management accomplishes monitoring of controls through ongoing activities, separate evaluations or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities.

B. Establishing audit objective and scope

International Standard on Auditing (ISA) 200, "**Objective and General Principles Governing an Audit of Financial Statements**" and **International Standards of Supreme Audit Institution (ISSAI 1200) "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing"** requires that the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework.

The auditor should determine the characteristics of the engagement that defines its scope such as the financial reporting framework used and locations of the components of the entity and legal requirements. He should ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required, such as deadlines for interim and final reporting, and the key dates for expected communications with management and those charged with governance.

C. Determining materiality

- (i) "Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary quantitative characteristic which information must have if it is to be useful."

- (ii) The assessment of what is material is a matter of professional judgment. **ISA 320 and ISSAI 1320 "Audit Materiality"** provide guidance on the concept of

materiality and its relationship with audit risk. The auditor should consider materiality and its relationship with audit risk when conducting an audit.

In designing the audit plan, the auditor establishes an acceptable materiality level so as to detect quantitatively material misstatements. However, both the amount (quantity) and nature (quality) of misstatements need to be considered. Examples of qualitative misstatements would be the inadequate or improper description of an accounting policy when it is likely that a user of the financial statements would be misled by the description, and failure to discuss the breach of regulatory requirements when it is likely that the consequent imposition of regulatory restrictions will significantly impair operating capability.

The auditor needs to consider the possibility of misstatements of relatively small amounts that, cumulatively, could have a material effect on the financial statements. For example, an error in a month end procedure could be an indication of a potential material misstatement if that error is repeated each month.

The auditor considers materiality at both the overall financial statement level and in relation to classes of transactions, account balances and disclosures. Materiality may be influenced by considerations such as legal and regulatory requirements and considerations relating to classes of transactions, account balances, and disclosures and their relationships. This process may result in different materiality levels depending on the aspect of the financial statements being considered.

Materiality should be considered by the auditor when:

- Determining the nature, timing and extent of audit procedures; and
- Evaluating the effect of misstatements.

In addition to exercising professional judgment, OAGN should consider any legislation or regulation which may impact that assessment. Materiality is also based on the “context and nature” of an item and includes, for example, sensitivity as well as value. Sensitivity covers a variety of matters such as compliance with authorities, legislative concern or public interest. The public interest reflects the fact that all public funds represent the taxpayers’ money and therefore the accountability for spending public money is much greater than for a private business. Public interest requires an understanding that money is not simply spent and recorded in the books of account but that the money was spent on its intended purpose in an economic, efficient and effective manner.

D. Assessing the risks of material misstatement

ISSAI 1315 and **ISA 315** also requires that the auditor should identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures. For this purpose, the auditor:

- Identifies risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks by considering the classes of transactions, account balances and disclosures in the financial statements;
- Relates the identified risks to what can go wrong at the assertion level;
- Considers whether the risks are of a magnitude that could result in a material misstatement of the financial statements; and
- Considers the likelihood that the risks could result in a material misstatement of the financial statements.

The auditor uses information gathered by performing risk assessment procedures, including the audit evidence obtained in evaluating the design of controls and determining whether they have been implemented, as audit evidence to support the risk assessment to determine the nature, timing and extent of further audit procedures to be performed.

The auditor determines whether the identified risks of material misstatement relate to specific classes of transactions, account balances, and disclosures and related assertions, or whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions. The latter risks (risks at the financial statement level) may derive in particular from a weak control environment.

Such considerations, therefore, have a significant bearing on the auditor's general approach, for example, an emphasis on substantive procedures (substantive approach), or an approach that uses tests of controls as well as substantive procedures (combined approach).

E. Considering the going concern assumption

ISSAI 1570 and ISA 570 provide guidance on the auditor's responsibility in the audit of financial statements with respect to the going concern assumption used in the preparation of financial statements, including considering management's assessment of the entity's ability to continue as a going concern.

The appropriateness of the going concern assumption in the preparation of the financial statements is generally not in question when auditing either a government entity or those public sector entities having funding arrangements backed by the government. However, where such arrangements do not exist, or where government funding of the entity may be withdrawn and the existence of the entity may be at risk, this ISA will provide useful guidance. As governments privatise government entities, going concern issues will become increasingly relevant to the public sector. This assumption is equally useful in the public enterprises.

When looking at going concern in the public sector entities, lack of appropriate funding may affect differently compared to their private sector counterparts. A public sector entity will not necessarily go out of business but rather it will not be able to fulfil its mandate in terms of service delivery. Usual relationships identified in the financial

statements (e.g., liabilities exceeding assets, negative cash flow) will be indicative of such problems.

F. Considering fraud in financial audit

ISSAI 1240 and ISA 240 “The Auditor’s Responsibility to Consider Fraud in the Audit of Financial Statements” provides guidance on the auditor’s responsibility to consider fraud in an audit of financial statements. In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud. The auditor should maintain an attitude of professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor’s past experience with the entity about the honesty and integrity of management and those charged with governance.

An auditor conducting an audit obtains reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. An auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the evidence available to the auditor is persuasive rather than conclusive.

When obtaining reasonable assurance, an auditor maintains an attitude of professional scepticism throughout the audit considers the potential for management override of controls and recognises the fact that audit procedures that are effective for detecting error may not be appropriate in the context of identified risk of material misstatement due to fraud.

G. Preparing a detailed audit plan

ISSAI 1300 and ISA 300, “Planning an Audit of Financial Statements”, provide guidance on the considerations and activities applicable to planning an audit of financial statements. The auditor should plan the audit so that the engagement will be performed in an efficient manner. The auditor should establish the overall audit strategy. The overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.

The auditor should prepare a detailed audit plan on determining overall responses and designing and performing further audit procedures. The auditor should identify the processes to be audited, the key risks and controls relevant to each component and decide on the most suitable audit approach to obtain audit assurance e.g. whether the controls will be tested or substantive tests will be performed.

At this stage of the audit process the high level planning is completed. The auditor should have knowledge of the following important elements:

- The components to be audited (from the financial statement);

- High level risks and the management's response to them (other high level working papers); and
- Understanding of the IT systems in operation with a preliminary risk assessment.

The auditor's responsibility at this stage is to document the operations of the organization on a component level. This is critical to the remainder of the audit and determines, amongst others, the type of audit tests e.g. test of controls as well as the nature of such procedures. The system descriptions after completion should inform anyone who reads it as to the risks and controls, as well as an assessment of those risks and controls. The risk and controls relate to the point of transaction within its lifecycle. For example, the risks relating to the procurement of an asset are specific and different to those surrounding the usage of the same asset.

4.1.3 Execution phase

ISSAI 1330 and ISA 330, "The Auditor's Responses to Assessed Risks," establishes standards and provides guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement at the financial statement and assertion levels in a financial statement audit.

The auditor should determine overall responses to address the risks of material misstatement at the financial assertion level. Such responses may include emphasizing to the audit team the need to maintain professional scepticism in gathering and evaluating audit evidence, assigning more experienced staff or those with special skills or using experts, providing more supervision, or incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.

a) Performing Tests of Controls

When the auditor's assessment of risks of material misstatement at the *assertion level* includes an expectation that controls are operating effectively, the auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit.

The auditor's assessment of risk of material misstatement at the assertion level may include an expectation of the operating effectiveness of controls, in which case the auditor perform tests of controls to obtain audit evidence as to their operating effectiveness.

Tests of operating effectiveness of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in an assertion.

When the auditor has determined that it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures, the auditor should perform tests of relevant controls to obtain audit evidence about their operating effectiveness. The auditor may find it impossible to design effective substantive procedures that by

themselves provide sufficient appropriate audit evidence at the assertion level when an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system.

Testing the operating effectiveness of controls is different from obtaining audit evidence that controls have been implemented. When obtaining audit evidence of implementation by performing risk assessment procedures, the auditor determines that the relevant controls exist and that the entity is using them. When performing tests of operating effectiveness of controls, the auditor obtains audit evidence that controls operate effectively.

b) Performing substantive procedures

Substantive procedures are performed in order to detect material misstatements at the assertion level, it include two types of audit procedure a) tests of details of classes of transactions, head of expenditure/revenue and disclosures b) substantive analytical procedures. The auditor plans and performs substantive procedures to be responsive to the related assessment of the risk of material misstatement.

Irrespective of the assessed risk of material misstatement, the auditor should design and perform substantive procedures for each material class of transactions, head of expenditure/revenue and disclosure. This requirement reflects the fact that the auditor's assessment of risk is judgmental and may not be sufficiently precise to identify all risks of material misstatement. Further, there are inherent limitations to internal control including management override.

Accordingly, while the auditor may determine that the risk of material misstatement may not be reduced to an acceptably low level by performing only tests of controls for a particular assertion related to a class of transactions, head of expenditure/revenue and disclosure the auditor always performs substantive procedures for each material class of transactions, head of expenditure/revenue and disclosure. Different types of substantive procedures are given below:

i) Performing test of detail

Tests of details are the application of one or more of seven types of audit technique such as comparison, computation, confirmation, enquiry, inspection, observation and physical examination to individual items or transactions or heads of expenses/revenue. Tests of details are often effective for audit objectives relating to non-routine transactions, as these do not often follow predictable trends. Also, non-routine transactions are not usually directly comparable to other classes of transactions or head of expenditures/ revenue in the current or prior periods.

Enquiry and observation techniques are often performed when selecting individual items for tests of details or as part of the investigation and follow-up of audit findings. Vouching is a term often used to refer to tests of details using a combination of comparison, computation and inspection techniques.

The objective of tests of details may be either:

- To obtain audit evidence as to whether the financial statement assertions addressed by the audit objective include significant misstatements; or
- To estimate the amount of the audit difference for the financial statement assertions that the auditor believes do include significant misstatements.

The auditor selects items to be tested from a population using different sampling techniques. The auditor defines the population in advance, considering the following:

- The auditor cannot obtain audit evidence about the completeness of a population by examining items drawn from that population because omitted items have no chance of selection;
- The auditor may be able to improve the effectiveness of the audit procedures by subdividing a population, performing different tests for each subdivision; and
- The period covered is important for tests of details applied to classes of transactions. The conclusion does not relate to the entire period unless the items for the test of details are selected from a population that covers the entire period.

ii) Performing substantive analytical procedures

ISSAI 1520 and ISA 520 provide guidance on the application of substantive analytical procedures during the audit. The auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit. Analytical procedures may also be applied as substantive audit procedures.

“**Substantive Analytical procedures**” means evaluations of financial information made by a study of plausible relationships among financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.

Analytical review procedures include analysis of ratios, study on the relationships between financial and operating information of the entity and comparisons with similar organizations or industry, comparison of financial information with comparable information from another period or periods, etc.

Prior to issuing the auditor’s report though, final analytical procedures should be performed. These generally consist of a high level review of the financial

statements and related management performance reports (which could include non-financial information) in order to provide assurance that the financial statements, taken as a whole, are consistent with the knowledge of the business, the results of the audit procedures and management's own analyses.

The decision about audit procedures to be used to achieve a particular audit objective is based on the auditor's judgement about the expected effectiveness and efficiency of the available audit procedures in reducing the assessed risk of material misstatement at an acceptably low level.

When designing and performing analytical procedures as substantive procedures, the auditor will need to consider a number of factors such as the following:

- The suitability of using substantive analytical procedures given the assertions.
- The reliability of the data, whether internal or external, from which the expectation of recorded amounts or ratios is developed.
- Whether the expectation is sufficiently precise to identify a material misstatement at the desired level of assurance.
- The amount of any difference of recorded amounts from expected values that is acceptable.

c) Using audit sampling and other means of testing

ISSAI 1530 and ISA 530 provides guidance on the use of sampling and other means of selecting items for testing when designing audit procedures to gather audit evidence. When designing audit procedures, the auditor should determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures.

“Audit sampling” (sampling) involves the application of audit procedures to less than 100% of items within a class of transactions or head of expenditure/revenue such that all sampling units have a chance of selection. It is in effect a process at the end of which items to be tested are identified. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can use either a statistical or non-statistical approach. The main aim of sampling is to reduce the audit risk to an acceptably low level.

When performing tests of controls the auditor uses sampling as a means of selecting items for testing the operating effectiveness of controls. Based on the auditor's understanding of internal control, the auditor identifies the characteristics or attributes that indicate performance of a control, as well as possible deviation conditions which indicate departures from adequate performance. The presence or absence of attributes can then be tested by the auditor.

Substantive procedures are concerned with amounts and are of two types: tests of details of classes of transactions, head of expenditure/revenue, and disclosures and substantive analytical procedures. The purpose of substantive procedures is to obtain audit evidence to detect material misstatements at the assertion level. In the context of substantive procedures, audit sampling and other means of selecting items for testing relate only to tests of details.

When performing tests of details, audit sampling and other means of selecting items for testing and gathering audit evidence may be used to verify one or more assertions about a financial statement amount (for example, procurement of goods and services, existence of machinery and equipment, program execution etc.).

d) Evaluating the sufficiency and appropriateness of audit evidence

Based on the audit procedures performed and the audit evidence obtained, the auditor should evaluate whether the assessments of the risks of material misstatement at the assertion level is appropriate.

An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing, or extent of other planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example, the extent of misstatements that the auditor detects by performing substantive procedures may alter the auditor's judgment about the risk assessments and may indicate a material weakness in internal control. In addition, substantive analytical procedures performed at the overall review stage of the audit may indicate a previously unrecognized risk of material misstatement. In such circumstances, the auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risk for all or some of the classes of transactions, head of expenditure/revenue, or disclosures and related assertions.

The auditor should conclude whether sufficient appropriate evidence has been obtained to reduce to an acceptably low level the risk of material misstatement in the financial statements. In developing an opinion, the auditor considers all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.

The sufficiency and appropriateness of audit evidence to support the auditor's conclusions throughout the audit are a matter of professional judgment. The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements;
- Effectiveness of management's responses and controls to address the risks;

- Experience gained during previous audits with respect to similar potential misstatements;
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error;
- Source and reliability of the available information;
- Persuasiveness of the audit evidence; and
- Understanding of the entity and its environment, including its internal control.

If the auditor has not obtained sufficient appropriate evidence as to a material financial statement assertion, the auditor should attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should express a qualified opinion or a disclaimer of opinion.

Audit Documentation

ISSAI 1230 establishes standards and **provides** guidance on audit documentation. This standard provides that the auditor should prepare, on a timely basis, audit documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report; and
- (b) Evidence that the audit was performed in accordance with ISSAIs and applicable legal and regulatory requirements.

In documenting the nature, timing and extent of audit procedures performed, the auditor should record:

- (a) Who performed the audit work and the date such work was completed; and
- (b) Who reviewed the audit work performed and the date and extent of such review

Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation at the time the work is performed is likely to be more accurate than documentation prepared subsequently.

4.1.4 Reporting phase

The reporting phase includes evaluating audit conclusions; determining significance of audit findings; communicating audit findings and preparing the audit report.

a) Evaluating audit conclusions

ISSAI 1700 and ISA 700 provide guidance on the matters the auditor considers in forming an opinion on the financial statements. The auditor should review, assess and evaluate the conclusions drawn from the audit evidence obtained as a basis for the expression of an opinion on the financial statements.

When forming an opinion on the financial statements, the auditor evaluates whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial statements taken as a whole are free from material misstatement. This involves concluding whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement of the financial statements and evaluating the effects of uncorrected misstatement identified.

Forming an opinion as to whether the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework involves evaluating whether the financial statements have been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, head of expenditure/revenue and disclosures.

This evaluation includes considering the following, in the context of the applicable financial reporting framework:

- a. The accounting policies selected and applied are consistent with the financial reporting framework and are appropriate in the circumstances;
- b. The accounting estimates made by management are reasonable in the circumstances;
- c. The information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable; and
- d. The financial statements provide sufficient disclosures to enable users to understand the effect of material transactions and events on the information conveyed in the financial statements, for example, in the case of financial statements prepared in accordance with International Financial Reporting Standards (IFRS), the entity's financial position, financial performance and cash flows.

b) Determining significance of audit findings

The auditor should determine significance of audit findings and classify them as to the severity of where and how it will be reported. The categories are as follows:

- Included in management letter only;
- Included in the audit report under emphasis of matter; and
- Included in the audit report as a qualification issue.

The auditor uses professional judgment in determining the difference between the items. However, for the findings included under qualification issues the auditors can use the materiality calculation to guide them. In determining distinction between management letter and emphasis of matter, the following table can be used:

Table 7: Distinction between management letter and emphasis of matter

Characteristics of Management Letter only findings	Characteristics of Emphasis of Matter findings
Isolated finding	Common findings
Insignificant or not material	Significant
Unlikely to recur	Recurring or likely to recur (and may have been previously reported)
Matter resolved prior to issuance of audit report	Matter unresolved at the time of issuing audit report
Mistake / omission	Fraud / misappropriation of funds / corruption
Isolated legal non-compliance with no financial effect	Any legal non-compliance in particular with: <ul style="list-style-type: none"> • Public Procurement Act; • Financial Procedure Act; and • Local Government Finance Act.

c) Communicating audit findings

ISSAI 1260, “Communication of Audit Matters with those Charged with Governance” provides guidance on communication of audit matters arising from the audit of financial statements between the auditor and those charged with governance of an entity. These communications relate to audit matters of governance interest. The auditor’s communications of matters include only those audit matters of governance interest that have come to the attention of the auditor as a result of the performance of the audit.

The auditor should communicate audit matters of governance interest on a timely basis. This enables those charged with governance to take appropriate action.

In addition to communicating with governance, auditors usually bring matters arising from the audit to the attention of management. The mechanism usually used for this process is a management letter. At this stage of the audit, the transaction testing and working papers should be completed.

The auditor should ensure that when issues arise that they are communicated and cleared in a timely fashion. If the issues are not simply clarified but are the result of an error or weakness in the audited department, then the information should be communicated to management. The format of the management letter should be standardised and include the following aspects:

- The problem or finding;
- The risk;
- The recommendation; and

- A space provided for management to comment on the finding.

Management letters can be issued in two times during the course of the audit depending on the auditors' assessment of the significance of the findings. A Preliminary management letter could be issued after an audit visit is completed. It seeks responses from the management of the audited entity. A final management letter highlighting the significant issues can be issued at the conclusion of the audit after summarising and incorporating the management response. Panel of discussion is the appropriate tool to finalize the significant issues.

The management letter should provide all findings that will be included in the audit report as well as other less significant findings.

d) Preparing the audit report

ISSAI 1700 and ISA 700 provides standards on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of the financial statements of an entity.

The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements.

e) Basic elements of the auditor's report

While the basic elements of an auditor's report as presented in this handbook apply to the audit of financial statements in the public sector, the legislation giving rise to the audit mandate may specify the nature, content and form of the auditor's report.

The auditor's report includes the following basic elements, ordinarily in the following layout:

- Title;
- Addressee;
- Opening or introductory paragraph:
 - Identification of the financial statements audited;
 - A statement of the responsibility of the entity's management and the responsibility of the auditor;
- Scope paragraph (describing the nature of an audit):
 - A reference to the relevant national and international standards or practices;
 - A description of the work the auditor performed;
- Opinion paragraph containing:
 - A reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards); and

- An expression of opinion on the financial statements;
- Date of the report;
- Auditor's address; and
- Auditor's signature.

Additional elements of the auditor's report in an audit in accordance with ISSAI and ISA:

Consistency in the auditor's report, when the audit has been conducted in accordance with the ISAs/ISSAIs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. It also helps to promote the reader's understanding and to identify unusual circumstances when they occur.

Management's responsibility for the financial statements:

The auditor's report should state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:

- Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material statement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies; and
- Making accounting estimates that are reasonable in the circumstances.

e) Auditor's responsibility

The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

The auditor's report should state that the audit was conducted in accordance with ISAs/ISSAIs. The auditor's report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

The auditor's report should state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

i. Auditor's opinion

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state the auditor's opinion that the financial statements give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording should be used).

When the International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework.

ii. Modified reports

An auditor's report is considered to be modified in the following situations:

The following matters do not affect the Auditor's Opinion:

- An emphasis of matter should be expressed when the auditor modifies the auditor's report by adding a paragraph to highlight a material matter regarding a going concern problem or a significant uncertainty of which is dependent upon future events and which may affect the financial statements.

The following do affect the Auditor's Opinion:

- A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being "except for" the effects of the matter to which the qualification relates;
- A disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements; and
- An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s) on the financial statements.

When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.

4.2 QAR Process of Financial Audit Level

After understanding the audit process and methodology described in section 4.1, the review team should apply this knowledge to their reviews. The different phases are planning, conducting QA review, Reporting and follow up action. This will be done through firstly by identifying the deficiencies in the audit methodologies and then adapting a Checklist for file review. The Financial Methodology Checklist (**Appendix 16**) and Quality Assurance Questionnaire (**Appendix 17**) will assist in the completion of the process as narrated below. Activities to be performed in different phases of individual financial audit level reviews are given below:

4.2.1 Planning Phase

In planning phase of the financial audit level review the reviewer needs to identify the appropriate audit assignments, obtaining knowledge about the assignments, assessing the risk and determining the focus areas for review. Sample checklists are also to be customized during this phase to make specific for the selected assignments. Followings are the activities of the planning phase.

4.2.1.1 Selection of the appropriate audits

The main method of conducting Quality Assurance Review at the financial audit level is through the scrutiny of files containing the working papers. As such, it is advisable to have a representative mix of audits covering different types of financial audits as specified above, and from different audit teams or directorate in order to assess consistency between the audit processes and approach adopted by each team or directorate as far as practicable.

The Quality Assurance Review team obtains from the Office, a list of completed audits during, for example, the last twelve month period prior to the review, showing the team responsible for the audit and from which the files are selected on a random basis.

4.2.1.2 Criteria for selection of financial audit files

The Quality Assurance Review team selects a sample of files for review and this depends on the number of quality assurance reviewers involved so as to complete the review within the allotted timeframe. A typical sample may consist of audit files which meet the following conditions, amongst others:

- Audits rated as high risk by, and to the OAGN;
- Public Interest;
- Large or complex audits;
- Complex accounting policies or system;
- Material time and resources were allocated to the audit;
- A significant change of audit opinion from one year to the other;
- Audit engagements with expenditure/revenue exceeding a certain value;

- Audits contracted out to private auditors; and
- Adequate coverage of different sections and senior personnel responsible for audit within the OAGN.

4.2.1.3 Information requirements of the Quality Assurance reviewing team, sources and methods of gathering such information

Before carrying out the Quality Assurance Review on the working paper file of an entity, the reviewers should obtain some information on the entity. The information that the Quality Assurance Review Team should obtain, the sources and the methods of obtaining them are as shown in the below.

Table 8: Sources and methods of gathering information

	Information Required	Source	Method
1	Knowledge of the entity	<ul style="list-style-type: none"> ➤ The Legislations governing the entity ➤ The Strategic Plan of the entity ➤ Media coverage of the activities of the entity ➤ Anonymous letters on the activities of the entity. ➤ From past experience of the Reviewers ➤ The Registry of the OAGN ➤ The Documentation Unit of the entity 	<ul style="list-style-type: none"> ➤ Perusing previous Management Letters ➤ Going through previous annual Audit Reports to Parliament ➤ Reading Activity Reports of the entity whose file has been earmarked for review ➤ Perusing Press Cuttings
2	Budgetary Allocations	The Annual Budgets of the Entity	Going through the Budget
3	Financial position	Financial Report Statement of Account	Examination of the documents

4.2.1.4 Identification of focus area for review: After obtaining sufficient knowledge about the audit assignment, its auditing procedure, nature of audited entities business, guidance's and instruction given by the respective Directorate as well as policy directorate of the office, applicable specific auditing guidelines etc., the should perform the risk assessment as stated on the section 3 of this handbook to determine the focus area for review. These are the significant potential areas which are reviewed in the execution phase of the quality assurance review.

4.2.1.5 Customization of the Checklist

Few specimens of the checklist are given in the Appendix 15 and 16 which can be customized according to the needs of individual assignment. Customization of the Checklist depend upon the focus area identified under the preceding paragraph of this handbook,

Specimen of the Financial Audit methodology checklist **Appendix 16** is illustrated below)

Appendix 15 Financial Audit Methodology			
	YES	NO	COMMENTS
I. Financial/Regularity Audit Performed:			
1. Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements.			

Copy of specimen of Quality Assurance Questionnaire (Appendix 16) is illustrated below)

		INTOSAI Ref.	ISA Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
A	TERMS OF REFERENCE							
1	Is a copy of the engagement letter on file? (for new and existing appointments)	Par. 3.1.4(g) & 1.0.34	ISA 210 par. 2, .10					

To enable the QAR Team to design a practical checklist for individual file reviews, there is an important step that needs to customize checklist by assessing the audit methodology of the OAG against the checklist devised in **Appendix 16**. The audit methodology of the OAG can consist of various documents including updated manuals, guidelines, memorandum, notices etc. These have to be considered together when completing the checklist.

After identifying the weaknesses in the current methodology the QAR Team should provide these reports as inputs into the institutional level reports (under the element of audit methodology). The next stage is to customise the file review checklist i.e. preparation of QA Questionnaire shown in **Appendix 17** to take account of the differences noted in the methodology. Furthermore, the OAG should consider any of its own practices that are not included in the practices. For example, specific audits of previous outstanding record of irregularities. Additional questions should be developed for such areas.

The QAR Team should then adapt the questionnaire through for example, shading the non-relevant questions and adding additional questions. At this stage the review team is in a position to commence the individual file review process.

4.2.2 Execution Phase

This is the actual stage in which reviewer conducts review of individual financial audit file. It includes completing the financial review checklists, gathering information using different review techniques and analyzing them to derived appropriate conclusions. Followings are the activities of the execution stage:

4.2.2.1 Gathering information

The purpose of gathering information through completing Quality Assurance questionnaires by the reviewers is to enable them to:

- (i) Form an opinion on the quality of work that has been done on site by the audit team;
- (ii) Identify the underlying reasons for unsatisfactory performance;
- (iii) See whether the reasons are not inherent in the OAGN; or
- (iv) Fix responsibility for any adverse situation.

Besides the Quality Assurance questionnaires, various other types of information may be required, for example:

- a) The total number of assignment under the responsibility of the OAGN categorized under Ministries / Departments, Statutory Corporations, Local authorities, Donor-funded projects, etc;
- b) The total number of completed audit files under each category; or
- c) Whether files identified for review and classified under the same category e.g. Local Authorities emanate from different audit managers to ensure uniformity in approach.

As mentioned earlier various methods are available for gathering information, namely Interview, Focus group, Document Review, Survey or Physical Observation. For QAR of individual files the documentation of audit evidence in the file or generated by the audit is the main method of gathering information. The audit file should document all of the evidence necessary to support the audit report issued.

4.2.2.2 Review of files

Prior to reviewing the files, it is important that the Reviewer has a good understanding of the OAGN's practices and procedures in the conduct of audit assignments. It is also imperative that the reviewer is familiar with, and understands the content and layout of the OAGN's working paper files being reviewed. In the absence of standard working papers the reviewer should confirm all audit documentation has been provided.

Quality Assurance Review is conducted by completing the revised questionnaire mentioned in **Appendix 17**. The reviewer can also consider re-performance of selected audit procedures by following through the relevant extracts of the annual report pertaining to an audited entity back to observations in the working paper file and vice versa.

To assist the reviewer in understanding the nature of items covered in the Checklist, the Table of below summarises the issues addressed in the questionnaire with guidance as to where to look for information and what are the potential findings.

Table 9: Summary of QA individual file review

S. N.	Audit requirements	To provide assurance that	Key instruments employed	Potential findings	Quality Assurance Questionnaire Reference Number
1	Audit Planning	The work is adequately planned and the audit issues are selected on the basis of risk, their relevance to the OAGN's mandate, significance and auditability.	<ul style="list-style-type: none"> • Financial Audit Manual • Audit Policy instructions and guidance • Laws and regulations • Audit Plan • Software support tools (Sampling etc.) • Working Papers 	<p>At the Planning stage some of the items that normally require improvement are:</p> <ul style="list-style-type: none"> • Completeness/ Existence of engagement letters • Completeness/ Existence of permanent files • inadequate Consideration of Staff • Completeness/ Existence of audit plan • Directives issued by the AG and Audit Directorate not implemented 	<p>A-1</p> <p>B-13</p> <p>C</p> <p>B-10-b</p> <p>C-2</p>

S. N.	Audit requirements	To provide assurance that	Key instruments employed	Potential findings	Quality Assurance Questionnaire Reference Number
				<ul style="list-style-type: none"> • Whether risk assessment is performed • Evidence of internal audit assessment • Whether files indicate scheduling of staff, time budget and evidence of supervision / direction • Insufficient information on the knowledge of the audited entities • Documentation 	<p>B-14</p> <p>E-1</p> <p>E-3</p> <p>C-9</p> <p>C-4</p>
2	Staffing for the audit	Adequate staffing is provided for the audit to be conducted efficiently and effectively	<ul style="list-style-type: none"> • Audit manuals • Audit Office policies, procedures & guidelines • Audit Plan (Staff scheduling & time budget) 	<ul style="list-style-type: none"> • Lack of review due to changes in the audit team • Changes in staffing were not reflected in files during the course of the audit 	<p>C</p> <p>C</p>
3	IT tools	Appropriate IT tools are available in the OAGN as a measure of audit quality improvement	<ul style="list-style-type: none"> • Software support tools 	<ul style="list-style-type: none"> • Lack of evidence of reconciliation between account balance and the sample populations as derived by the CAATs 	F8

S. N.	Audit requirements	To provide assurance that	Key instruments employed	Potential findings	Quality Assurance Questionnaire Reference Number
4	Other tools and Guidance	Appropriate guidance, audit tools and techniques are in place, useful and applied consistently	<ul style="list-style-type: none"> • Office intranet site • Audit policy instructions and guidelines 	<ul style="list-style-type: none"> • No evidence on file of standard rates utilised from internal instructions 	F
5	Conducting the Audit	All audits are conducted with due regard for efficiency and economy in terms of time spent and resources utilised and in accordance with the legal mandate, policies and practices of the Office	<ul style="list-style-type: none"> • Regularity (Compliance and Financial) Audit Manual • Approved audit plans • Approved Test programmes • Progress reports • Sampling guides • Electronic tools • Working papers 	<p>At the Fieldwork stage some of the issues that may be included for improvement are:</p> <ul style="list-style-type: none"> • Adequacy of lead schedules in the files • Whether the WPs show the audited period/financial year for financial audits • Whether the scope of the audit was indicated • Whether the information system was assessed • Whether the index related to the WPs • Whether irrelevant materials were filed • Whether WPs were signed by the reviewers 	<p>H-1</p> <p>L</p> <p>C-6,7</p> <p>E-8</p> <p>L-6</p> <p>I-4</p> <p>B-14, L-6</p>

S. N.	Audit requirements	To provide assurance that	Key instruments employed	Potential findings	Quality Assurance Questionnaire Reference Number
				<ul style="list-style-type: none"> • Whether tick marks or work performed were explained • Whether the reviewer checklist was on file • Whether core issues are considered in the recommendations 	<p>B-14,L-6</p> <p>B-14</p> <p>L-6</p>
6	Consultation and advice	Consultation is sought from experts and specialists with appropriate competence, skill, knowledge, judgment and authority to ensure due care and authoritative opinion when dealing with unusual, unfamiliar and complex issues.	<ul style="list-style-type: none"> • Audit Manuals • Audit Policies, procedures and guidelines • Specialist reports • Working Papers 	<ul style="list-style-type: none"> • Opinions provided by third party experts were not included in the files • Credentials of third party experts not validated 	<p>B-16</p> <p>P</p>
7	Supervision and review	Personnel working in the audit team receive an appropriate level of leadership and direction so that they are encouraged to perform to their potential and to ensure that audits are properly	<ul style="list-style-type: none"> • Audit Manuals • Audit Office policies, procedures and guidelines • Human resources policies and guidance 	<ul style="list-style-type: none"> • No evidence of review on all working papers • Review was not completed prior to the issuance of the report 	<p>M-1</p> <p>M</p>

S. N.	Audit requirements	To provide assurance that	Key instruments employed	Potential findings	Quality Assurance Questionnaire Reference Number
		<p>completed carried out.</p> <p>Adequate supervision of all audit personnel is provided so as to ensure that audits are properly carried out. All audit work is reviewed by a senior member of the audit staff before the audit opinions or reports are finalised.</p>	<ul style="list-style-type: none"> • Working papers 		
8	Evidence	<p>Sufficient, appropriate, competent and relevant evidence is obtained to provide a reasonable basis to support the conclusion expressed in the report.</p>	<ul style="list-style-type: none"> • Audit Manuals • Audit Office policies, procedures and guidelines • Review of working papers by senior management of the SAI 	<p>Issues raised in reporting may include the following:</p> <ul style="list-style-type: none"> • Existence of the final management letter • Whether matters for the attention of the reviewer were summarised • Suggestions for the Audit Director on the individual audit: The review team should make suggestions to the Audit Director/ Directorate being reviewed for consideration in order to improve its operations. 	<p>P -7</p> <p>P-10</p> <p>P</p>

After completing the individual audit findings the review team then need to compile the Quality Assurance Review Recording Form that summarises all findings into the template provided in **Appendix 19**. Below is an explanation of the Quality Assurance Review Recording Form which can be used directly as the reporting template for the review.

Quality Assurance Review Recording Form

- a) **Quality Assurance Questionnaire reference:** The Quality Assurance Questionnaire (QAQ) reference has a combined reference consisting of: i) the reference number allocated to the completed QAQ and ii) the different items checked on the QAQ. For example, if the reference allocated to the completed questionnaire is (V) and the absence of the letter of engagement (item#A.1 in the QAQ) on file was observed during the review, the reference which should be recorded on the Quality Assurance Review Recording Form is (V) A.1.
- b) **Positive observation:** Acknowledge the good practices of the audit team. A summary of the positive responses provided in the checklist should be given at the beginning of the report.
- c) **Negative observations:** Record all material negative observations precisely, including the nature and extent of the finding. The observation evolves from the reviewer's results against appropriate evaluation criteria, based on the requirements of quality standards defined in the checklist and using professional judgment and the Reviewer's experience.

Criteria may vary according to the area being reviewed and audit objectives. The criteria may be the policies, procedures and standards of the Office of the Auditor General, International Standards of Auditing and generally accepted accounting principles. Other criteria may include the requirements of laws, regulations, grants, contracts, etc.

- d) **Effect:** The reviewer must also answer the question "What risk does the weakness expose?" The real or potential impact of both positive and negative observations is identified. Its significance can be judged in relation to the extent of risks that the OAGN may be exposed to as a result of compromising on quality and continuing with the current negative practice.
- e) **Clearing of findings:**
 - i. Comments by the **Director/ Audit Officer:** The reviewer obtains from the audit team or audit management through fact-finding interviews and discussions, comments on the observations raised on the Quality Assurance Review Form. As far as possible, the comments should include the position title of the OAGN staff with whom the discussions were held.
 - ii. **Causal factors:** The answer to the question "Why is there a deviation from requirements?" should be explained. Through discussions with the Audit

team / Management, the Reviewer would identify the underlying reasons for the satisfactory or unsatisfactory conditions or observations. The identification of the causal factors assists the reviewer in determining corrective action and may form the basis for the recommendations for needed action by the audit team or other organization in the OAGN. All pertinent discussions and comments by the staff member of the Office must be recorded on the Quality Assurance Recording Review Form.

- f) **Recommendations:** The reviewer must then arrive at a conclusion as to “What should be done?” The recommendation flows from the cause previously identified in the finding. The reviewer should come up with appropriate and practical recommendations and record them on the Quality Assurance Review Recording Form.

The relationship between the recommendations, underlying observation and causal factors must be clear and logical. The recommendation must state what needs to be changed or rectified.

- g) **Name of reviewer:** The name of the reviewer who conducted the review and made the recommendation must be stated.
- h) **Signature and date:** The review team leader must ensure that all observations are completed, correctly stated, signed off and dated on the Form(s).

4.2.3 Reporting phase

After the Quality Assurance Finding Recording Forms is completed. The reviewer should prepare the Quality Assurance Review Report. The templates provided in **Appendix 19** can be adapted to follow the format of the standard report, e.g. including introduction and summary. The activities to be performed in the Reporting stages are as follows:

Format of the QAR report of Financial Audit

Having recorded all the observations on the QAR recording form, the review team will be position to prepare the brief review report.

The report may include the following:

Table of contents

Introduction - May explain the background for the review report.

Objectives- It contains objectives of the quality assurance review work.

Approach and methodology used - This would include the actual work done and the procedures followed by the quality assurance review team. It would cover items such as:

- Main data gathering techniques used
- Limitations, if any, of the approach

Observations - In this section, the review team should include the following items under each financial audit key areas such as terms of reference, planning, execution, reporting and general (supervision, other audit consideration, related parties and using the work of another auditor, etc.):

- **Positive Observations** – The summary of the positive observations;
- **Areas for Improvement** – The summary of the findings including effects, casual factors sub elements and recommendations;

Overall Conclusion– The review team's opinion when they have after considering all the information about observation.

Management Response– Management’s responses on the overall conclusions and recommendations.

Possible sample of financial audit review report template is indicated in the **Appendix 20**.

4.2.3.1 Clearing of findings and feedback to the Assistant Auditor General Director / Audit Officer

The review team should meet with the audit team to discuss the findings to ensure that they are clearly understood. If required by the Office, the shortcomings identified by the audit team should be corrected on the working papers.

Preparing to discuss the summary of findings with the Assistant Auditor General, Director/ Audit Office

After feedback is given and draft report is prepared, the next stage will be to present the summary of the findings to the Assistant Auditor General, Director / Auditor Officer. The review team should consider the following aspects before presenting the summary of findings:

- Go through the recorded observation forms, or summarised form and agree on the observations;
- Agree on the mode of presentation of the observations, whether in writing, oral or both and whether visual aids are required;
- Arrange logistics;
- Make an appointment with the Assistant Auditor General, Director / Auditor Officer for the meeting;
- Consider the documents to have in the meeting;
- Agree among the team who should lead the discussions, and who should record comments of the senior management and conclusions reached;
- Discuss among the team and agree whether the issues to be discussed are to be made available to the Assistant Auditor General, Director / Auditor Officer in advance of the meeting. If so, make arrangements for distribution; and

- Agree on the sequence of presenting the issues and it is advisable to start with the good practices of the audit work before highlighting the weaknesses.

Discuss the summary of findings with the Assistant Auditor General, Director / Auditor Officer

In order to finalise the QA report, there is a need to discuss the summary of the findings and the recommendations with the Assistant Auditor General, Director / Auditor Officer. The following guidelines will definitely make the discussion effective and acceptable:

- ✓ Be punctual;
- ✓ Start to present the good practices;
- ✓ Continue to present the weaknesses;
- ✓ Presentation must be brief and to the point;
- ✓ The responses given by the Audit Director/ Audit Officer must be recorded;
- ✓ Ask if there is any question needing clarification;
- ✓ Ask for comments and recommendations;
- ✓ Thank the Audit team involved in the audit for their usual cooperation and assistance; and
- ✓ Close the meeting.

In certain circumstances, where there is disagreement over findings, the process underlined can be followed to resolve the findings:

- The findings should be discussed with the audit team, who should indicate for every finding whether there is agreement / disagreement on the finding;
- Where agreement was reached on a high risk matter:
 - The audit team should ensure that the matters are addressed timely;
 - The review team should perform additional review work to corroborate that the matter has been addressed and should indicate whether the matter has been resolved to their satisfaction and the date on which the reviewer confirmed that it was resolved; and
- Where there was disagreement on a high risk matter, or other important matter the audit team should clearly state the reason for the disagreement and ensure that the OAGN's process for differences of opinion is followed to resolve the matter. Detail on such process should be included in the working paper.

Where a difference of opinion between the review team and the audit team exist the following procedures for dealing with differences of opinion can be followed:

- Where the reviewer makes recommendations on high risk findings from the review that the audit team does not accept and the matter is not resolved to reviewer's satisfaction, the consensus need to be sought with Senior Management.
- Even when policies and procedures (processes) are put in place to resolve differences of opinion a resolution may not be reached where matters are contentious and strong opinions are held. In the event that consensus cannot be reached, clear designation of which person will take the line responsibility for making the final decision may be necessary. The person who signs the audit report will be the most appropriate person. If a member of the audit team or a person involved in resolving the difference of opinion continues to disagree with the resolution, he or she may disassociate him or herself from the resolution of the matter and should be offered the opportunity to document that a disagreement continues to exist.

The steps in the process to be followed by the audit team to resolve differences of opinion include:

- **Consider the reasons for the difference of opinion:** Consideration of whether or not the difference of opinion arises from a different interpretation of facts, or from a more technical or personal interpretation of “grey areas”, often where there are no standards to give a precise interpretation or application of principles;
- **Research:** The matter is thoroughly researched by the research and development component of the Office and credible information is obtained that supports the difference of opinion expressed;
- **Consider past experience:** Consideration of similar circumstances or experience among senior staff elsewhere in the SAI or the region may provide guidance for consensus in the resolution of the difference of opinion; and
- **Mediation:** Other individuals with current, specialist professional expertise identified within the OAGN may be brought in to mediate the difference of opinion.

4.2.3.2 Exit meeting with the Assistant Auditor General, Director / Auditor Officer

During the exit meeting the review team leader confirms that all the shortcomings that were identified during the review were resolved and he provides a certificate to the audit team or will be resolved in the future audit.

The audit team and the review team should compile a list of lessons learned and share this with other staff members doing similar audits.

4.2.3.3 Annual report on QA

The QA unit or committee or the staff member responsible for QA should produce an annual report of the whole Office on quality issues. This report should be submitted to The Auditor General. The report should contain:

- Introduction;
- Statistical information on, for example, the number of reviews conducted and passed compared to previous years to show trends;
- Objectives,
- scope and approach of the reviews;
- Periods covered;
- Sample size / reviewers;
- A summary of the findings (observations) with an emphasis on common issues;
- Cause;
- Recommendations and action plans to address the shortcomings, including training needs; and
- Conclusion.

It is good practice to submit quarterly progress reports to the Auditor General and to bring important matters such as a break down of QC under his attention immediately.

Chapter 5

QAR of Performance Audit

5.1 Purpose and Overview

To assist the quality assurance review team to understand the desired quality controls in performance auditing and, thereby, provide a basis for the QA teams to assess

- (i) The quality of OAGN's performance audit methodology, and
- (ii) Compliance with required controls by the performance audit teams.

This chapter focuses on the quality controls in performance auditing in terms of the good practice process for managing such audits. The quality controls relate to those that apply to each phase of a performance audit process, as well as the overarching quality controls that are equally applicable to all phases of the audit process.

5.2 Performance Audit Standards and Guidelines

INTOSAI has issued a number of standards which are relevant to quality assurance in SAIs. They have been placed along with other standards in the framework of International Standards of Supreme Audit Institutions (ISSAIs).

5.2.1 International Standards of Supreme Audit Institutions (ISSAIs)

Principle 3 of ISSAI 20 states, "SAIs should implement an appropriate system of quality assurance over their audit activities and reporting and subject such system to periodic independent assessment." Various other ISSAIs reinforce this need.

One of the basic principles in government auditing states that "to ensure that high quality work is done, appropriate standards must be followed. The objectives of the particular type of work or the particular assignment should dictate the specific standards that are followed. Each SAI should establish a policy on which INTOSAI standards, or other specific standards, should be followed in carrying out the various types of work that the organisation conducts to ensure that the work and products are of high quality". (ISSAI-100)

ISSAI-200 on INTOSAI Auditing Standards-General Standards (paragraph 1.25) states that "the SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures".

The Standards are further amplified in paragraph 1.27, which states that "**the SAI should establish systems and procedures to:** (a) confirm that integral quality assurance processes have operated satisfactorily; (b) ensure the quality of the audit report; and (c) secure improvements and avoid repetition of weaknesses".

As such, the SAI must as a matter of policy define and decide upon the appropriate standards and level of quality for its outputs, and then establish comprehensive procedures designed to ensure that this level of quality is attained. These policies and procedures should be established by reference to the international standards and best

As a further means of ensuring quality of performance, additional to the review of audit activity by personnel having line responsibility for the audits concerned, it is desirable for SAIs to establish their own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified SAI personnel not involved in those audits, with consultation with the relevant audit line management regarding the outcome of the internal quality assurance arrangements and periodic reporting to the SAI's top management. (paragraph 1.28)

In paragraph 1.29, it says that “it is appropriate for SAIs to institute their own internal audit function with a wide charter to assist the SAI to achieve effective management of its own operations and sustain the quality of its performance”.

Another paragraph in ISSAI-200 that explains quality assurance reviews as an auditing standard is paragraph 1.30 – “The quality of the work of the SAI can be enhanced by strengthening internal review and probably by independent appraisal of its work.”

The emphasis here is that quality reviews would be strengthened if conducted by SAI personnel who are not members of the audit team.

The establishment of a separate QA function within the SAI and independent of the audit units and the engagement of quality reviewers or other external experts such as other SAIs or audit firms are considered to be ways of enhancing the quality of SAI's work. The various aspects of setting up and managing the QA function are discussed in detail in chapter 2. The QAR processes are considered in chapters 3 and 5.

That said, ISSAI-300 explains that one of the field standards applicable to all types of audit refers to the need by the auditor “to plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner”.

5.2.2 ASOSAI Guidelines on Audit Quality Management System

The ASOSAI AQMS guidelines refer to ISSAIs at appropriate places. These ISSAIs have already been discussed earlier in this chapter. In this section, the focus is on additional issues highlighted in the ASOSAI guidelines.

The Guidelines on Audit Quality Management System provide specific guidance in establishing quality management systems (QMS) in OAGN. The OAGN's QMS should be designed to provide ‘reasonable assurance’ in the light of the likelihood and magnitude of potential risks, that it conducts the audits, both regularity and performance, in accordance with the applicable legislative requirements, rules and regulations, audit standards, policy manuals, guidelines and procedures. Reasonable assurance recognises that the cost of managing risks should not exceed the benefits likely to be derived. Reasonable assurance should not be construed to mean absolute assurance of all aspects of quality for each individual audit and for the audit process.

Paragraph 1.9 of the Guidelines states that:

“Quality Assurance, however, is understood as planned or systematic actions necessary to provide adequate confidence that a product or service will satisfy given requirements for quality. Quality Assurance is process centric” .

The ASOSAI AQMS framework contains several elements, one of which is about “continuous improvement,” which has several sub-elements under it. The overriding principle of this element is the determination of how well the SAI is achieving its goals, and whether the system is appropriately designed and operating effectively. Towards this end, it has to set up a variety of review mechanisms all designed to provide that audit practices meet accepted standards, and to help the SAI continuously improve the quality of its outputs and services.

Paragraph 2.14 underscores the following: “As part of its internal quality assurance mechanism, the SAI should ensure that applicable standards are followed on both pre-audits and post-audits and that deviations from the standards that are determined to be appropriate are documented.”

The quality assurance review is part of the overall quality assurance system, which is concerned with all steps and techniques that the SAI auditors must follow to assure good quality audit.

Paragraph 6.15 distinguishes between internal audit and internal quality assurance:

“Compared to the internal audit function, internal quality assurance exercise is generally narrower in scope. The internal audit assesses whether the operating systems function efficiently as per established policies and procedures whereas, internal quality assurance assesses whether individual engagements are performed in terms of applicable standards, policies and guidance.”

5.2.3 ASOSAI Performance Audit Guidelines

These guidelines provide the methodology and a broad framework for the conduct of the performance auditing process, and also provide the basis by which the quality of the audit product can be judged.

The guidelines take into account relevant INTOSAI Auditing Standards and are based on generally accepted principles of performance auditing distilled from the experience of ASOSAI members. Following Paragraphs refer to various aspects of quality assurance in performance auditing, including distinction between QA and QC, nature of quality assurance review (QAR) programme, nature of a QAR report, and the responsibility of audit managers to address the findings of QARs.

Table 10: Relevant paragraphs from the ASOSAI Performance Auditing Guidelines

Paragraph	Pertient Paragraph
8.14	The SAI should implement quality assurance/control policies and procedures. Quality assurance refers to policies, systems and procedures established by SAIs to maintain a high standard of audit activity. Quality control refers to the requirements applicable to the day-to-day management of audit assignments.
8.17	A system of quality assurance should provide indicators for recruitment and promotion; guidance for assignment of administrative and technical aspects of quality control to appropriate staff; a basis for communication of quality control policies, procedures and outcomes to all relevant staff; and adequate monitoring and review of the quality assurance systems
8.18	Quality assurance mechanisms include planning reviews– the planning of selected tasks may be reviewed by SAI management independent of the task to ensure adequate consideration has been given to all matters considered essential for the successful completion of the task at the planning stage.
8.20	A quality assurance review programme is a series of independent peer reviews of activities undertaken within the SAI that assesses the overall quality of the work performed. The results of the programme should be reported to the SAI management at least annually. A quality assurance review may examine adherence to policy and procedures and identify areas where there is any scope for improvements in these policies and procedures, or it may assess the quality of work performed to meet specified objectives.
8.21	Quality assurance reviews will generally address both adherence to specified processes and the quality of the work performed on a selected task or group of tasks, and may include an annual programme of task reviews and ad-hoc reviews of any task undertaken at any time.
8.22	Tasks selected by SAI management should, as far as possible, be representative of the nature of all tasks undertaken by the SAI. The reviews would include a selection of high risk, large and complex tasks, and some smaller and less complex tasks.
8.23	The report on the quality assurance review programme should summarise the results of all the reviews including the tasks selected (number and type), the findings and any

	recommendations. The report should not focus on individual audits, but be a summary of those findings identified during the review programme.
8.24	Quality assurance reviews are generally undertaken using a questionnaire to ensure consistency across the reviewing teams, but the approach would allow for the qualitative characteristics of audits to be assessed.
8.25	The quality of performance audits should be assessed against the relevant auditing standards. In short, the quality assurance review process reports whether there is sufficient, appropriate evidence to support the audit report.
8.26	Review team members will be selected by the SAI management on the basis of their knowledge and experience and should generally be at the audit manager level. The team members must be independent of the work they review.
8.27	The quality assurance review reports, in addition to identifying weakness in current methodology and practices, should accentuate positive findings and identify improved practices that may be introduced as office-wide best practice.
8.28	It is the responsibility of all audit managers to address the findings of the quality assurance reviews of their tasks. SAI management should be responsible for ensuring that problems noted or recommendations for improvements are adopted in appropriate changes to SAI methodology and practices.

5.2.4 Performance Auditing Guide

The OAG policy provides that, to ensure the maintenance of the highest quality of auditing services to its clients, a system of quality control policies and procedures are established. It includes a review of general quality control considerations and review of selected individual performance audit engagements.

5.3 Selection of the appropriate audits for QAR

The main method of conducting a QAR at the performance audit level is through the scrutiny of the working papers contained in the performance audit files. This method should be supported, where necessary, by other information-gathering methods such as unstructured discussions with performance audit team members, structured interviews, and focus groups.

For post-audit QARs, the QAR team should obtain a list of completed audits during, for example, the last 12-month period prior to the review. From the list of completed audits obtained, the QAR team may select a sample of performance audits for review based on considerations of **risk** and **representativeness**. The QA team may consider the following while assessing risk and ensuring representativeness:

5.3.1 Assessing Risk while selecting performance audit files for quality review**Table 11: Assessing risk for individual performance audit review**

No	Factors	Risk			Note
		High	Medium	Low	
	Public interest (parliamentary/ media/ users group etc.)				
	Scope of Audit (Large/medium/small)				
	Complex Audit				
	Substantial time was allocated to the audit				
	Substantial resources were allocated to the audit				
	Significant objectives from social and/or economic perspective				
	Audits that raised much disagreement between audited entity and audit team				
	Significant limitation in the scope of the audit				
	New area of audit				
	Significant shortcomings in previous audits				
Assessment					

5.3.2 Factors to be considered to ensure representativeness. The following are some strategies to ensure the representativeness of the performance audits selected for post-audit QARs:

- Select at least one audit file of each performance audit team leader.
- Select performance audits that pertain to different sectors (e.g. education, health, infrastructure, economic services, transportation, etc); and
- Select performance audits that pertain to different streams of government functioning (e.g., expenditure, revenues, public-private partnerships).

In case of pre-issuance QARs, representativeness is not a key consideration. The primary consideration for selecting audits for pre-issuance reviews is whether it is appropriate for the OAGN to publish the draft audit report under the circumstances without risking its reputation. The following are examples of indicators which may trigger a pre-issuance review:

- Due to unforeseen circumstances, the risk of the audit has increased;
 - Significant disagreements with management;
 - Significant limitations on the scope of the audit; and
- The auditor is uncertain of the audit observations and recommendations and would find benefit from an independent review.

5.3.3 Other considerations – Timing of the review

A pre-issuance review needs to be performed **before** the audit report is issued. Various factors may influence the timing of the pre-issuance review, such as:

- When the audit report is due for issue (legal requirements);
 - The complexity of the audit;
- whether the review needs to occur at appropriate stages during the audit, so that significant matters may be resolved to the reviewer's satisfaction promptly;
 - The availability of suitable pre-issuance reviewers; and
 - The time required by pre-issuance reviewers to perform the review.

5.4 Objective of QAR of Performance Audit

The objective of an individual performance audit level QAR is to provide assurance as to whether appropriate quality controls were complied with by the different performance audit teams. The main purpose of the quality assurance is to identify weaknesses in quality controls at performance audit levels, assess the extent of compliance with existing quality controls and suggest strategies for addressing those weaknesses. To achieve this, some of the main issues for consideration are:

- ✓ Determine if required quality controls are in place;
- ✓ Determine if existing controls are being properly implemented;

- ✓ Confirm the quality of the audit practices and reports, and identify potential ways of strengthening or otherwise improving the controls;
- ✓ Determine if proper documentation for the control procedures exist;
- ✓ Determine if the audit was properly planned, and whether risks were identified and received the appropriate attention;
- ✓ Confirm that sufficient work was undertaken to support the findings and observations in the audit reports;
- ✓ Confirm the working papers are in accordance with OAGN policies and procedures;
- ✓ Determine if conclusions are properly explained and supported by audit working papers;
- ✓ Determine that audit findings and observations opinions are fully supported and documented in working papers; and
- ✓ That the performance audit report issued is appropriate in terms of significance, scope, timing, etc.

To achieve this objective, the OAGN should conduct regular QARs of selected performance audits every year. The primary emphasis of pre-issuance review is to assure the OAGN top management that the audit report to be issued is appropriate under the circumstances, while that of post audit reviews is to identify potential areas of improvements in subsequent performance audits.

While the primary objective of QARs at individual audit engagement level is to assess the extent of compliance by audit teams with approved quality controls, it is also important to periodically assess whether the quality controls reflected in the performance audit methodology approved by the OAGN are adequate and aligned with international good practice. While the QA function should conduct **compliance check** QARs every year for a sample of performance audits, the **methodology check** should be conducted once every few years, or whenever there is significant development in the INTOSAI community with regard to performance audit methodology. Such a methodology check can very well be part of an OAGN-level QAR; however, an OAGN-level QAR will generally have a wide scope covering number of areas for examination, and may, therefore, not assess in detail the adequateness of an OAGN's performance audit methodology.

5.5 Plan the QA Review

The quality assurance team should develop a review plan that describes scope and methodology, execution period, human and other resources, names of team members and other special considerations. Team members should consist of staff with suitable qualifications and experience so as to fully understand the performance audits to be reviewed.

Before developing a QAR Plan, the review team should fully understand the performance auditing framework within an OAGN. In particular, the following aspects are important to have better understanding of the performance auditing framework within an OAGN:

- OAGN Mandate and Legislative Framework
- Structure of the Performance Auditing Function
- OAGN's Strategic Plan for Performance Audits
- Planning Individual Performance Audits
- Conducting the Audit
- Reporting the Audit
- Managing the Audit and Relationships with Entities
- Parliamentary Review
- Follow-up
- Quality Assurance requirements of the OAGN

In the case of working papers being documented in electronic form, the review team should ensure that they have adequate access to and competence to review such working papers.

Planning the QAR

A QAR plan at individual performance audit level contains background, objective, scope and approach, methodology, review period, budgetary and other resources required for review, and names of the review team members. A sample of QAR Plan of performance audit is given at **Appendix 21**. As regards the scope, the QAR team may decide to focus on a certain stage of a selected performance audit and not necessarily on all stages. For example, if the QAR team has defensible reasons to conclude that the planning stage of the selected audit poses much higher risk than the other stages, then it should focus its review on that stage, rather than equally on all stages of the audit.

As mentioned earlier in this chapter, the quality assurance of individual performance audits covers two aspects:

- (i) Adequacy of the OAGN's performance audit methodology, and
 - (ii) Adequacy of compliance by performance audit teams.
- (1) **Methodology Check** – It is an assessment of the extent to which the OAGN's performance audit methodology (practices/processes) is adequate and aligned with relevant ISSAIs and other good practices.
 - (2) **Compliance Check** – It involves checking whether the performance audit teams complied with approved performance audit practices/processes of the OAGN.

A suggested performance audit methodology check questionnaire is available at **Appendix 22**. It is based on good practice discussed in the ISSAIs and ASOSAI Guidelines on Performance Auditing.

5.6 Conducting the QAR

Once the QAR plan has been approved, the QAR team will take necessary steps to execute the plan. The following activities are involved in execution of a QAR:

5.6.1 Review of Performance Audit files – Prior to reviewing the files, it is important that the Reviewer has a good understanding of the Supreme Audit Institution’s practices and procedures in the conduct of performance audit assignments. It is also imperative that the reviewer is familiar with, and understands, the content and layout of the OAGN’s working paper files being reviewed. In the absence of standard working papers, the reviewer should confirm that all audit documentation has been provided.

5.6.2 Gathering information – The QAR team should gather information required to support their review objectives. The QAR team gathers information while reviewing individual performance audits using various sources and methods of gathering. The primary basis of gathering information at individual audit level QARs is a review of performance audit related guidelines and working papers in the selected PA (performance audit) files. This method of document review may be supplemented by other methods such as interviews and group discussions with management of performance audit team and other relevant knowledgeable persons, depending on the needs of the particular situation. To ensure completeness of compliance checks, and consistency of checks across QAR teams, it is desirable that the QA team develops a quality assurance review questionnaire (QARQ) for compliance check. Unlike the QARQ for methodology check, the QARQ for compliance check should be based directly on the OAGN’s approved performance audit manual or guidelines and other supporting instructions. The QAR teams should avoid using the methodology check questionnaire for compliance checks since the objectives of methodology and compliance checks are very different, as stated earlier in this chapter.

5.6.3 Record and Analyze Observations

The review team should utilise the QAR Recording Form suggested at **Appendix 23** for recording the details relating to the findings. These findings only relate to a situation where there is a negative finding as per the QARQ for compliance check. This will require consideration of the implications of the findings, including the linkages to the causal factors and the domains and elements of the OAGN level quality management system (QMS). In addition, the reviewer will be required to state the category of the error using the following guide:

- ✓ High risk – signifying fundamental failures where for example, the audit opinion or key conclusions are incorrect;

- ✓ Medium risk – identifies where information provided to the reader of the audit report is omitted or information that is not important is included; and
- ✓ Low risk – other matters such as poor referencing or evidence of review.

After completing the individual audit findings, the review team then needs to compile the Quality Assurance Review Recording Form that summarises all findings including positive findings. Below is an explanation of the Quality Assurance Review Recording Form that can also be used directly as the reporting template for the review.

5.6.4 Discuss findings with Audit team members

After the Reviewer completes the Quality Assurance Recording Forms, the next stage is to present the summary of the findings to the Audit team to ensure that there is a common understanding among all concerned. If required by the OAGN, the shortcomings identified by review team should be corrected on the working papers of the PA teams. The correction of shortcomings in working files could be possible in the case of pre-issuance reviews, but in the case of post audit reviews it could be the area for improvement in future audits.

The review team should consider the following aspects before presenting the summary of findings:

- Go through the recorded observation forms, or summarised form and agree on the observations;
- Agree on the mode of presentation of the observations, whether in writing, oral or both and whether visual aids are required;
- Arrange logistics;
- Make an appointment with the Audit team for the meeting;
- Consider the documents to have in the meeting;
- Agree among the team who should lead the discussions, and who should record comments of the senior management and conclusions reached;
- Discuss among the team and agree whether the issues to be discussed are to be made available to the Audit team in advance of the meeting. If so, make arrangements for distribution; and
- Agree on the sequence of presenting the issues. It is advisable to start with the good practices of the audit work before highlighting the weaknesses.

5.7 Report the Quality Assurance Review

5.7.1 Prepare Draft QAR Report

After having discussed the review findings with Audit teams, QAR team should prepare the Quality Assurance Review Report. A suggested format for a QAR report at the individual performance audit level may be seen in the sample report at **Appendix 24**.

Special considerations in preparing QAR Report

In certain circumstances, where there is disagreement over findings, the process underlined can be followed to resolve the findings:

- The findings should be discussed with the audit team, who should indicate for every finding whether there is agreement / disagreement on the finding;
- Where agreement was reached on a high risk matter:
 - The audit team should ensure that the matters are addressed in a timely way;
 - The review team should perform additional review work to corroborate that the matter has been addressed and should indicate whether the matter has been resolved to their satisfaction and the date on which the reviewer confirmed that it was resolved; and
- Where there was disagreement on a high risk matter, or other important matter the audit team should clearly state the reason for the disagreement and ensure that the OAGNs process for differences of opinion is followed to resolve the matter. Detail on such a process should be included in the working paper.

Where there is a difference of opinion between the review team and the audit team, the following procedures can be followed:

- Where the reviewer makes recommendations on high risk findings from the review that the audit team does not accept and the matter is not resolved to reviewer's satisfaction, the QAR team should seek the advice of Senior Management.
- Even when policies and procedures (processes) are put in place to resolve differences of opinion, a resolution may not be reached where matters are contentious and strong opinions are held. In the event that consensus cannot be reached, clear designation of which person will take the line responsibility for making the final decision may be necessary. The person who signs the audit report will be the most appropriate person. If a member of the audit team or a person involved in resolving the difference of opinion continues to disagree with the resolution, he or she may disassociate himself or herself from the resolution of the matter and should be offered the opportunity to document that a disagreement continues to exist.

The steps in the process to be followed by the audit team to resolve differences of opinion include:

- **Consider the reasons for the difference of opinion:** Consideration of whether or not the difference of opinion arises from a different interpretation of facts, or from a more technical or personal interpretation of "grey areas", often where there are no standards to give a precise interpretation or application of principles.

- **Research:** The matter is thoroughly researched by the research and development component of the Office and credible information is obtained that supports the difference of opinion expressed.
- **Consider past experience:** Consideration of similar circumstances or experience among senior staff elsewhere in the OAGN or the region may provide guidance for consensus in the resolution of the difference of opinion.
- **Mediation:** Other individuals with current, specialist professional expertise identified within the OAGN may be brought in to mediate the difference of opinion.

5.7.2 Conduct exit meeting with senior management

Prior to finalising their report, the QAR team may discuss the draft report with representatives of senior management to obtain their response. Since senior management representatives are likely to have several commitments, it might be more efficient if the QA team arranges for discussion of several QAR reports during a single exit meeting.

5.7.3 Finalise QAR Report

The QAR team should consider the results of the exit meeting and finalise the report. The final report may be submitted to the QA unit for circulation to relevant units and levels of the OAGN through QA Committee.

5.8 Follow-up of the QAR Report

All deficiencies and recommendations pointed out in the QAR reports should be communicated to the respective officials, or units for taking appropriate measures and remedial actions. Shortly after receiving the QAR reports, the concerned directorate of the OAGN should prepare an Action Plan to implement the recommendations provided in the QAR reports.

In response, the OAGN may organise a brain-storming session involving people from all levels of the management to review on the deficiencies and recommendations provided by the QAR team. The session could focus on, at least, the following areas:

- Priority of the QAR recommendations;
- Proposed actions;
- Responsible official / unit / division / department to implement the action; and/or
- Deadlines for implementation.

If there are shortcomings and recommendations related to the policy decisions or requiring amendment to the existing policies or introduction of new policies, it may be appropriate to consult with the AG. The final action plan should, however, be approved by the AG or the appropriate delegated authority.

Appendices

Appendix 1

(Related to chapter 1 paragraph 1.9.4 Selection of an external reviewer)

Sample Terms of Reference (ToR) for External QAR

1. INTRODUCTION

The INTOSAI is increasingly emphasising the importance of quality assurance activities of OAGN. Standards, and more importantly the extent to which OAGN comply with standards, are continuously reviewed and increasingly regarded as an important component of good governance practices. ASOSAI has incorporated several QA activities in its work plans and is keen to support OAGN in establishing/enhancing quality assurance systems, procedures and working methods. The OAGN requested the arrangement of a QA visit and the arrangements for the visit were thereafter initiated.

2. MAIN OBJECTIVE

The main objective of the visit is to assist the OAGN to determine whether its audits comply with international standards, and make recommendations on how the quality of audits could be improved. In addition, the resource team will assess the QA system implemented at the OAGN, and will make recommendations to the OAGN on its functioning.

3. SPECIFIC OBJECTIVES OF THE QA VISIT

The following aspects will be addressed during the QA/support visit:

- Quality control reviews on specific audits;
- Collection of findings and reporting back to the AG;
- Assessment of the QA system at the OAGN and making recommendations to the AG on functionality and appropriateness; and
- Training of quality assurance reviewers.

4. DATE OF THE REVIEW VISIT

The review visit will take place from _____ to _____. The review team will be on site at the OAGN during this period and, in collaboration with staff identified for this purpose, will execute the activities agreed to in items 2 and 3 of the Terms of Reference.

5. REVIEW TEAM

The review team will consist of the following members:

Team member 1 - SAI of _____

Team member 2 - SAI of _____

Team member 3 - SAI of _____

Team member 4 - SAI of _____

Team member 1 will act as the project leader and, in consultation with other team members, will focus the activities towards achieving the objectives of the review visit. The SAI of _____ will identify counterparts within its OAGN to work alongside the resource team with the view to transferring skills. The OAGN will also be responsible for providing the necessary logistical and administrative support to the resource team in order to fulfil their responsibility for achieving the required objectives of the visit.

6. METHOD OF WORK

The resource team will conduct the quality assurance review by using the following tools, techniques or procedures:

- Prepare criteria as benchmarks for testing the QA systems and procedures;
- Gather information to test the above-mentioned criteria. Information is primarily gathered through a review of documents, and may be supplemented by interviews, focus group workshops and physical observations;
- Compare relevant information against the criteria to arrive at findings;
- Deliver a presentation to the AG and senior managers on the findings and recommendations;
- Provide on-the-job training for local quality assurance reviewers if so specified by the Terms of Reference (TOR); and
- Draft a report on the review visit and the course of action agreed upon with the AG.

The resource team may also refer to the ASOSAI Audit Quality Management System Guidelines in the conduct of the QA review.

7. EXPECTED OUTPUTS

Upon completion of the review visit, it is expected that the review team would have reviewed a considerable number of audit files and given feedback to the responsible audit manager and the audit team. From the review, the team will produce the following:

- Findings to be presented to the AG and management team with appropriate analysis and possible recommendations;
- Draft an action plan which is agreed upon with the AG.

The review process is also expected to produce OAGN quality reviewers highly trained in theory and in practice of the process.

8. REPORTING

The review team will give a verbal debriefing to the AG and the management at the end of the assignment. A written report will be presented to the AG not later than two weeks after completion of the assignment. Team Member 1 will be responsible for compiling the report.

.....

Signature of AG

Appendix 2

Peer Review Checklist Appendix to ISSAI 5600

(Related to chapter 1 Paragraph 1.9.4 Conducting external review)

Introduction

The following pages are designed to serve as a framework regarding issues that might be addressed in the course of a peer review. They include a checklist of questions. This checklist furnishes a catalogue of issues that may be covered in a peer review. It is neither a prescriptive list of issues that should or must be included nor is the checklist exhaustive. A peer review might certainly also cover other topics which are not mentioned in the checklist.

Against the background of the manifold differences in SAIs' audit mandates and tasks, not all of these questions will be applicable to all SAIs and the reviewed SAI might wish the peer review to be limited to or focus on selected specific items. An excellent tool / basis to decide on what an SAI wants the peer review to be limited to or focus on is a self-assessment, in order to identify areas for improvement. The self-assessment may also be based on this checklist. The peer review can then take place once the measures taken upon the results of this self-assessment are implemented in order to assess them.

The main function of the checklist is to ensure that the framework of the SAI's audit function can be reviewed comprehensively and to draw the reviewers' attention to issues which merit particular regard. It is also intended as a tool by which to compare the practical audit work with generally accepted standards. Therefore, the checklist is based on internationally accepted standards and compiles information for example from the "Guidelines on Audit Quality" as well as from the International Standards of Supreme Audit Institutions (ISSAI), especially the Lima Declaration (ISSAI 1), the Mexico Declaration on SAI Independence (ISSAI 10), the ISSAI 20 and 21 on Transparency and Accountability and the ISSAI 40 on Quality Control for SAIs. There is also a strong international consensus on three fundamental elements of the legal base that are critical to the quality of an SAI's work:

- Assured independence of the SAI, preferably by appropriate provisions in the country's constitution;
- A clear audit mandate, specified in legislation and coupled with the legal powers needed to implement that mandate; and
- Assurance that the SAI will perform the audits that are expected of it in accordance with internationally accepted standards or other professional standards with which the SAI must comply.

1 Understanding the general framework

Accountability for the use of public funds is a cornerstone of good public financial management. SAIs are the national bodies responsible for scrutinising public revenue and expenditure and providing an independent opinion on how the executive branch has used public funds. These fundamental objectives guide the work of all SAIs, though their individual structure and management vary to a large extent. These depend on the constitution, tradition, history and a number of other reasons. The main types generally identified are

- The auditor general model,
- The board system and
- The court model.

Whereas the legal provisions governing the work of SAIs worldwide vary to a great degree, there is also strong international consensus that the principles laid down in the Declarations of Lima and Mexico should be adhered to if SAIs wish to perform their tasks efficiently and effectively. In comparing the institutional framework with the postulates expressed in these declarations, reviewers should bear in mind that their task is not to attempt to implement a model (their model), but rather to examine if the provisions provide for an adequate fulfillment of an SAI's tasks.

The following paragraphs deal with questions that may be asked by reviewers when they gather background information; from the reviewed SAIs' perspective, they may also hint at what to expect. The checklist may also serve as a yardstick for self-assessment practices.

1.1 Legal independence

The peers may gain an understanding as to how the Declaration of Lima's postulates regarding independence are met. Experience has shown that the legal provisions on independence are the key element of the general framework and understanding them is a key element of a successful peer review. Thus, they might wish to see how the establishment of the SAI and the necessary degree of their independence is laid down in the Constitution and/or applicable legislation; how the independence of its members and officials is guaranteed and what provisions are in place with a view to financial independence and relevant INTOSAI guidelines.

Special consideration should be given to freedom of outside influence on the audit opinions.

Independence should not only be guaranteed in the constitution and legislation, but also be guaranteed in the auditors' daily work.

- Does the SAI provide parliament with independent, objective and reliable

<p>information on Government performance?</p> <ul style="list-style-type: none"> • How is the head of SAI appointed? • How long is his/her term of office?
<p>1.2 Financial independence</p>
<ul style="list-style-type: none"> • Is the SAI's financial independence guaranteed legally and evidenced in practice? • Does the SAI receive sufficient funds to achieve its mandate, including accessing funds to buy in external advice and support if needed? • Does the SAI present its budget to the parliament directly or indirectly – after discussion with the Treasurer? • Is the SAI authorised to use the funds allotted to it under a separate budget heading as it sees fit or is the budget subject to any interference by the executive power or parliament?
<p>1.3 Organisational independence</p>
<ul style="list-style-type: none"> • Is the SAI's organisational structure (court system, auditor general or board system, etc.) set forth in legal provisions or in some other way formally approved? • Is the organisation structure suitable to fulfil the SAI's mandate?
<p>1.4 Audit mandate</p>
<ul style="list-style-type: none"> • Are the powers of action open to the SAI laid down in the constitution and/or applicable legislation and do these specify its missions, powers and responsibilities? This chiefly concerns its right to freely to decide upon the selection, implementation, reporting and follow up on audits. • Does the SAI's mandate describe the procedures for reporting audit findings and audited entity's obligation to fully cooperate with its auditors by giving them free access to all the information or documents they seek?
<p>1.5 Audit functions and approach</p>
<ul style="list-style-type: none"> • What precisely are the audit functions of the SAI? • May the SAI exercise its audit functions at its own discretion or are there also mandatory audits to perform? • Do they cover the central government level or do they also extend to regional and local government as well as to state owned enterprises or other entities? • Do they encompass private entities as well, for example if they receive public funds? • Does the SAI's audit cover all government operations and transactions that

<p>have a financial impact?</p> <ul style="list-style-type: none"> • Are the SAI's basic audit powers, duties and reporting responsibilities embodied in the Constitution or other legislation? • Are rules in place that defines the relationship with internal auditors and with other government entities and with private audit firms that carry out external audits in the public sector?
<p>1.6 Strategy</p>
<ul style="list-style-type: none"> • Has the SAI imposed upon itself a performance standard that it strives to achieve? • Are those standards adhered to by its staff and do key stakeholders perceive the SAI to be working to sound professional standards? • Has the SAI developed strategic goals based upon this self-imposed standard, which govern the achievement of its aims, (for example its advisory functions, real-time audit etc.), its focus on audit standards (financial and performance audit etc.) and the proper and effective use of public funds as well as the development of sound financial management? • May employees participate in the definition of the SAI's strategic goals? • Does the SAI have, and implement, an audit strategy and performance indicators that constitute guidance allowing it to address its tasks and evaluate the impact for the audited bodies as well as for public finances?
<p>1.7 Internal governance</p>
<ul style="list-style-type: none"> • Does audit legislation authorise the SAI to issue rules and regulations for the internal governance of the organisation, including such matters as selection, training, functions and promotion of staff? • Has the SAI developed an ethics code describing what is expected of staff and formalising processes to avoid conflicts of interest and other improper actions? • Does the SAI effectively formalise and implement the values of ethics and integrity based on the principles generally accepted by the INTOSAI community? • Does the SAI encourage the development of an auditor's behaviour that is consistent with these values? • Does a policy exist to monitor compliance to ethics and independence requirements? • Does the SAI regularly review its working methods, manuals and practices to improve its effectiveness?
<p>1.8 Accountability</p>

<ul style="list-style-type: none"> • To whom does the SAI report on its activities and performance? • Is this done by means of periodic public reporting? • Is the SAI subjected to periodic external scrutiny and/or audit? Is it ensured that the scope of this audit does not interfere with the SAI's independence? • Are the processes for selecting the external auditors transparent? • Are the results of the external scrutiny process made publicly available and are agreed recommendations acted on by the SAI? • Does the SAI report regularly on how its resources have been used and what results have been achieved?
1.9 Legal / administrative recommendations
<ul style="list-style-type: none"> • Is the SAI authorised to propose recommendations for amendments to draft laws and administrative procedures when it notes room for improvement? • Is the SAI authorised to draw attention to audit findings that have a bearing on the rationale for policy decisions or on the impact of such decisions? • Is the SAI authorised to recommend legislative amendments, if it has found evidence that applicable legal provisions have or may have effects not desired by the Legislature or if the SAI finds that the Legislature's objectives can be achieved more efficiently? • Does the SAI make use of these authorisations?
2 Internal standards and regulations/quality control procedure
2.1 Audit types
<ul style="list-style-type: none"> • What types of audit does the SAI perform? • How does the SAI balance the different types of audit, i.e. regularity/compliance, financial and performance audit, and combinations thereof?
2.1.1 Financial and regularity/compliance audit
<ul style="list-style-type: none"> • Does the SAI have a mandate for auditing the adherence to regulations providing the basis for disbursements, collection of revenues and commitment of funds? • Does the mandate cover the accuracy with which revenues and expenditures are calculated, supported by vouchers and stated in the accounts as well as compliance with applicable financial management, provisions and principles? • Does the SAI have jurisdictional functions? What are the procedures and sanctions applied?
2.1.2 Performance audit

- Does the SAI carry out various methods of performance audits such as: process based studies, organisational studies, impact and outcome studies, cost benefit analysis, specific service and quality management studies, environmental and IT audits?
- Are provisions in place with regard to looking into whether the optimum ratio between the objectives pursued and the resources utilised has been sought and obtained?
- Does the SAI examine the economy, efficiency and effectiveness of measures?
- Does the audit cover the effectiveness of government operations and transactions including the extent to which agreed targets have been achieved (effectiveness)?
- Does the audit cover the examination of the extent to which the input of resources was kept to the minimum necessary to achieve the preset objectives (efficiency)?
- Does the audit also imply a need for evaluating programme results? As a matter of principle, such an evaluation should address the following aspects:
 - target achievement;
 - outcomes;
 - performance (efficiency of implementation and efficiency of the programme itself?); and
 - the impact on the general public

2.1.3 Exceptions and materiality of findings

- Is it laid down that the SAI should avoid audit gaps whenever possible, i.e. is it ensured that the widest possible overview over public financial management is achieved?
- Especially, is the avoidance of audit gaps that impose a material risk laid down?

2.1.4 Real-time audit

- Are there any rules authorising the SAI to perform audit work at an early stage of a project or programme, e.g. once a decision has been taken but expenditure has not yet been incurred and any potential damage might still be avoided?

2.2 Audit standards

- Does the SAI use audit standards which clearly set out how audit work has to be performed?
- Do these standards align with the audit tasks, INTOSAI standards (ISSAIs) as well as other guidelines and professional standards?
- If yes, how does the SAI make sure that these standards are implemented?

- If the auditors follow international / external standards – do they need to give a reason when they decide not to adhere to them in an individual case?
- Does the SAI conduct audit missions in accordance with its own standards?
- Does the SAI see to it that its standards are regularly updated?
- Are the standards easily available for all auditors (e.g. in libraries, in the form of electronic records or via the Internet)?
- Is there a procedure in place to verify that all auditors know the standards?
- Are the audit standards disseminated?
- Are the standards clearly authorised and are SAI staff obliged to adhere to them when carrying out their audit work?
- How are auditors encouraged to master and widely use the standards?
- Has the SAI, as a first step, defined and decided upon the appropriate standards and level of quality for its outputs and then established comprehensive procedures designed to ensure that this level of quality is attained?
- Does the SAI have a role in (national) standard setting for government accounting and auditing standards?
- If not, is the relationship between the SAI and the entity responsible for developing government accounting standards defined?
- Is the SAI involved in legislation concerning audit procedures?

2.3 Quality control

- Do the audit standards provide for reviews of quality control?
- Are there systems and procedures in place to:
 - confirm that integral quality assurance processes have operated satisfactorily;
 - ensure the quality of the audit report;
 - ensure improvements and avoid repetition of weaknesses;
 - make sure that there is a good communication flow;
 - make sure that there is a feedback process;
 - implement the principles of ISSAI 40.
- Has the SAI also established its own quality control arrangements regarding audit planning, conducting and reporting?
- May audits be reviewed in depth by suitably qualified SAI staff not involved in those audits and is this actually done?

- Is there a guarantee that audit work is performed by one official and authorised by another?
- Are there processes in place to identify generic lessons from these quality reviews and to disseminate these within the SAI?
- Does the SAI have a quality assurance manual in compliance with international standards?
- Does the manual set up the goals and demand of audit quality?
- Does the manual describe responsibilities, processes, methodologies as well as the means to measure the quality of SAIs audits?
- Does the SAI have a detailed plan of each audit it plans to deliver that sets clearly as to how the audit will be conducted?
- Does the team of each audit report regularly about the development of audit work and compliance with the planning as well as with the quality assurance manual?

2.4 Internal / external review

- Has the SAI instituted its own internal audit function with a wide charter to assist it to achieve effective management of its own operations and sustain the quality of its performance?
- Does this internal audit function report directly to the head of the SAI?
- Is there a formal process for ensuring that the recommendations of the internal audit function are acted on, once the SAI has accepted them?
- Does the SAI set an internal review to prevent risks and provide a reasonable assurance to fulfil in good conditions the missions it is assigned according to its objectives, strategy and performance criteria (see also point 3.2.3 Economy, efficiency and effectiveness)?
- Does the SAI seek the views of audited entities regarding the quality of its audit reports?
- Has a team of quality assurance auditors been formed to carry out these tasks?
- Does the SAI periodically evaluate its work methods by self assessments in order to implement a process of continuous improvement?
- Does the SAI undergo periodic external evaluation, e.g. peer reviews, of its work as part of a commitment to a continuous improvement process?

2.5 Relations to other public entities

- Is the relationship between the SAI and Legislature and also Government clearly defined by law according to the conditions and requirements of

the national situation, with SAI independence as the guiding principle?
2.6 Security of information
<ul style="list-style-type: none"> • Does the SAI have clear standards in place to assure that information is treated with due confidentiality? • Does the SAI ensure that privileged information acquired is made available only to the addressee and not to third parties? • Does the SAI ensure the communication of these standards among the auditors as well as their application?
3 Structural aspects
3.1 Formal rules
3.1.1 Structure and responsibilities
<ul style="list-style-type: none"> • Does the SAI possess an organisational structure that enables it to fulfil its tasks in good conditions of effectiveness, economy and efficiency? • Are functions and responsibilities defined clearly and transparently for all staff and are overlaps avoided? • On the other hand, is the full coverage of all SAI tasks ensured? • Does the SAI have an efficient system of internal reporting and communication? • Does the SAI have a mechanism in place to ensure quality control and quality assurance within the overall structure? • Is there a commitment on the part of the SAI's top executive to promote and ensure that quality control is practised?
3.1.2 Alterations in the audit tasks
<ul style="list-style-type: none"> • Is the SAI able and flexible enough to respond to changes in its audit tasks in a timely manner, provided the law permits?
3.2 Functional areas
3.2.1 The audit process – structure and documentation
<ul style="list-style-type: none"> • Is the entire audit process clearly structured and are the roles of all those involved defined clearly and transparently? • Is there a clear procedure for resolving differences of opinion? • Is the audit process adequately and continuously documented? • Does the SAI have a wide field of attributions to evaluate and decide on all aspects that are essential for the accomplishment of its missions?

3.2.2 Technical and administrative requirements
<ul style="list-style-type: none"> • Does the SAI possess the technical and communicational means needed to fulfil its tasks? • Is the IT equipment adequate? • Does the SAI foster the use and the development of information technologies, including the use of computer based auditing methods? • Have training events on computer-assisted auditing been held? • Does an audit manual on IT assisted audit exist? • Does this include an (electronic) archiving function and the internet/intranet? • Are there administrative units within the SAI which support the work of audit teams by carrying out clerical, IT and publishing tasks?
3.2.3 Economy, efficiency and effectiveness
<ul style="list-style-type: none"> • Are there provisions (e.g. financial and human resources, logistical and transport provisions) to ensure that the SAI performs its tasks in an economic, efficient and effective way? • Does the SAI have benchmarks to monitor its performance and does it address weaknesses? • Is information about weaknesses in the SAI's performance reported to senior management and consistently acted upon?
3.2.4 Human resources
3.2.4.1 General strategy
<ul style="list-style-type: none"> • Has the SAI established a clear strategy providing adequate assurance it has the necessary staff, both in numbers and skills, to address its tasks (workforce plan)? • Are there clear policies in place covering such human resource issues as staff entitlements to training and development, staff appraisals, pay and remuneration, dealing with conflicts of interest, and staff rotation? • Does the SAI have a policy in place to identify the staff having the skills currently needed by the SAI? • Does the SAI provide for maintaining know-how of staff leaving the organisation? • Does the SAI lay stress on personal/social skills as well as technical skills?

3.2.4.2 Recruitment strategy
<ul style="list-style-type: none"> • Has the SAI established a clear strategy for recruiting and selecting new staff members? • Does the SAI seek excellence and anticipate its future needs according to the type of work the SAI expects to perform in the future? • Is the recruitment strategy separated from the general strategy? • Does it provide for education objectives and programmes, or are these drawn up in a separate document? • Can the SAI access persons with specialised knowledge such as engineers, architects or IT specialists? • Does the SAI use adequate ways of recruiting (e.g. assessment centres etc.) and is it independent in selecting new staff? • Does the SAI ensure that its staffing needs are publicly known so as to make the hiring process transparent and generally open to applicants, thus providing for equal opportunities? • Does the SAI place adequate emphasis on professional education and experience when recruiting staff?
3.2.4.3 Initial and induction training
<ul style="list-style-type: none"> • Does the SAI provide initial training and induction training designed to help new arrivals? This concerns (among other things) such matters as organisational structure, internal and external working relationships, ethical standards, performance standards, etc • Does induction training include a trial period and a period of practical field work? • Does the SAI prefer recruiting skilled/experienced staff or does it want to train the newcomers itself?
3.2.4.4 Technical and skills training
<ul style="list-style-type: none"> • Does the SAI provide for technical and skills training intended to equip auditors with the methodological knowledge and skills needed to plan, conduct and report on whatever type of audit (compliance, regularity, financial or performance) the individual auditor is expected to perform, and to do so efficiently and at a high level of quality? • Does the SAI have a dedicated technical support unit that updates technical documents and provides support? • Does the SAI use staff as facilitators who have considerable

<p>expertise/experience in the knowledge and skill areas which shall be trained?</p> <ul style="list-style-type: none"> • Are staff training needs evaluated? • Are auditors given the chance to point out training opportunities at home or abroad?
3.2.4.5 Managerial training
<ul style="list-style-type: none"> • Is there managerial training for those supervising an audit team? • Does this ensure that managers have the skills required as they progress within the organisation, for example operational and strategic planning, budgeting for time and money, analysing of results, communication, presentation and social skills? • Is there a strategy in place to identify and train future managers?
3.2.4.6 Continued training
<ul style="list-style-type: none"> • Is there a policy in place to ensure that auditors routinely undergo training to continuously maintain and enhance their professional capabilities? • Does the SAI have a commitment to life-long learning? • Is there a training programme detailed by weeks and months, and are education objectives determined for a year or a longer period? • Is there a mechanism in place to ensure that all auditors take part in training? • In order to improve the knowledge and know-how of staff, and help them deal with the increasing diversity of the tasks they have to undertake, do they have the opportunity to benefit from external training courses, internships, or secondments- including the opportunity to participate in joint audit missions with other SAIs ? • Are employees adequately motivated to develop their professional skills?
3.2.4.7 Evaluation
<ul style="list-style-type: none"> • Is staff performance evaluated on a regular basis? • Are the evaluation criteria generally known? • Is the evaluation performed objectively? • Are the objectives and the proposed use of evaluation results been defined?
3.2.4.8 Employee feedback
<ul style="list-style-type: none"> • Does the SAI ensure that staff are treated fairly and equally? Does the SAI obtain feedback on these issues? • Is a mechanism in place allowing staff to express their opinions confidentially

and permitting that the suggestions made are taken into account?
<p>4 Audit approach</p> <p>Audit approaches vary according to the mandates of SAIs. The following subparagraph therefore deals first with questions that apply to all forms and mandates, while the second subparagraph lists questions that will only be asked if the SAI's audit mandate provides for the specific type of audit.</p>
<p>4.1 Audit selection</p>
<p>4.1.1 General strategy</p> <p>The general strategy may differ in respect to mandatory financial audits – with the legal obligation to cover all entities – and performance audits that are fully under discretion of the individual SAI.</p> <ul style="list-style-type: none"> • Does the SAI give proper consideration to the following when it decides what areas to audit and when to perform those audits: <ul style="list-style-type: none"> - the assessment of risks and the significance, sensitivity and materiality and added value of the audit topics; - the financial and human resources required for the performance of particular audits, including consideration of the availability of audit staff with the required skills, also taking into account the size and complexity of the audited entity; - the time at which the results of particular audits are likely to prove most useful, including consideration of timing requirements imposed by law; - the potential need to revise audit priorities in response to changing circumstances; and - the selection and timing of audits may also be influenced by the work of internal auditors or other auditors performing audits on the same bodies.
<p>4.1.2 Priority of audit tasks</p> <ul style="list-style-type: none"> • When selecting audit tasks to be included in audit planning, does the SAI take due care to avoid audit gaps? • Does the SAI use relevant criteria to prioritise audit topics? • How does the SAI handle relative priority among potential audit subjects, considering audits required by law, where applicable, and the limits of the mandate? • Do indicators exist for quickly and reliably measuring the financial weight, materiality and risk of the audit?

<ul style="list-style-type: none"> • Is the SAI free to use a sampling technique? • Is the SAI free to leave specific accounts unaudited?
4.1.3 Selection of bodies to be audited
<ul style="list-style-type: none"> • Does the SAI select audit subjects with a view to generating audit findings that provide an overview of the government operations that come under its audit authority? • Does the SAI collect information about the audited subjects and use this to identify areas which merit inspection?
4.1.4 Cost efficiency
<ul style="list-style-type: none"> • Cost-consciousness may require that preference be given to audits which, based on previous knowledge, are likely to generate significant findings. • Are new audit areas also adequately taken into account? • Are there rules to this effect?
4.2 Audit planning
4.2.1 Resources
<ul style="list-style-type: none"> • Does the reviewed SAI have an effective process in place by which it decides on how to use its discretionary resources to best effect? • Are resources used in audit(..) missions allocated appropriately? • Are audits delivered within the deadlines? • Does the SAI use any information collected during previous audit(..) work or benchmarking exercises to help it estimate adequately resources and timeframe of the audits? • Are contingency plans in place to reduce the delays caused by the assignment of staff to other tasks, leave of absence or sick leave? • Does the SAI have a policy of considering the need for financial and human resources required for the performance of particular audits, in particular: <ul style="list-style-type: none"> - the number and skills of the staff available for the audit; - the resources such as time, funding and others including external expertise, where relevant, necessary for conducting audit work; and - the risks that may be encountered in the audit?
4.2.2 Adequacy
<ul style="list-style-type: none"> • Does the SAI develop an understanding of the environment, accountability and key management systems of the audited body prior to the actual audit?

- Are there procedures in place to ensure the quality of the audit questions and methods, which are supposed to be used in the audit?
- Does the SAI provide for a follow-up review to determine whether appropriate action has been taken on audit findings and recommendation previously reported?
- Does the SAI ensure that the audits delivered by the SAI are in accordance with its applicable standards?
- Does the SAI identify the key elements of the internal control system?

4.3 Audit implementation

4.3.1 Staff

Does the SAI have a policy to ensure that

- all those involved in the audit understand the plan as a whole and the tasks assigned to that person;
- each official involved in the audit has the skills needed to carry out the assigned tasks; and
- there are no conflicts of interest or other factors that might impede any official involved in the audit from carrying out the assigned tasks in a competent and objective manner?
- Is the non-existence of conflicts of interest recorded?
- prior to the approval of the plan, those involved have been given the opportunity to express an opinion on the tasks assigned to them and to participate in the development of the plan.

4.3.2 Documentation and procedures

- Is the audit process documented adequately and transparently? Is the same true for internal decision-making?
- Are the audit records duly registered to facilitate finding them?
- Are the physical and environmental conditions appropriate to ensure the adequate preservation of the records irrespective of whether they are on paper or in electronic form?
- Are appropriate steps taken in the following areas:
 - audit documentation is properly kept, adequately describes audit tests and findings, is referenced and is easily traced to the relevant elements of the task plan and detailed audit programmes;
 - the audit plan provides the links under which the working papers can be found;

- treatment of printed evidence in a computer-assisted audit;
- audit evidence is sufficient and appropriate;
- audit evidence procedures are properly followed;
- security levels are in place to limit the access to documents which form part of the audit evidence;
- the planned audit approach remains appropriate in the light of information gathered in the audit or appropriate changes are made;
- internal control systems of the audited body are properly documented, evaluated and tested;
- controls of an IT nature are adequately taken into account;
- proper sampling, analytical procedures, data gathering and information analysis techniques are used, where appropriate;
- working papers include relevant, reliable and sufficient evidence supporting all findings, opinions, conclusions and recommendations;
- auditors have documented the work performed in such a manner that an independent person should be able to re-perform the work and be able to understand the nature, timing and extent of the work that was done; and
- a checklist is drafted to ensure that the work done is properly documented.

4.3.3 Review before field work

- Before starting actual field work, is the plan reviewed to assure that it can be properly implemented?
- Are all members of the audit team involved in this review to ensure that everyone understands the plan as a whole as well as their roles in the audit, and to give them an opportunity to raise any concerns that they may have?
- Are auditors encouraged to point out possible shortcomings in the audit task plan and in the quality control system?
- Is the audit scope and/or task plan adjusted if significant unanticipated problems arise?
- Are these modifications submitted to the manager in charge for approval?
- Does the SAI adopt and implement professional standards; strengthen methods and techniques for preventing and detecting fraud and corruption; enhance communication and reporting, and foster the publication and use of guidelines and procedure manuals?

4.3.4 Continuous documentation
<ul style="list-style-type: none"> • Is the completion of individual tasks in the audit plan documented and reviewed, evidenced and approved by the immediate supervisor of the auditor responsible? • Are audit working papers systematically collected, reviewed and maintained? • Are changes in the approved audit plan documented, along with the reasons for them, especially if they significantly alter the audit methodology or the time table or other resources required to carry it out? • Are those changes reviewed and approved by the official, if any, who approved the original plan?
4.3.5 Supervision during audit
<ul style="list-style-type: none"> • Does the organisational structure include a supervision department or is the supervisor part of the audit team? • Or who else is in charge of supervision? • Does the audit team leader adequately supervise those involved in the audit to ensure that the audit tasks are carried out properly?
4.3.6 Review upon audit completion
<ul style="list-style-type: none"> • With a view to identify changes and improvements necessary for future audits: Does the audit team leader, and his/her supervisors, if any, review all aspects of the audit tasks performed during the audit, including tests carried out, findings and working papers and document such reviews? • Does the relevant auditor/audit team examine the causes and consequences of the shortcomings found during the audit process?
4.3.7 External expertise
<ul style="list-style-type: none"> • Does the SAI seek assistance from external experts if unexpected problems or technical issues are encountered during the audit work requiring skills beyond those represented in the team? • Does the SAI ensure that the work performed by the expert is properly documented and evaluated? • Is a glossary drawn up of the technical terms used by the external experts in order to ensure understandability?

4.4 Audit reporting**4.4.1 Methodology**

- Are reported audit issues properly analysed and concluded?
- Have all audit findings been evaluated as to their materiality, legality and factual evidence and all relevant material findings included?
- Are all the facts fairly presented?
- Are sources of facts, figures and quotations mentioned?
- Are relevant and material events subsequent to the audit taken into account, to the extent that the auditor is aware of and documents them?
- Is there documentary evidence in support of all conclusions and opinions?
- Is there a clear audit trail for audit steps, findings, conclusions and recommendations prepared by the auditor and his assistants?
- Are the working papers fully cross-referenced?
- Are reports concise, clear, timely, precise, simple, objective, balanced and constructive?
- Are they clearly perceived and well understood by the audited entity and the various stakeholders?
- Are all findings and conclusions supported by adequate and reliable audit evidence in the audit working papers?
- Are the recommendations developed by the SAI in accordance with standards of good professional practice?
- Do reports, where applicable, expressly present positive conclusions or state relevant measures and sanctions to be taken by the SAI?
- If so, does the auditor ensure there is sufficient evidence to support such positive conclusions?
- Are time limits adhered to?
- Are applicable procedures followed with regard to serious irregularities and fraud discovered in the audit?
- Is the full methodology of the audit performed well described in the reports providing therefore more transparency and credibility to the findings?

4.4.2 Internal procedure
<ul style="list-style-type: none"> • Who is involved in drafting the report? • Is it ensured that the report is in line with the audit findings? • Are the reports reviewed for adequacy, conclusiveness, properness, readability etc. by an experienced auditor, audit panels and/or a prosecutor general office which are independent of the audit team? • If applicable, is this review coupled with or followed by further reviews of the draft report at higher levels or other parts of the organisation, especially if the subject of the report is sensitive or the material is unusually complex or technical? Such review by a transversal department is recommended to avoid, especially on legal issues, successive inconsistent opinions stemming from different units, issued by the SAI. • Is there any clear statutory provision and internal guidance as to who has the authority to approve and issue the audit report (audit manager, audit panel, other)?
4.4.3 Different viewpoints conflicting evidence
<ul style="list-style-type: none"> • Is the draft audit report, after internal review, provided to the audited body for review and comment within a specified time frame? • To what extent are comments received from an audited body considered by the SAI? • Are these comments published in the report? • How are factual disagreements resolved? • Is all material conflicting evidence acknowledged in the report, together with an explanation of why it has been rejected or is not reflected in the report conclusions?
4.4.4 Reporting on misdemeanour
<ul style="list-style-type: none"> • Does reporting take place in accordance with the SAI's mandate and relevant legislation? • Does the audit process foresee and the SAI ensure that cases of misdemeanour, such as fraudulent behaviour, violation of contracts or other criminal offences are reported to the prosecuting authorities without delay?
4.5 Follow-up and further treatment of the SAI's findings
4.5.1 Follow-up
<ul style="list-style-type: none"> • Are follow-up audits conducted?

- Is there adequate and sufficient monitoring that the audit recommendations are followed in due course?
- Is the time period between completion of the audit and the follow-up on the implementation of the recommendations specified?
- Are there methods governing the implementation of follow-ups, as well as definite criteria specifying when a follow-up is to be made?
- Does the SAI comply with it?
- In case the recommendations are not implemented or not implemented in due course – does the SAI ensure this is documented and justified by the audited entity?

4.5.2 Impact of performance audits performed by the SAI

- Does the SAI assess the impact of its audits on the performance of the audited entity?
- Does the evaluation take into account the views of the various stakeholders?
- Are there quantifiable indicators for measuring the impact of the audit?
- Did implemented recommendations achieve improvements in performance?

4.5.3 Perception of the SAI

- Are there indicators of the way the SAI, its tasks, mission performance, and professional competence is perceived?
- Is the SAI a body held in high esteem for the work it performs?
- Is the SAI regarded as an independent and professional organisation and respected by the public in general and the various stakeholders in particular as having positive influence on the improvement of state activities?
- Is the perception of the SAI evaluated?
- In what way are the results obtained from the evaluation to be used?
- What types of mechanisms have been considered to improve the perception of the SAI from its stakeholders' perspective?

4.4.4 Publication

- If audit legislation empowers the SAI to publish the results of its work: are those publications elaborated with a view to being understandable to report users and to the general public?
- In what form are the reports distributed?

- Does the SAI publish on the internet as well?
- What type of relationship does the SAI have with the media?

4.5.5 Managing institutional risk

- How does the SAI handle potential cases of audit failure, i.e. when complex audits, possibly also involving matters which are highly visible and/or politically sensitive, might undermine its credibility?
- Has it established a clear procedure for assessing these institutional risks and for adapting to them, considering such matters as complexity of the audit, audit costs, controversy associated with the matters being audited and likely co-operation or resistance by the audited body?

4.5.6 Managing external relations

Does the SAI devote management time and attention to strengthening relations with

- parliament and its committees;
- the government to achieve improvements in government accounting and internal controls;
- line ministries and state agencies, to enable auditors to do their work efficiently, without interference and impediments;
- the media, to assure that the public is aware of key SAI products and of the actions taken (or not taken) in response;
- private sector auditors and relevant professional associations, as to sharing experiences that can strengthen quality in both sectors;
- the academic community to facilitate drawing on that source of specialised expertise, when needed, and in recruiting high quality graduates; and
- the audit community, including co-operation at the bilateral and multilateral level, to facilitate benchmarking, sharing of knowledge, experiences, techniques and information on good practices.

Appendix 3

(Related to Chapter 2 Paragraph 2.11 Annual QAR Reporting)

Summary Report of QAR findings with Sample Report

The following format could be used by the QA Directorate for prepare the annual QA report:

Name of the Audit	Period of the Audit	Audit Team Leader	Findings and Recommendations	Nature of the QAR	QAR Team Leader	WP Ref to QAR Findings and Recommendations
xxx	xxx	xxx	xxx	xxx	xxx	xxx

Name of the Audits – identify the specific audits reviewed by the QAR teams. Since this is an annual report to top management, it should not be restricted only to performance audits that were reviewed by the QA unit; rather, it should cover all types of audits reviewed: financial attest audits, financial compliance audits and performance audits.

Period of the Audit– Indicate the periods or dates of above-mentioned audits were conducted.

Audit Team Leader – it is important to state the name of the audit team leader to be directly responsible for implementing the recommendations given by the QA Review Team.

Nature of QAR – In this column, any of the different types of QAR (or a combination thereof) may be indicated, such as pre-issuance reviews, post audit reviews, internal and external reviews.

QAR Team Leader – The name and designation of the person responsible for the QAR is indicated in this column for purposes of coordination and clarification on the recommendations forwarded by the QAR Team.

On the other hand, the summary report on significant QAR findings and their relationship to the OAGN's QMS may contain the following components:

Name of the SAI – Indicate on the space provided the name of the OAGN.

Name of Team Members – List the names of the team leader and the members of the audit team that completed the audits subjected to a quality review.

Methods Used – Mention the different methods used in the QA review of the completed audits, such as, documents review, interviews, focus groups, analytical techniques, etc.

Domain – Identify the particular domain in the Quality Management System (QMS) framework to which the good practice and negative findings relate. The domain could either be any one of the domains such as Independence and Legal Framework, Human Resource, Audit Standards, Methodology and Performance, External Stakeholders Relation, etc.

Good Practices – These are the conditions in the SAI that meet the criteria or the desired standards in relation to the domains being reported on.

Negative Findings – Only the significant findings should be summarised in this section. These significant QAR findings on the completed audits are such that they pose high risk if not addressed by OAGN’s top management.

Consequences/Likely Consequences – These are the effects or likely effects of the findings. There may be more than one consequence for each of the negative findings. Assessing the effects/likely effects can help determine the significance of findings.

Causes – These are the reasons why the negative findings exist or persist. There may be more than one cause for each of the negative findings. The QAR team has to exhaust all the underlying reasons or causes to be able to determine the appropriate recommendations for solving the negative findings.

Recommendations – These are the solutions being offered by the QAR team to ensure that the negative findings do not occur in future. It is important to remember that the recommendations should be based on the causes underlying a finding, and not directly on the finding itself. Consequently, there should be a one-to-one relationship between causes and recommendations. .

Name of SAI: Office of the Auditor General, Nepal

Name of Team Members:

Methods Used:

- Reviewing the documents collected in the process of audit exercise which is maintained in the permanent and current audit file which was based on Quality Assurance Review Questionnaire given in draft Quality Assurance Handbook on Performance.
- Meeting and discussions with audit team member, Directors, Assistant Auditor General of PAD and top management of OAG/N.

Domain 3: Audit Standards, Methodology and Audit Performance

A. Findings (conditions)

- Audit team has not been prepared Audit program in prescribed format.
- Audit team has not documented techniques applied for gathering audit evidence and audit test procedures used in the available working papers.
- Audit team has not been prepared Audit plan in prescribed format.

B. Consequences/Likely Consequences/Effects

- Audit file does not provide information regarding field work, supervision, delegation of work, activities completed while conducting audit.
- Audit file has not provided information about techniques used for gathering audit evidence and audit test procedures used.
- Audit file does not provide information regarding audit objectives for each MOPS, audit criteria to be used for each audit objectives, approach to audit with details, manpower engaged, estimated working man days and detailed time and work schedule.

C. Causes

- Detailed audit plan has prepared and documented in audit file but due to time limitation audit program may not be prepared.

- Detail audit plan has specified the audit techniques and methods applied for gathering information; however detail guidance to documentation techniques and test procedure to be applied is not mentioned in PAG.
- Detailed audit program has prepared and documented in audit file which covered almost all information of audit plan so they felt plan is not necessary.

D. Recommendations

- Audit program needs to be prepared in prescribed format and documented in audit file.
- Checklist should be developed for gathering audit evidence and audit test procedures used needs to be documented in working papers.
- Audit plan should to be prepared in prescribed format and documented in audit file.

Domain 4: Leadership and Internal Governance

A. Findings(conditions)

- The audit files do not contain any sort of document related to declaration made on the part of audit team and condition of conflict of interest between the auditor and the entity under audit and close affiliations with management of audited entity.
- OAG/N has not formulated strategic plan for P A.
- Central Co-ordination Unit has neither practiced of separating the audit topic which are to be audited by SAI personnel or outsourced nor developed monitoring framework to ensure that all selected topic/issues are audited and reported in time.
- The audit files do not contain the documents related to monitoring of audit team and supervision of field work.
- Audit team has not documented Performance Audit Progress Record Form, Information Collection Form, Process Analysis Template, Risk Assessment Process, Work Programme, Audit finding Form, Audit file Documentation, Audit Review Form, Performance Audit Peer Review form and Annual Report, Response & Decision of the Public Accounts Committee audit tool in working files.
- Audit team has not used working paper prescribed by OAG/N. The collected documents are not properly indexed and cross- referenced.

B. Consequences/Likely Consequences/Effects

- Audit team may be impaired the independence of their work and creditability of OAG/N.

- In the absence of strategic plan for PA topics are selected on yearly basis. Due to this reason OAG/N is facing difficulties in determining number and topics to be audited in subsequent years including resources required to carry out performance audit.
- Out of the 25 topics selected by Central Co-ordination Unit in F/Y 2009/10 only 16 topics were completed. It created difficulty in determining resources needed correctly for carrying out P A.
- Audit work at field level was completely depending upon audit team engaged.
- Documents and evidences could not be collected and recorded. Absence of use of the prescribed tools have hampered performing audit in structured and prescribed manner.
- Supporting document could not be compared with audit findings due to lack of proper cross-referencing with each other which impacted review process.

C. Causes

- OAG/N has not made mandatory to declare and document the condition of conflict of interest and affiliations with management of audited entity.
- Existing PAG has not made specific provision to formulate strategic plan.
- The roles and responsibilities of Central Co-ordination Unit are not clearly mentioned in P A G.
- Questionnaire technique was used and reviewed by supervisor. OAG/N has not deputed supervisor to supervise audit field work.
- Performance Audit Division has not made compulsory to use these forms. Training to the auditor on the use of these formats was not given to the auditor.
- Absence of proper monitoring and supervision of documentation process of the audit performance by the senior staff.

D. Recommendations

- OAG/N should make mandatory to declare and document condition of conflict of interest and affiliations with management of audited entity.
- P A G should be updated and provisions should be made to develop strategic plan for P A.
- The role and responsibility of Central Co-ordination Unit need to be mentioned in P A G. Monitoring framework should be established while selecting topics or issues and OAG/N personnel PA capabilities should be assessed.

- Documentation of monitoring and supervision should be managed and reported to higher authority.
- Audit working paper files should contain all key documents such as audit tool 1 to 12 to each stage of the audit process and senior staff should monitor.
- Audit team should use and maintain working papers as prescribed by OAG/N and all evidence, supporting information and findings are to be documented and properly organised with appropriate indexing and cross-referencing. Senior staff should timely supervise the documentation process.

Domain 6: External Stakeholder Relations

A. Findings (conditions)

- Audit objectives, scope, criteria and methodology were not formally communicated to audited entity.
- Audit team has not discussed on preliminary audit findings with project management to obtain their comments. Audit report was prepared without taking response from audited entity.
- Audit team has not given appropriate time to audited entity management for their response.

B. Consequences/Likely Consequences/Effects

- Audited entity cannot get appropriate knowledge about audit coverage so that they may not provide appropriate information.
- Comments of audited entity on audit findings were not incorporated in audit report, the audited entity may disagree on contents of audit report resulting inappropriate findings and recommendation.
- Audited entity was not availed sufficient time to respond on audit report.

C. Causes

- The practice of formally communicating audit objectives, scope and criteria is not adopted but practice of brief discussion on these aspects in entry meeting has been done.
- Offices are located far from OAG/N and due to time constraints of submitting annual report exit conference could not be organised.
- To meet the dateline for submission of Auditor General's annual report 2010 the audit team could not provide required time to audited entity.

D. Recommendations

- Audit objectives, scope, criteria and methodology should be formally communicated to audited entity.
- Audit team should discuss on preliminary audit findings with audited entity's management to obtain their comments and audit report should be prepared after taking audited entity's response.
- OAG/N should give time as specified in the legislation to audited entity for their response on auditor's findings and on the basis of audited entity's response Assistant Auditor General designate to review the responses.

Domain 7: Results**A. Findings**

- P A team has not assessed and categorized risk as mentioned in P A G.

B. Consequences/Likely Consequences

- Proper risk faced by entity may not be identified by audit and risky areas might be left out.

C. Causes

- Appropriate training was not provided to the auditors on risk assessment and categorization process.

D. Recommendations

- Training on risk assessment and categorization should be given to audit team and risk assessment performed should be properly documented.

NOTE: The above example covers only one domain of the QMS to serve as as illustration. If there are findings relating to other domains, the same should be included by following the above reporting structure.

Appendix 4

(Related to Chapter 3 Section 1 Paragraph 3.3.3.8)

Checklist for Self Assessment and Audited entities Feedback

For those who decide it would be useful and helpful to seek the views of audited entities about the work of an OAGN, you may wish to consider some of the following possible lines of inquiry. These questions could also be used for a “self assessment” process.

Adding value

- ✓ Was the focus of the audit too wide, too narrow, about right?
- ✓ What insights into services did the audit provide?
- ✓ What changes have been prompted or reinforced by the audit?

Approach and methods

- ✓ Do you consider that the examination used suitable techniques for:
 - Obtaining data?
 - Analysing data?
- ✓ Was the audited entity given the opportunity to comment on:
 - Aims of the audit?
 - Proposed methodology?
 - Appointment of consultants?
- ✓ If negative answers are received, explanations should be sought.

Working relationships

- ✓ To what extent were the audit staffs courteous and professional in dealings with the audited entity and its staff?
- ✓ Was the audited entity:
 - Kept up to date with progress?
 - Given an opportunity to comment as results emerged?
- ✓ If negative answers are received, explanations should be sought.

Contribution to modernising Government

To what extent did this report make a positive contribution to the following aspects of the Government?

- ✓ Promoting good governance
- ✓ Better financial management
- ✓ Supporting innovation
- ✓ Forward looking
- ✓ Citizen-focused
- ✓ Supporting appropriate risk-taking
- ✓ Improving the civil service
- ✓ Outcome focused
- ✓ Better use of Information Technology
- ✓ If negative answers are received, explanations should be sought.

Fair and objective reporting

- ✓ Did the draft reports present the facts:
 - Accurately?
 - Fairly?
- ✓ Were the views of other parties:
 - Incorporated?
 - Given a fair hearing?
- ✓ How good and fair was the press coverage?

General comments

- ✓ How would you rate the overall quality of the audit report(s)?
- ✓ How effective was the report in making things better? Or in saving money?

Appendix 5

(Related to chapter 2 section 2 paragraph 3.5)

Quality Assurance Review Plan of OAGN

- 1. Background and Jurisdiction of OAGN**
- 2. Summary of the Terms of Reference**
- 3. Objectives of the QAR**
- 4. Scope and Approach of QAR**
- 5. Methodologies to be used**
- 6. Limitations of QAR, if any**
- 7. Composition of QAR Team**
- 8. QAR Timings**
- 9. QAR Budget**

.....

Prepared by:

Date:

.....

Approved by:

Date:

Appendix 6

(Related to Chapter 3 Section 2 Paragraph 3.7.2)

Physical Observation Checklist for Work Environment & Facilities

Name: Office of the Auditor General, Nepal

Observation by: _____

Date : _____ (dd/mm/yy)

Instructions:

The checklist of questions below refers to the quality of work environment and existence of materials and infrastructure.

- When responding to Existence questions, please check yes or no cases (in Existence column).
- When responding to an appraisal question (sufficiency, adequacy, convenience, human behaviours) please check cases 1 to 5 in the ranking column.
- (Note: **1** - unacceptable, **2** - poor, **3** - good, **4** - very good, **5** - excellent).
- In case you have any remark, please post it in the appropriate “Remarks” column.

No	Item	Existence		Ranking					Remarks
		Yes	No	1	2	3	4	5	
A	Physical work environment								
	Office convenience								
	There is sufficient room space.								
	Office rooms are well organised.								

No	Item	Existence		Ranking					Remarks
		Yes	No	1	2	3	4	5	
	Work areas are clean.								
	Work areas are tidy.								
	Work areas are free from sound.								
	Room temperature is adequate.								
	Furniture is efficiently arranged.								
	Lighting condition in work areas is adequate.								
	Storage equipment exists for all staff.								
	Storage spaces for all staff are adequate.								
Common space and commodities									
	Waiting areas for visitors exist.								
	Waiting areas for visitors are convenient.								
	Drinking water facilities exist.								
	Drinking water facilities are convenient.								
	Rest rooms exist.								
	Rest rooms are conveniently situated.								

No	Item	Existence		Ranking					Remarks
		Yes	No	1	2	3	4	5	
	Parking facilities exist.								
	Parking facilities are convenient.								
Training rooms									
	Training rooms exist.								
	Training rooms are well equipped.								
Meeting rooms									
	Meeting rooms exist.								
	Meeting rooms are well equipped.								
Security									
	Security checkpoint exists prior to office access.								
	Fire security exists.								
Location									
	Departments/divisions/sections are efficiently located.								
Library and Archives									

No	Item	Existence		Ranking					Remarks
		Yes	No	1	2	3	4	5	
	Space is sufficient.								
	Library is well organised.								
	Access to library is easy.								
	Categories and numbers of books are sufficient.								
	Library is clean.								
	Permanent files exist.								
	Audit Reports exist.								
	Courseware exists.								
	Borrowed materials are controlled and followed-up.								
	Access to confidential information is controlled.								
B- Stationery, tools and equipments									
Stationery									
	Stationery supplies for all staff members are sufficient.								
Technology									

No	Item	Existence		Ranking					Remarks
		Yes	No	1	2	3	4	5	
	Number of desktop computers and laptops is sufficient.								
	Anti-virus protection exists.								
	Internet access for all the staff exists.								
	Internet access is easy.								
	Intranet exists.								
	Printers exist.								
	Printers are sufficient.								
	Printers are effective.								
	Photocopying facilities exist.								
	Photocopying facilities are convenient.								
	Relevant software exists.								
	Fax machines exist.								
	Fax machines are effective.								
	Telephones for internal communication exist.								
	Telephones for internal communication are effective.								

No	Item	Existence		Ranking					Remarks
		Yes	No	1	2	3	4	5	
	Telephones for external communication exist.								
	Telephones for external communication are effective.								
	Control for minimising misuse of computers and other costly equipment (Fax, international calls, mobile phones, etc.) are effective.								
C- Guidance Document									
	Audit Manuals exist.								
	Audit Manuals are sufficient.								
	Audit Toolkits exist.								
	Audit Toolkits are sufficient.								
	Auditing Standards exist.								
	Audit Laws exist.								
	Office Procedures Manuals exist.								
	Office Procedures Manuals are sufficient.								

Appendix 7**(Related to Chapter 3 Section 2 Paragraph 3.7.3)****Guidance on conducting Focus Group Discussion****DEFINITION**

A focus group can be defined as a group of interacting individuals having some common interest or characteristics, brought together by a moderator/facilitator, who use the group and its interaction as a way to gain information about a specific or focused issue. The moderator/facilitator is any credible person whose main task is to lead the process/discussion in order to arrive at the objective of the focus group.

Focus groups, as differentiated from interviews, are more of a discussion method where participants have more opportunities of interacting between themselves and among the groups, led by the moderator/facilitator. The discussion focuses on the key questions, usually limited in number as opposed to interviews where questions asked are significantly more in number.

PURPOSE

The Focus group as a technique is particularly well suited for gaining an insight into certain issues. Hence, the participants should be chosen based on their ability to provide specialised knowledge or insight into the issue under study.

For assessing the needs of a particular organisation, the purpose of the study would be to identify what the current situation is in that organisation, and its vision. The resulting information would then be compared to get a picture of what the capacity building needs of that organisation are.

STRENGTHS

Focus groups provide several advantages and limitations over other approaches used to gather needs assessment/information. Among their advantages are the following:

- Researchers can interact directly with respondents (allows clarification, follow-up questions, probing) and gain information from non-verbal responses to supplement (or even contradict) verbal responses.
- Data uses respondents' own words; can obtain deeper levels of meaning, make important connections, and identify subtle nuances.
- Very flexible; can be used with wide range of topics, individuals, and settings.

LIMITATIONS

Among its limitations are the following:

- The moderator/facilitator has less control over the group; less able to control what information will be produced.
- Produces a relatively wide variety of data and information, making data analysis more difficult.
- Small numbers and convenience sampling severely limit ability to generalise to larger populations.
- Requires carefully trained moderator/facilitator who is knowledgeable about group dynamics.
- Moderator/facilitator may knowingly or unknowingly bias results by providing cues about what types of responses are desirable.
- Uncertainties about the accuracy of what participants say.
- Results may be biased by presence of a very dominant or opinionated member; more reserved members may be hesitant to talk.
- Data analysis is often complex and time-consuming.
- The quality of the conduct of the focus group and the data and information gathered are dependent on the participants' qualifications and competencies.

WHO SHOULD CONDUCT FOCUS GROUPS?

Conducting a focus group requires a high level of competence. The facilitator must possess facilitation techniques, discussion-leading skills; know-how to write appropriate questions, and how to analyse qualitative data. The facilitator is primarily concerned with directing the discussion, keeping the conversation flowing, and taking minimal notes. The facilitator or moderator keeps the discussion focused without discouraging the sharing of ideas, and gets all members to contribute while making sure that one or two members don't dominate.

Moderators / facilitators should develop qualities outlined by Kvale (1996) and Fern (2001)

- **Knowledgeable** – must be thoroughly familiar with the topics of the focus group.
- **Enthusiastic** – must value and like his or her role in the focus group, but must remain impartial.
- **Approachable** – must be able to blend in and make sure the group can relate to him or her.
- **Sensitive** – must be able to listen attentively to what is said and how it is said; be empathic.

- **Open and flexible** – must respond to what is important to the participants.
- **Critical** – must be able to politely challenge what is said. For example, you might question inconsistencies in participants' replies.

TARGET AUDIENCE

Focus groups are composed of people (8-15) who are similar to each other on some specified criteria of interest. Homogeneity is determined by the purpose of the study and serves as the basis of invitation of participants.

Because the idea of focus groups is to take advantage of group interactions, it is important to use the information at the group level, not the individual level. Hence, the focus group may be:

- Senior management of the OAGN (or those who participate in and have influence on the decision-making process in the OAGN).
- Middle and lower level management of the OAGN (audit team leaders, head of Training, etc.).
- External stakeholders.

It is possible to consider the possibility of inviting 1-2 representatives of the external stakeholders to the senior management focus group.

In the case of regional focus groups, it is possible to consider the possibility of inviting 1-2 representatives of the regional secretariat.

HOW TO CONDUCT / USE FOCUS GROUPS

Before the Actual Conduct of the Focus Group:

1. Clearly define the purpose of the exercise.
2. Specify qualifications of participants as to level and experience.
3. Develop the questions. Writing good questions is crucial, so revise them until they are clear and succinct. Use the following guidelines:
 - Ask questions that encourage description and depth.
 - Use simple, clear language. Use language participants understand. Avoid asking questions that have several possible meanings or questions that are so long that they are difficult to follow.
 - Avoid biased questions or questions that lead participants to answer in a particular way.
 - One concept per question. Questions addressing more than one concept may confuse participants, leading them to answer only one part of the question or to answer neither part. The solution is to separate two ideas into two questions.
 - Choose relevant subjects.

- Consider level and capability of target participants.
 - List areas to probe to ensure a wide coverage of the specific topics in all sessions.
4. Design and develop the materials to be used. Design discussion guide questions that are complete and concise and rewrite any question that might prompt a respondent to ask for clarification.
 5. Conduct a pilot test among a pre-defined target audience whose qualifications approximate those of the intended target audience.
 6. Revise and complete the discussion guide and all visuals preferably one day before its conduct.
 7. Check up on venue. Ensure that the venue is convenient, comfortable, and relaxing. Rooms with one-way mirrors, conference tables, and microphones hanging from the ceiling may make participants feel like they are performing, so make the setting informal, because people are more likely to open up if they feel at home.

During the actual conduct of the Focus Group

Dressing appropriately for the venue will improve rapport. It is acceptable to wear blue jeans for a student focus group, but better to wear more professional attire among programme managers or administrators.

1. Begin by introducing yourself as the moderator/facilitator. If you are conducting the Focus Group with a co-facilitator, ask him/her likewise to introduce him or herself. Ask also the Recorder to introduce self, if any. Emphasise the roles that each person plays during the Focus Group – that of facilitating the sessions.
2. After the introduction, ask the group members to introduce themselves, or use an icebreaking exercise to get them involved. To preserve confidentiality and commonality, then ask members to introduce themselves by first name only and to avoid topics that emphasise differences in status that might threaten cohesion.
3. Consider following this agenda:
 - welcome the participants to the Focus Group;
 - discuss the purpose of the Focus Group;
 - present the agenda or process map of what will be done; and
 - review administrative matters with the Group, if necessary.
4. Convey to the participants the expectations in terms of what the Focus Group should produce and tell everyone that all contributions will be valued and will remain confidential.
5. Inform participants of your plan to record the sessions, if necessary.
6. Facilitate the session and be guided by the following principles:

- the major goal of your facilitation is to collect useful information to meet the goal or purpose of the Focus Group, i.e., capacity building needs assessment;
 - carefully word each question to be asked;
 - allow the groups a few minutes for each member to carefully record their answers. Then facilitate discussion around the answers to each question;
 - after each question is answered, carefully reflect back a summary of what you heard. This allows the other members of the Focus Group to hear the answers if they had missed them the first time; and
 - ensure even participation. If one or two people are dominating the discussion, attempt to call on others. Consider a round-table approach, including going in one direction around the table, giving each person a minute to answer the question. In most cases, the Moderator/Facilitator should be able to “read and feel” the group pulse.
7. Summarise at appropriate points during the discussion by reviewing with the Group what has been said.
 8. Close the session by thanking the participants and ensuring them that they will be provided with a copy of the documentation of what transpired during the Focus Group.

Immediately after the conduct of the Focus Group

1. Transcribe and analyse the data. A brief summary and analysis, highlighting major themes, is sufficient when decisions must be made quickly, the results are readily apparent, or the purpose of the group is purely exploratory.
2. Focus groups generate large quantities of data. It is important, therefore, to have a clear plan for special formatting that may be needed to meet the requirements of the project.
3. Make conclusions. Evaluate the results by how well they answer the study's central questions.
4. Disseminate results. To emphasise the importance of participants' contribution in the assessment and make future participation more likely, share the results with them, describing response patterns, general impressions, and how the results will be used.

WHEN TO CONDUCT FOCUS GROUPS

1. Focus Groups should be conducted when we want to optimise the results of other research tools administered. Hence, they can be held after having gathered the different data and information resulting from other tools, mainly the survey questionnaire.
2. Focus Groups can also be a tool to assist in the development of surveys by identifying issues most relevant to potential respondents.

PRINCIPLES FOR PLANNING FOCUS GROUP MEETINGS

1. Define the terms used so that all respondents have the same understanding of what is being asked.
2. Prepare the Focus Group script. The script determines the content of the discussion within each group. Hence, it should contain a list of probing questions designed to elicit answers to your broader study questions. These broader study questions are rarely asked directly in the focus group sessions. Instead, composing the script involves considerable thought about what specific probes would best get at the broader questions you want answered for the project.
3. The task of designing the materials and developing the questions usually takes much longer than one would expect, and therefore you might want to estimate the time you will need, and then double it.
4. Have your facilitator, colleagues, and appropriate members of your advisory committee participate in developing, reviewing, and editing the questions and documents.
5. Condensing, organising, and making meaning of focus group content as a result of questions asked is often the most time-consuming and expensive part of an evaluation, so consider how you will analyse data early in the study design process.

It is not appropriate for supervisors to facilitate groups with subordinates.

Appendix 8

(Related to Chapter 3 Section 2 Paragraph 3.7.4)

Guidelines on conducting Interview

INTRODUCTION

Conducting interviews is a common technique used for gathering information during needs assessments. To ensure comprehensiveness of a needs assessment, interviews should be preceded by a survey and, if possible, complemented by the use of other data and information gathering tools as well. The results of the survey should feed into the interview. It is important to recognise that the quality of the needs assessment is likely to be inadequate if only the interview tool is used for obtaining data and information on capacity building needs assessment.

WHAT IS AN INTERVIEW

An interview is a data and information collection procedure in the form of a carefully planned set of questions that an interviewer asks a respondent to obtain in-depth ideas and perceptions on a topic of interest. With regard to needs' assessments, this is conducted to promote clarity and deeper understanding of the respondent's perception of capacity building needs of SAIs, and the associated strategies and challenges. Depending on the situation, there may be more than one interviewer and, in some cases, even more than one interviewee.

PURPOSE OF INTERVIEWS

The overall purpose of an interview during needs assessment is to gather data and information relevant for assessing the capacity building needs of the target SAIs. Interviews provide an opportunity to gather rich, qualitative descriptions in order to answer key questions relating to the capacity building needs of SAIs. That includes views and opinions of the interviewee on development needs of the SAI, such as key result areas, challenges to be addressed, capacity building strategies and support required etc.

The following are some of the common purposes of using this tool:

- To identify causes and effects of an existing, or likely condition affecting the SAI's effectiveness;
- To obtain specific information on issues pertaining to highly specialised functions;
- To clarify information gathered through other tools; and
- To validate information gathered using other tools.

STRENGTHS AND WEAKNESSES OF INTERVIEWS**Strength**

- They provide information directly from people;
- They provide flexibility to explore new ideas and issues not anticipated during planning;
- Facilitates expression of diverse opinions and ideas;
- Allow the respondent to elaborate on his or her responses;
- Allow the interviewer to probe for deeper understanding and clarity about the respondent's answers;
- Facilitates arriving at a common understanding between interviewers and interviewee; and
- Provide opportunity to obtain sensitive and confidential information that the interviewee may not be willing to provide in a public place/forum.

Limitations

- They are generally not appropriate if quantitative data are needed;
- There is risk of gathering unreliable information if the interviewees are not carefully selected;
- Information provided by the interviewee may not be representative of the population from which the interviewee is selected;
- They are susceptible to interviewer biases;
- It may be difficult to prove the validity of findings;
- Information gathered through interviews are not easily quantified, and analysis can be quite challenging;
- Can be tiring to conduct several interviewees over a short period of time.

WHO SHOULD CONDUCT INTERVIEWS

Interviews should be conducted by members of the needs assessment team who possess skills necessary for effective interviewing. The interviewer should possess:

- Fluency in the language to be used for conducting the interview;
- Effective listening skills;
- Good observation skills;
- Effective discussion leading skills;
- Time management skills;

- Ability to remain neutral even if he or she is tempted to take a position in response to any comment of the interviewee;
- Good writing skills;
- Ability to take notes quickly without straying from the flow of the conversation;
- Analytical and synthesising skills; and
- Knowledge of, and experience in, auditing

TARGET AUDIENCE

The interviewees may be selected from within the OAGN as well from among external stakeholders. Within the OAGN, interviews may be conducted with selected people from different levels, ranging from top management down to non-supervisory staff. Selection of the level of the interviewee would depend on the purpose of the interview. For example, if the purpose of an interview is to obtain views on strategic capacity building concerns of the OAGN, then it is recommended to interview representatives of the OAGN's top and senior management. On the other hand, if the purpose is to obtain information on highly specialised functions within the OAGN, it might be more useful if the interviewee is an expert in that functional area. If the interview aims to gather data and information at a more operational level, then it might be more effective to select interviewees from middle and junior management level, and experienced non-supervisory staff. If time permits, it is recommended to interview persons from different levels of the OAGN's organisational structure. That will enable the interviewer to elicit information from different perspectives and thereby provide a more holistic picture. Depending on the capacity building domain being focused, it would be useful to interview representatives of external stakeholders of the OAGN, for example, from some audited entities, the ministry of finance, and public accounts committee.

WHEN TO CONDUCT INTERVIEWS

Interviews can be conducted at different stages of a needs assessment process. However, it is recommended that interviews are conducted after obtaining a reasonably good understanding of the OAGN. That will enable a more effective conduct of interviews. As such, it might be better to conduct interviews after obtaining responses to a detailed survey and, to the extent possible, after some review of documents pertaining, at least, to the structure and functions of the OAGN.

HOW TO CONDUCT AN INTERVIEW

Using the interview technique involves three stages: Planning the interview, conducting the interview and concluding and documenting the findings.

Planning the interview

The effectiveness of conducting an interview is directly related to the quality of planning that precedes it. The interviewer should plan meticulously before conducting an interview. The following are some suggested steps for effective planning of an interview:

- Select the interviewer(s) possessing the requisite interviewing skills. Sometimes, a panel of interviewers may be used, with a mix of expertise. In the latter case, bear in mind the risk that an interviewee may feel uncomfortable facing many interviewers at the same time.
- Research the OAGN. Study all available back ground information on the OAGN. If the survey responses have been received, this would be right time to go through it.
- Determine the position from which the interviewee will be drawn. If it is one among several similar positions, then you may even identify the specific person to be interviewed.
- Research the position. Develop an understanding of the position to which the interviewee belongs. Where is it located in the organisational structure, how many people report to that position, what are the primary responsibilities of the position, etc?
- Identify a few key questions from Annex-1 or Annex-2, depending on the level to which the interviewee belongs. These few questions may form the basis of the interview discussions.
- Organise the questions in logical sequence. It might be helpful to start with a few simple closed questions before moving on to more challenging open questions. That will help the interviewee to relax and settle down.
- Plan your opening remarks required to establish rapport with the interviewee.
- Agree with interviewee on the time and location of interview.
- Ensure availability of all materials and equipment necessary while conducting the interview. This may include results of a survey conducted prior to the interview, any references that may be necessary during the interview, recording equipment, etc.
- Inform the interviewee in advance of the key interview questions and the capacity building framework. The former will enable the interviewee to reflect on possible responses and thereby facilitate richer discussions during the interview. Familiarity with the capacity building framework will facilitate easier linkage between the interview discussions and the domains and elements of the framework.

Conducting the interview

Beginning the interview:

- Acquaint yourself with the interview guide and questions before arriving at the venue.
- If it is a long questionnaire, identify priority questions, bearing in mind the other tools already used or to be used, the position of the interviewee in the organisational hierarchy, time available for the interview, etc.
- Introduce yourself and your team members, if any.

- Establish a rapport with the interviewee. This may include thanking him or her for providing the opportunity for the interview.
- Explain the purpose of the interview.
- Indicate how much time it is likely to take.
- Address terms of confidentiality. Explain who will get access to their answers and how their answers will be analysed. If their comments are to be used as quotes, get their written permission to do so.
- One of the challenges is to capture the interviewee's responses even while paying attention to his or her responses and the process. One way is to take along a colleague to take notes. Another option is to obtain recording equipment. In such cases, obtain interviewee's consent and reiterate the confidentiality agreement mentioned above, so that the interviewee does not feel uncomfortable observing all his or her comments being meticulously recorded.

Discussing the topic:

- Adopt appropriate non verbal communication, e.g. facing the interviewee directly, direct eye contact with interviewee, leaning slightly towards him, open posture, nodding periodically to demonstrate attention to the flow of the interviewee's comments, etc.
- Start with factual questions. Questions requiring opinions and judgments should follow. In general, begin with the present and move to questions about the past or future.
- Listen carefully and demonstrate through verbal and non verbal means that you are attentive to what the interviewee is saying.
- Use probing techniques. Encourage informants to detail the basis for their conclusions and recommendations. For example, an informant's comment, such as "The OAGN's mandate should be expanded?" can be probed for more details, such as "What specific changes in the mandate would you recommend?"
- Maintain a neutral attitude. Interviewers should be sympathetic listeners and avoid giving the impression of having strong views on the subject under discussion. That may create an atmosphere of conflict if the interviewer is perceived by the interviewee as taking an opposing stand. Neutrality is essential also because some informants, trying to be polite, will say what they think the interviewer wants to hear.
- Control the discussion, but do so skilfully. The discussion should be directed towards obtaining the facts or other information pertinent to the purpose of the interview, and towards conserving time. A skilled interviewer will guard against the interviewee's discussing irrelevant matters to avoid answering questions or providing information on painful or disturbing topics.

- Provide clear transition between major topics, e.g., ‘We've been talking about critical issues facing human resource management in OAGN. Now I'd like to move on to strategies that could be used to address these issues.’
- Get all the information needed during one interview; avoid to the greatest extent possible the necessity of a second interview, especially if the interviewee is unlikely to be available for a second round of interview.

Concluding and documenting

- Ask a closing question that allows the interviewee to respond to any issue that was not covered but might be considered important by him or her, e.g., ‘Are there any other issues you would like to discuss?’
- Briefly summarise the key information obtained at the conclusion of the interview.
- Do not extend the interview beyond a reasonable period of time, which should closely approximate the time agreed upon when the appointment was made.
- Thank the interviewee before closing the interview.
- Prepare a memorandum of the interview discussions as soon as possible after the interview. The memorandum should state the OAGN, the name and position of the interviewee, the name of the interviewer, venue of interview, date and time of interview. It should record the key data and information resulting from each key question. If possible, get the formal or informal agreement of the interviewee later.

After conducting the various interviews, conduct a content analysis of the data and information gathered and prepare a report. The analysis should link back the data and information gathered from the interviews to the domains and elements of the capacity building framework discussed in the IDI’s capacity building needs assessment guidance. Please refer to Annex-4 for guidance on content analysis. The report should outline the capacity building needs, strategies, challenges, and resource requirements as identified through the interviews. For a suggested structure of the report, please refer to the IDI’s capacity building needs assessment guidance.

Interviews can be used in conjunction with other information gathering tools or as a self standing tool. However, more in-depth information is likely to be gathered if it is used in combination with other information gathering tools such as surveys, focus groups, document reviews, and physical observations.

PRINCIPLES FOR FORMULATING INTERVIEW QUESTIONS

- Keep in mind the kind of information you are looking for when formulating questions. This will help avoid irrelevant questions and wasting time.
- Allow for open questions. While the nature of questions will be influenced by the primary purpose of an interview, allowing some open questions will enable the interviewee to choose their own terms when answering questions.

- Questions should be as neutral as possible. Avoid wording that might influence answers, e.g., evocative, judgmental wording.
- Ensure questions are short rather than long.
- Avoid negatively worded questions. For example, ask ‘What are the key domains of OAGN that need more attention?’ instead of asking, ‘what are the problems facing in OAGN?’
- Questions should be asked one at a time. Avoid compound questions.
- Questions should be worded clearly. This includes knowing any terms particular to the OAGN or the interviewee’s culture.

Provide for a closing question that allows the interviewee to respond to any issue that was not covered but might be considered important by him or her.

Appendix 9**(Related to Chapter 3 Section 2 Paragraph 3.7.5)****Questionnaire for QAR of OAGN**

Division			
AAG			
DATE OF REVIEW			
FINDINGS DISCUSSED WITH			
AAG		DATE	

REVIEWER		DATE	
-----------------	--	-------------	--

If the finding to a particular question is positive, a tick should be inserted in the “YES” column.

If the finding is negative, a tick should be inserted in the “NO” column, followed by an appropriate reason / explanation in the remarks column. In such an instance, reference should be made to the minutes of the discussion of the findings with management. Instances may be found where the answer to a question is “NO”, but that the situation was still within the scope of INTOSAI Auditing Standards (e.g. non-compliance with Office methodology, although still within scope of INTOSAI Auditing Standards). This should clearly be spelt out and reported accordingly.

If a question is not applicable, a tick mark should be inserted in the “not applicable” column, together with an adequate explanation.

I. INDEPENDENCE AND LEGAL FRAMEWORK	REF: Lima and Mexico Declaration ISSAI 1, 10 and 11			
	YES	NO	N/A	COMMENT
Independence				
1. Is the AG appointed by Parliament? If no, please specify				
2. Is there a fixed term of office for the AG? If Yes, please specify term.				
3. Does the AG and "Members" for collegial bodies have legal immunity in the normal discharge of the duties? If No, please specify.				
4. Does the OAGN submit its budget directly to Parliament without going through the treasury department, which is its audited entity?				
5. Is the OAGN entitled to use and re-allocate the funds allotted to them under a separate budget heading do so in ways that they consider to be appropriate?				
6. Is the OAGN's budget reviewed and approved by Parliament? If No, please specify				
7. Is the OAGN free to determine the nature of its organisational structure and functional process without outside interference?				
8. Is the independence of the AG laid out in the constitution or audit law? If not, please provide explanations regarding the basis for the independence of the AG.				
9. Is the AG protected by Law for his/her audit report? Please provide the relevant clause of the law.				
10. Is the procedure for removal of the AG embodied in the constitution or law?				
11. Are the Audit staffs of the OAGN independent from the Audited entities i.e. are they working for the audited entity?				
Mandate (Legal Framework)				
12. Is there a constitutional provision regarding the appointment of the AG?				
13. What is the legal basis of OAGN's mandate?				

<ul style="list-style-type: none"> a) Constitution b) Special law other than the Constitution c) Others 				
<p>14. Does the OAGN submit its Periodic / Annual report to Parliament? If no, please specify</p>				
<p>15. Which body is responsible for assessing whether the OAGN is achieving its mandate?</p> <ul style="list-style-type: none"> a) Parliament b) Head of State c) Ministry of Finance d) Others 				
<p>16. Does the OAGN have audit jurisdiction to audit the following bodies? (Tick as many boxes as appropriate.)</p> <ul style="list-style-type: none"> a) Federal or national government (Ministries and Government departments - Executive) b) Legislative c) Judicial organs of the state d) Intelligence agencies e) Armed forces f) Police department g) Local government units (cities, provinces, municipalities) h) Government-owned or controlled corporations / companies i) Bodies / autonomous bodies not owned but substantially funded by the government or from the State Budget j) Foreign agencies and enterprises with whom the State has joint venture agreements k) Agencies to whom performance and delivery of public services is contracted out l) Others (Please specify) 				
<p>17. Does the OAGN have unrestricted access to the information?</p>				
<p>18. Is there a constitutional provision regarding the appointment of the AG?</p>				
<p>19. Does the OAGN have the legislative mandate to carry out the following types of audit? (Please tick at relevant rows.)</p> <ul style="list-style-type: none"> a) Financial audits b) Audit of compliance with laws and 				

regulations c) Performance/Value-for-Money audits d) Concurrent audits (for example, audit during implementation of a project) e) IT Audit f) Environment Audits g) Privatisation Audits h) Others (Please Specify)				
20. Are the above audits specifically mentioned in the OAGN's mandate? If No, Please specify.				
21. Are there any entity not audited by the OAGN? If yes, please specify.				
22. Do the OAGN personnel have unrestricted access to information? If No, please specify.				

II. HUMAN RESOURCES	. REF: ISSAI 200			
	YES	NO	N/A	COMMENT
23. Does the OAGN establish policies and procedures to provide it with reasonable assurance that it has adequate number of competent and motivated staffs with the capabilities and commitment to ethical principles necessary to perform its audits in accordance with professional standards and applicable regulatory and legal requirements?				
24. Does the OAGN have an office, section or person in charge of the human resource management?				
25. Does the OAGN have Human Resource Management policies in the following areas? (Please tick as many as appropriate boxes.) a) Recruitment b) Retention c) Performance appraisal d) Career development and training e) Welfare f) Performance management				

26. Does the OAGN have an approved job description for each position of the organisational structure?				
27. Is the job description kept up-to-date?				
28. In recruiting personnel, does the OAGN specify minimum qualifications as per the job description				
29. Are position profiles being tailored to the individual requirements of all positions?				
30. Has the OAGN adopted qualification requirements for different levels of staff and management?				
31. Are there adequate competencies and skills available to meet the requirement for executing OAGN's mandate?				
32. Is recruitment taking place in a manner that allows management to adequately address the audit needs in that environment? Consider matters such as vacancies, overall skills levels, staff turnover, etc.				
Recruitment				
In cases where the OAGN requires expert staff who cannot be recruited on the basis of conditions of the civil service, special arrangements should be concluded with them, placing them outside the regular wage scales.				
33. Is retaining qualified staff a problem?				
34. Does the OAGN have a reward mechanism in place that provides incentives to staff members?				
35. Which of the following incentives are provided by the OAGN? a) Naming and honouring the Auditor(s) of the Year b) Certificate of Excellence for outstanding performance c) Financial remunerations/benefits d) Other incentives. Please specify.				
Professional Staff Development				
36. Are the following methods used by the OAGN for the development of capabilities and competence? a) Professional education b) Continuing professional education c) Work experience d) Coaching				
37. Does the OAGN have a mechanism in place that takes care of career planning and career development opportunities for staff members?				

<p>38. Which of the following career planning and development opportunities does your OAGN provide for staff members? (Tick as many boxes as appropriate.)</p> <ul style="list-style-type: none"> a) Relevant workshops or seminars b) Professional university courses c) Feedback on job performance d) Merit-based promotions e) Specialisation f) Performance feedback and coaching g) Planned job rotation h) Continuing professional education 				
<ul style="list-style-type: none"> i) Phased retirement j) Career counselling about challenging assignments and possibilities for more exposure and demonstration of skills k) Assessment techniques and programmes to help staff members assess their interests, aptitudes and capabilities, and linking the information derived to possible careers and jobs l) Self-directed and self-development materials m) Pre-retirement and post-retirement counselling 				
<p>39. Does the OAGN have a mechanism for identifying technical and management skill gaps?</p>				
<p>40. If yes to the above question, do you take measure to address the identified gaps?</p>				
<p>41. Does the OAGN have criteria set for promotion and upgrading your employees?</p>				
<p>42. Is there proof of detailed training needs' identification taking place on a regular basis?</p>				
<p>43. Are the training needs that are identified during the quality control reviews:</p> <ul style="list-style-type: none"> a) Communicated to the relevant training staff? b) Contained in the training business plan for the next year? 				
<p>44. Is there proof of success measurement against the training business plans?</p>				
<p>45. Is there proof of proper manpower planning?</p>				
<p>46. Is there proof of proper career planning?</p>				
<p>47. Is there proof of development (including the</p>				

scheduling of staff for audits) taking place in line with this planning?				
48. Does the OAGN ensure that auditors attending training programmes or courses have applied the knowledge gained?				
49. Does the OAGN ensure that the auditor's knowledge gained via different training programmes (education programmes) is being successfully used in the audit?				
50. Does the auditor receive guidance during the audit (including guidance from Head of a Unit, mentor, and team members)?				
52. Does the OAGN evaluate the current level of knowledge on a regular basis to determine current and future personal and organisational needs?				
53. Is the effectiveness of the training plans evaluated?				
54. Is there an annual training service agreement on individual auditor basis in place?				
55. Are there procedures for on-the-job training?				
56. Is on-the-job training provided for each auditor?				
57. Is the provided on-the-job training documented?				
58. Do the audit managers design the composition of teams and needs of the staff?				
Welfare				
59. What types of programme are in place for staff welfare? a) Health care programme b) Social activities c) Recreational & sporting facilities d) Fitness programmes e) Housing f) Conducive environment g) Counselling services h) Others. Please specify.				
Performance Management				
60. Are performance appraisals being performed on a regular basis?				
61. Is remuneration linked to performance?				
62. Does the OAGN have a mechanism for communicating job functions or areas of responsibility to your staff?				
63. Assignment of Audit Teams: <ul style="list-style-type: none"> Does the OAGN assign an audit team leader or audit director to each audit to take responsibility for that audit on behalf of the OAGN? 				

<ul style="list-style-type: none"> • Does the OAGN establish policies and procedures requiring that: <ul style="list-style-type: none"> a) The identity and role of the audit team leader or audit director are communicated to key members of audited entity management and those responsible for governance; b) The audit team leader or audit director has both the necessary capabilities, competence, authority and sufficient time to perform the role; and c) The responsibilities of the audit team leader or audit director are clearly defined and communicated to that team leader or director? 				
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III. AUDIT STANDARDS, METHODOLOGY AND AUDIT PERFORMANCE	. REF: ASOSAI AQMS Para 2.28, 2.29, 4.3-4.6			
	YES	NO	N/A	COMMENT
Standards				
1. Has the OAGN formally adopted international auditing standards?				
2. Who determines audit standards <ul style="list-style-type: none"> a) The AG b) Audit Board c) Professional Body in the Country d) Ministry of Finance e) Others , please specify 				
3. Are these standards aligned to international standards such as (IFAC, INTOSAI, Country specific or Regional standards)?				
Manuals and Other Guidance				
4. Does the OAGN have audit manuals to guide staff in the different audit areas like <ul style="list-style-type: none"> a) Regularity audit b) Performance audit c) IT Audit 				
5. Are the manuals aligned to accepted standards? Please check sample manuals and compare with International Standards.				
6. Are the manuals actually used in the audit process? Please check a few samples.				
7. Do all the staffs have access to the manuals? Please				

verify among several staff members.				
8. Is the manual updated at regular intervals? Please note the last date of amendments.				
9. Do the manuals have policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of audit documents?				
10. Does the OAGN have policies and procedures on the retention of audit documentation to meet the needs of the OAGN and requirements of laws or regulations?				
Audit Tools				
11. Do staff use audit tools (e.g. Checklists, CAATS and Others)?				
12. Does the OAGN use audit automation Software (e.g. ACL, Team mate, Case ware & others)? Please specify.				
Quality Assurance				
1. Is there a dedicated unit responsible for QA?				
2. Is the QA system addressing all dimensions of the OAGN?				
3. Are QA results used to improve performance of the OAGN?				
4. Does the OAGN have a QA manual?				
5. Do the QA plans get submitted on time?				
6. Does the QA plan comply with the strategy for the selection of files?				
7. Does the QA plan comply with the strategy on the identification and selection of reviewers?				
8. Have all QA reviewers been adequately trained?				
9. Can all QA reviewers prove that they regularly undergo continuous professional development to ensure that they are technically up-to-date?				
10. Does the selection include an adequate mix of files?				
11. Was adequate care taken to keep the selection of files confidential to prevent "window-dressing"?				
12. Are the QA reviews carried out in accordance with the quality review plan?				
13. Are the QA reviews carried out using the approved questionnaires?				
14. Are the results of each of the reviews discussed with : a) Audit management b) The audit team				
15. And were all differences resolved?				

16. Are the outcomes of the reviews adequately addressed in action plans, which in turn feed back into the Unit's strategic plans?				
17. Is there proof of follow-up of the action plans of the previous year?				
18. Is an annual report prepared detailing the following: 1. A description of the monitoring procedures performed 2. Conclusions drawn 3. Description of repetitive or other significant deficiencies 4. Action taken to resolve or amend those deficiencies.				
19. Does an independent body carry out an annual evaluation of the OAGN's Quality Review programme?				
Audit Performance				
Does the OAGN establish policies and procedures to provide it with reasonable assurance that audits are performed in accordance with professional standards and applicable regulatory and legal requirements, and that the reports that are issued by the OAGN are appropriate in the circumstances?				
Audit Planning				
1. Is the OAGN's system of planning for all types of audit adequately prepared to ensure that all significant entities and programmes are covered, available resources are optimally utilised for conducting the audits and the work is completed expeditiously?				
2. Do the criteria for its performance audit planning process reflect reasonable and attainable standards of performance against which economy, efficiency, and effectiveness of programmes and activities are assessed?				
Staffing for the Audit				
3. Does the OAGN establish a system where it keeps a record of its pool of senior, middle-level and junior auditors showing /identifying their competencies, professional training and education from where the OAGN draws the list of staff for possible assignment in the conduct of its audits?				
4. Has the OAGN establish a system of staffing audit teams where the collective knowledge of particular				

subject matters and audit proficiency, including Information Technology (IT)-related aspects, necessary to fulfil the requirements of audit are considered?				
5. Has the OAGN establish a system of evaluating available expertise elsewhere when specialized and technical skills necessary for conducting performance audits are not available internally?				
Information Technology (IT) Tools				
6. Does the OAGN have established procedures and approaches in auditing in an IT- environment such that these provide reasonable assurance that the IT audit tools and staff utilised are able to evaluate whether the effectiveness and efficiency of IT controls in information systems and related operations are operating as intended?				
Other Tools and Guidance				
7. Does the OAGN have a group that helps implement knowledge-based initiatives to help the OAGN improve on the following areas? a) Knowledge about how to do the work, including continued support of methodology, audit tools and techniques; b) Knowledge about the OAGN, including an organisational database and expanded knowledge of the organisation delivered through the intranet; and c) Knowledge about current developments in the areas of auditing.				
8. Has the OAGN developed good practice guides for each discipline/branch of audit, using documented global good practices on audit methodology, tools and techniques, to ensure uniformity and consistently high quality in its services?				
Conducting the Audit				
9. Does the OAGN establish policies and procedures to provide it with reasonable assurance that the practices and procedures to be followed by the team in carrying out performance audits are followed, such as: a) Developing audit questions; b) Developing audit programmes entirely focused on the audit criteria, allowing for				

flexibility and in consideration of levels of details; c) Method and means adopted for analysis of data for deriving audit conclusions; and d) Developing findings and recommendations.				
Consultation				
10. Does the OAGN establish policies and procedures to provide it with reasonable assurance that:				
a) Appropriate consultation takes place on complex, unusual or unfamiliar issues and difficult or contentious items within the OAGN with external experts and with the audited entity; b) Sufficient resources such as authoritative literature, reference library for technical literature, and in-house experts are available to enable appropriate consultation to take place; c) The nature and scope of such consultations are documented; and d) Conclusions from consultations are documented and implemented.				
Evidence and Documentation				
11. Has the OAGN establish procedures such that quality assurance in evidence gathering is ensured through the following?: a) Evidence gathering linked to audit criteria and audit objective; and b) Compliance to Auditing Standards particularly with reference to the quality of competence, relevance, and reasonableness of audit evidence and to the performance audit guidelines documenting the procedure of evidence gathering.				
12. Has the OAGN adopted quality assurance in documentation/working papers of its performance audit in compliance with auditing standards and audit guidelines issued by the OAGN on performance audits, and in the verification of evidence by OAGN top management?				

Supervision and Review				
13. Has the OAGN adopted a sound system of supervision and review of audits essential for maintaining good quality of audit such that it covers the following?				
<ul style="list-style-type: none"> a) Assigning responsibilities; b) Providing sufficient guidance to staff members; c) Staying informed about significant problems encountered; d) Reviewing the work performed; e) Overseeing individual development; and providing coaching and feedback. 				
Reporting and Follow-up				
14. Are the audit reports prepared by the OAGN consistent with standards of reporting?				
15. Has the OAGN develop a strategy for consistent and systematic follow-up processes to enable them to contribute significantly to effectiveness of the audits conducted in bringing systematic improvement in the functioning of the entity?				

IV. LEADERSHIP AND INTERNAL GOVERNANCE			ASOSAI AQMS – Appendix A, Chapters 4 and 6	
	YES	NO	N/A	COMMENT
Leadership and Direction				
1. Does the OAGN set the appropriate tone and direction for the organisation? Such as Accountability, Integrity and Reliability				
2. Does the OAGN have a stated vision and mission?				
3. Does the OAGN have short- and long-term goals? Please state them here.				
4. Does the OAGN emphasise and promote continuous improvements? Please verify through speech texts and minutes of meetings.				
5. Does the OAGN have a Standard on Quality and Continuous Improvements?				
6. Does the OAGN establish policies and procedures designed to promote an internal culture based on the				

recognition that quality is essential in performing engagements? Such policies and procedures should require the OAGN Head (or equivalent) or OAGN managing board member (or equivalent), to assume ultimate responsibility for the OAGN's system of quality control?				
7. Does the OAGN continuously inspire its staff to comply with the approved standards and procedures and make their best efforts to deliver quality services and products?				
Strategic and Operational Planning				
8. Does the OAGN have a strategic plan?				
9. Does the OAGN have an operational plan?				
10. Are the plans meeting their objectives? Please compare a sample plans' objectives with achievements.				
11. Is there a mechanism to measure the achievement?				
12. Are the staffs at various levels aware of the plans? Please test check with a sample of staff from various levels.				
13. Do the AG and other top managers have a constructive quality assurance dialogue with the heads of audit functions about audit work being done in the units/sections? Please ask for relevant minutes of meetings.				
14. Do the AG and other top managers decide what audits should be commenced? Please verify with relevant minutes of meetings.				
15. Do the top managers set important quality requirements for the audit? Examples of some important quality control requirements include timeliness and compliance to audit methodology and standards. A checklist of the requirements should indicate the quality expectations from the audit engagement. Please consider matters such as the existence of a top manager's checklist.				
16. Do the heads of the units/sections maintain and improve the quality of work through a quality improvement plan? Consider quality factors such as: a) Ongoing training programme b) Implementation of new knowledge c) Management of post audit projects for follow-up purposes				

d) Recruitment of new people e) Use of highly-skilled section managers f) Improvement of the quality in audit recommendations g) Individual auditor training plan in place h) Competence plan for the audit function i) System for organisational learning in place				
17. Does the OAGN encourage a culture of quality through such means as: a) Formal or informal dialogue b) Mission statements c) Newsletters d) Briefing memoranda				
18. Do the heads of the units/sections have a constructive quality assurance dialogue with top managers about audit work being done? Consider matters such as: a) Ongoing discussions during the audit work b) Discussion of audit findings c) Audit team included in the discussions				
19. Are the OAGN's policies and procedures addressing performance evaluation, compensation, and promotion designed to demonstrate the OAGN's overriding commitment to quality?				
Internal Communications				
20. Does the OAGN have agreed procedures for communicating decisions made by management?				
21. Does the OAGN have agreed procedures for communicating policy decisions?				
22. Are policy documents accessible to all levels of staff?				
23. Does the OAGN have mechanisms for disseminating information to staff?				
Accountability				
24. Are mechanisms in place to assess if the OAGN has achieved its mandatory obligations? Such mechanisms may include: a) Survey b) Study c) External reviews d) Feedback from parliament e) Research				
25. Does the OAGN report on its performance?				
26. Does the OAGN publish its annual report?				
27. Does the OAGN make its annual report public?				

28. If yes, does it use any of the means below? a) Through its website b) Newspapers c) Circulation of copies to stakeholders				
29. Is the performance report of the OAGN audited?				
30. Are the OAGN's accounts externally audited?				
31. Does the OAGN voluntarily participate in peer/external reviews?				
Code of Ethics and Conduct				
32. Is there a documented Code of Ethics, adapted to the OAGN's environment, in place covering the issues in INTOSAI Code of Ethics?				
33. Is the above code adhered to?				
34. Are there procedures to ensure that the Code of Ethics is adhered to?				
35. Does the OAGN ensure that all auditors comply with the OAGN's requirements which relate to integrity, objectivity, professional competence and due care?				
36. Does the OAGN establish policies and procedures designed to provide it with reasonable assurance that the OAGN and its personnel comply with relevant ethical requirements, such as the following: a) Integrity; b) Objectivity; c) Professional competence and due care; d) Confidentiality; and e) (e) Professional behaviour?				
37. Does the OAGN establish policies and procedures designed to provide it with reasonable assurance that the OAGN, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the OAGN and other personnel), maintain independence where required by the Code and national ethical requirements. Such policies and procedures should enable the OAGN to: a) Communicate its independence requirements to its personnel				
b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement?				

<p>38. Do the policies and procedures require:</p> <ol style="list-style-type: none"> a) Private auditors engaged by the OAGN to provide with relevant information about client engagements, including the scope of services, to enable the OAGN to evaluate the overall impact, if any, on independence requirements. b) Personnel to promptly notify the OAGN of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and c) The accumulation and communication of relevant information to appropriate personnel so that: <ul style="list-style-type: none"> • The OAGN and its personnel can readily determine whether they satisfy independence requirements; • The OAGN can maintain and update its records relating to independence; and • The OAGN can take appropriate action regarding identified threats to independence on specific changes. 				
<p>39. Does the OAGN have policies and procedures to provide it with reasonable assurance that it is notified of breaches of independence</p>				
<p>40. Does the OAGN obtain, at least annually, written confirmation of compliances with its policies and procedures on independence from all personnel required to be independent?</p>				
<p>41. Does the OAGN have criteria for determining the need for safeguards to reduce the threat of familiarity with audited entity to an acceptable level, when using the same senior personnel on an audit engagement over a long period of time?</p>				
<p>42. Does the OAGN have procedures to handle complaints & allegations concerning failure to comply with professional standards and regulatory requirements of non-compliance with the OAGN's system of quality control?</p>				
<p>43. Does the OAGN do follow-ups and investigate all complaints and allegations?</p>				
<p>Continuous Improvement</p>				
<p>Research and Development</p>				
<p>44. Does the OAGN have a Research and Development (R&D) division?</p>				

45. Has the OAGN formulated a short and/or long term R&D plan?				
46. Have any research studies being done to enhance the effectiveness of the OAGN?				
47. Does the OAGN have sufficient funding for research?				
Organisational Development				
48. Does the OAGN review and redefine organisational structure in accordance with strategy and environment?				
49. Does the OAGN organisational structure clearly define lines of authority and responsibility?				
50. Does the OAGN encourage staff to participate in improving the organisation?				
Change Management				
51. Does the OAGN have a change management unit or section?				
52. Does the OAGN have a change management plan?				
53. Does senior management provide sufficient support in implementing a change management plan?				
54. Does the OAGN have sufficient resources to carry out change management process?				
55. Does the OAGN effectively involve HR in change management?				
56. Does the OAGN reinforce change with job descriptions?				
57. Does the OAGN have a plan to address change management resistance?				

V. Administrative Support	Ref: ASOSAI AQMS paragraph 2.2			
	YES	NO	N/A	COMMENT
Monetary resources				
1. Does the OAGN have a short term financial resource planning?				
2. Is the budgeting process integrated into your annual plan?				
3. Does the OAGN have regular reviews of its budget?				
4. Does the OAGN's financial practice lead to relatively accurate financial projections?				

5. Does the OAGN have a sufficient number of qualified staff for financial management? If not completely, then how many qualified staff for financial management does the OAGN need?				
6. Does the OAGN keep adequate financial records and accounts?				
7. Is the OAGN financial report used for planning and review purposes?				
Material resources				
8. Does the OAGN own office premises?				
9. Does the OAGN have sufficient office space?				
10. Is the lighting condition appropriate in the OAGN's office?				
11. Does the OAGN have well-equipped meeting rooms? a) Multimedia-PA system, Projector b) Computer c) Telephone d) Chairs and table e) White board f) Flip charts				
12. Does the OAGN have well-equipped training rooms?				
13. Are the OAGN Departments/Divisions/Sections located together?				
Technology				
14. Is the OAGN computerised?				
15. Which of the following functions are computerised in the OAGN? a) Payroll b) Finance c) Audit planning d) Asset Management e) Archiving system f) None of the above				
16. Are the Desktop Computers and Laptops used for daily work by all users?				
17. What type of Internet access does the OAGN have? a) Broadband b) Dial-up c) None at all				
18. Who has access to the Internet? a) Senior management only b) Senior and middle management				

c) All staff and management				
19. Does the OAGN have internal IT support staff?				
20. Are the IT personnel professionally qualified? Please check a sample of the IT personnel's background qualification.				
21. Does the OAGN offer internal IT training and development programmes?				
22. Does the OAGN have a Local Area Network?				
23. Does the OAGN have photocopying equipment and facilities?				
24. Does the OAGN have a Wide Area Network?				
25. Does the OAGN's technology meet auditors' needs? Please conduct a focus group for discussion on this topic before concluding.				
Support Services				
26. Which of the following support services do you have in your OAGN? a) Security b) Maintenance c) Transportation d) Secretarial e) Others _____				
27. Are these Support Services provided in a timely manner?				
28. Does the OAGN have adequate security measures to safeguard your facility?				

VI. EXTERNAL STAKEHOLDER RELATIONS			REF: ASOSAI QMS Chapter 5	
	YES	NO	N/A	COMMENT
1. Does the OAGN have a strategy for establishing and maintaining effective working relations with external stakeholders?				
2. Does OAGN have a formalised mechanism to follow up on feedback on its performance received informally or formally from external stakeholder?				
Parliament / Head of State / Head of Executive				
3. Please circle the entity (Parliament/Head of State/Head of Executive) that the OAGN primarily reports to/is affiliated with. Is the relation with the entity indicated set down in law, or some other legislation?				

4. Does the OAGN work directly with the entity indicated?				
5. Does the OAGN hold meetings or hearings with them?				
6. Are those meetings or hearings in public?				
7. Following those meetings or hearings, is a report with recommendations produced?				
8. Does the OAGN seek regular feedback from the entity indicated on its performance?				
9. To what extent do the Executives implement Public Accounts Committee's or its equivalent's recommendations? a) Completely b) To a large extent c) To a little extent d) Not at all				
Audited Entities				
10. Is the role of the OAGN appreciated by the audited entities? This can be established through a customer satisfaction survey by the OAGN. a) Completely b) To a large extent c) To a little extent d) Not at all				
11. Does the OAGN have a policy for communicating with audited entities?				
12. What is the extent of response of audited entities to your OAGN? a) Completely b) To a large extent c) To a little extent d) Not at all				
13. What is the extent of acceptance of the audited recommendations? a) Completely b) To a large extent c) To a little extent d) Not at all				
14. What is the extent of the implementation of the audit recommendations? a) Completely b) To a large extent c) To a little extent d) Not at all				

15. Is the audited entity given a reasonable opportunity to respond to the draft audit reports?				
16. Are the audited entity responses fairly considered before finalising the audit report?				
17. Does the OAGN make sound recommendations for further improvements in audited entity performance?				
18. Does the OAGN seek feedback from audited bodies on the quality of its work, staff and systems?				
19. Are the OAGN staffs trained in communicating effectively with audited entity?				
Internal Audit				
20. Does the OAGN have an internal audit department or equivalent?				
21. Does the internal audit department report to the AG directly?				
22. Does the internal audit department have a charter?				
23. Does it have qualified personnel?				
The media and the public				
24. Are audit products made public?				
25. Does your OAGN have the right to go to the media with its audit findings?				
26. Does the OAGN have a clear policy framework for dealing with the media?				
27. Does the OAGN deal professionally with the media by providing high quality press releases and press conferences?				
28. Does the OAGN have a policy to ensure that its publications are widely accessible to audiences?				
29. Does it use such correspondence to inform future audit activity?				
30. Are professionally qualified members of the OAGN encouraged to play active roles in their professional associations?				
Professional associations and private sector auditors				
31. Does the OAGN have professional relations with other professional institutions and private sector auditors?				
32. Are there formal liaison meetings between a senior member of the OAGN and the relevant professional associations on a regular basis?				

33. Are there arrangements for secondments between staff in the OAGN and in private sector auditing firms?				
34. Does the OAGN contract out a proportion of its audits to private sector auditors to enable it to benchmark its costs and processes?				
Consultation				
35. Has the OAGN designed policies and procedures to ensure that appropriate consultation takes place on difficult and contentious issues?				
36. Do the audit team and management have access to experts either within the OAGN or outside, pertaining to areas such as information technology, taxation, technical, etc?				
37. Is there proof of consultation with other management members in instances of high risk/uncertainty (peer reviews)?				
38. Is there a technical department responsible for research into complex technical or public sector specific matters?				
39. Are internal technical publications being prepared on a regular basis?				
40. Are all technical publications adequately circulated?				
Peers (OAGNs and regions)				
41. Does your OAGN have cooperation arrangements with other OAGNs?				
Aid Donors				
42. Does your OAGN deal with any donor agencies?				
43. Does the OAGN meet regularly with donor agencies to identify what external audits need to be done and when?				
44. Are there mechanisms which a OAGN can undertake such that it can become the auditor of first choice by donor agencies?				
VII. RESULTS	ISSAI 400			
	YES	NO	N/A	COMMENT
1. Does the OAGN have a system to objectively measure its results?				
2. Is there a system to assure that performance measures are of acceptable quality?				
3. Is performance measurement conducted by staff independent of those responsible for delivering				

the audit reports (and other products, if any)?				
4. Does the OAGN follow up on its performance measurement results?				
Outputs				
5. Are the products delivered by the OAGN in accordance with its audit mandate?				
6. Does the OAGN have targets with regard to the number of products of each type?				
7. Does the OAGN measure performance against the targets?				
8. Does the OAGN have performance measures to assess the quality of its products?				
9. Does the OAGN assess product quality against the performance measures?				
10. Does the OAGN set deadlines for submission of its products?				
11. Does the OAGN meet its deadlines for delivering its products?				
12. To what extent is the OAGN is able to meet its targeted outputs?				
Impact				
13. Does the OAGN have performance measures to assess the impact of its products?				
14. Does the OAGN regularly assess impacts against these measures?				

Appendix 10

(Related to Chapter 3 Section 2 Paragraph 3.7.6)

Getting Information from External Stakeholders

WHO ARE THE SAIs' EXTERNAL STAKEHOLDERS?

The OAGN has many external stakeholders which vary from country situation depending on the political system. The IDI's capacity building needs assessment guidance lists some of the common such stakeholders, namely, Head of State, Parliament, Head of the Executive, Audited Entities, Internal Audit, Public, Media, Professional Associations and Private Sector Auditors, Peer SAIs, and Aid donors.

WHY SHOULD INFORMATION BE OBTAINED FROM THEM

OAGN do not work for itself. They deliver products and services to different external stakeholders who work together with the OAGN to promote public accountability and transparency. Therefore, the perception of these stakeholders of the effectiveness of the OAGN is an important element in the assessment of the latter's capacity building needs. Moreover, OAGN need the support of these stakeholders to ensure that their products and services have the desired impact of promoting public accountability and transparency in particular, and better governance in general. By gathering information directly from the stakeholders, the needs assessment team will have the opportunity to assess the external stakeholders' perception of the OAGN's effectiveness and also whether the relationship between the OAGN and those stakeholders is helping to promote the impact of the OAGN's work. Such an assessment will, in turn, enable the needs assessment team to determine capacity building needs of the OAGN and the way forward from there.

WHAT INFORMATION IS REQUIRED FROM THEM

The following kinds of information from external stakeholders would be useful to the needs assessment team:

- What are the expectations of each external stakeholder from the OAGN?
- To what extent have their expectations been met?
- What could be the reasons why some expectations have been met?
- What could be the reasons why some expectations have not been adequately met?
- What could be done to enable the OAGN to better meet those expectations not met adequately?
- How could the external stakeholders cooperate with the OAGN to enable the latter to better meet their expectations?

WHO SHOULD OBTAIN THE INFORMATION

The skills required to obtain information from external stakeholders are not any different from the skills required for obtaining information from internal stakeholders. These would include the following:

- Inter personal skills;
- Communication skills;
- Meeting facilitation skills;
- Ability to remain neutral even if tempted to take a position in response to any comment of the interviewee;
- Analytical and synthesising skills; and
- A good understanding of the role of the OAGN in the broader political context.

If a combination of tools is used to gather information from these stakeholders, it is recommended that for each tool, the lead is taken by a member of the needs assessment team who is relatively more skilled in the use of that tool. If the needs assessment team members are not from the OAGN, it may be a good idea to include at least one member of the OAGN in the team while meeting stakeholders. The position of this member in the OAGN should be appropriate for the level of the external stakeholder to be consulted. For example, if the team plans to meet the Minister of Finance, it may be appropriate if the OAGN representative is the AG or a Deputy AG. On the other hand, if the external stakeholder representative is an operational line manager, then it may be more appropriate if his/her operational counterpart in the OAGN is included in the needs assessment team. These decisions would also be influenced by the formal protocols and culture. It may, therefore, be best to go by the advice of the top management of the OAGN.

WHEN SHOULD THE INFORMATION BE OBTAINED

It is advisable to meet the external stakeholders after obtaining a good understanding of the OAGN and its perspectives on their needs. Moreover, it is important that decisions regarding meeting (or not meeting) with the OAGN's external stakeholders, which of the stakeholders to meet, the timing of the meeting, and the information gathering tools to be used are taken after close consultations with the AG and after having obtained his or her consent.

HOW SHOULD THE INFORMATION BE OBTAINED

Some of the approaches that could be adopted to gather such information include the following:

- Meet representatives of each external stakeholder separately;
- Meet representatives of different external stakeholders together, say in a focus group;

- Invite them to join focus groups involving internal stakeholders of the OAGN;
- Survey the external stakeholders without meeting them face-to-face;
- Review relevant documents belonging to the external stakeholders that are related to the work of the OAGN; and
- Physically observe the interaction of OAGN officials with external stakeholders in different situations, e.g., during audits, and meetings of Public Accounts Committee.

As evident from above, all the tools relevant for gathering information from the internal stakeholders of the OAGN can be used for getting information from the external stakeholders. The criteria for selection of tools would be the same as for selecting tools for gathering information from internal stakeholders, such as nature of information to be gathered (e.g., qualitative or quantitative, confidential or unclassified, specialist or general), availability of the identified external stakeholder representatives, time and other resources of the needs assessment team.

The AG should be updated regularly on the meetings with the stakeholders and information gathered from them, to ensure that he or she is not taken by surprise at any point. It is recommended that the needs assessment team leader reaches an agreement with the AG on the process that should be followed in this regard.

Appendix 11**(Related to Chapter 3 Section 2 Paragraph 3.7.7)****Guidance on Content Analysis of Qualitative Information****Content Analysis**

This is the process of organising and summarising large volumes of qualitative information in order to reach some conclusions. Content analysis can also help in providing quantitative findings from qualitative information. Content analysis is a key tool for analysing qualitative information gathered through interviews and focus groups. It can also be used for analysing qualitative information obtained through surveys or any other tools.

The following steps are recommended for a content analysis:

Step#1-Read: Go through all the qualitative information gathered.

Step#2-Categorise: From the nature of the various items of information, identify broad categories or issues under which the different items of information can be allocated. With regard to capacity building needs assessment, the information may be categorised under the following issues:

- Current situation relating to each element within each element;
- Desired situation for each element within each element;
- Causes for the gap between current and desired situations;
- Suggested strategies for addressing the gaps;
- Likely challenges in implementing the strategies;
- Resources requirements for implementing the strategies.

Step#3-Combine: If two or more items of information under a category convey more or less the same idea, combine them with appropriate wording. For example, suppose an interviewee suggested 'Document the audit processes used by expert performance auditors' as a strategy for improving performance audit processes in the OAGN, another suggested 'Prepare operational guidance on how to conduct performance audits' while a third interviewee suggested 'Formulate performance audit guidelines based on the INTOSAI's performance audit implementation guidelines'. These three suggestions could be combined as one strategy, 'Develop performance audit manual based on best practices'.

Step#4-Quantify: If the qualitative information you are analysing has been obtained from more than one person, determine the number of people who provided each item. If appropriate, you may then calculate the percentage of the total number interviewed who offered that item of information. For example, suppose after combining similar items,

you find that seven of ten interviewees suggested 'Development of audit manuals' as a strategy to address inadequacies in the 'Manuals and Guidance' element of the 'Audit Methodology and Standards' element. Here, 'Seven' is quantification and so is 'seven of ten'. Then we can also say that 70% of the interviewees suggested this strategy. While quantifying, you may consider different weighting being given to information from different interviewees, depending on their experience and expertise in the area under discussion

Step#5-Write the report as per the key broad issues above.

Appendix 12
(Related to Chapter 3 Section 2 Paragraph 3.8.3A)
Template for Recording QAR Findings

QMS Element No		QMS Element name	
Name of QA reviewer		Name of AAG responsible for the QMS element	
Date		Date	
W/P Ref:		Finding No	

Finding:

{Insert the description of the finding or gap}

Impact:

{What can be the effect of the risk occurring}

Cause:

{Reason for finding/gap or problem}

AAG's feedback:

{Insert the AAG's response}

Appendix 13

(Related to Chapter 3 Section 2 Paragraph 3.8.3B)

Overview of Findings Recording Form

Finding No	Finding Description	QMS Domain		Name of Element within the Domain:			
		Risk level	Impact/Likely Impact	Cause	Senior management feedback	Recommendation	

Appendix 14

(Related to Chapter 3 Section 2 Paragraph 3.8.5)

QAR Report of OAGN

- **Table of Contents** –
- **Executive Summary** – The executive summary may contain the following:
 - Brief background;
 - Significant observations, and
 - Key recommendations
- **Introduction** –
- **Approach and Methodology used** – It would cover items such as:
 - The OAGN-QMS framework used;
 - Main data gathering techniques used; and
 - Limitations, if any, of the approaches used.
- **Domain-wise findings and recommendations** – The review team should include the following items under each element of the OAGN-QMS framework:
 - **Desired condition** – The team may consider the desired condition for each QMS element discussed earlier in this chapter.
 - **Current situation** – This should be a brief description of the existing policies and processes relating to the QMS element.
 - **Weaknesses** – These are the gaps between desired condition and current situation.
 - **Factors contributing to the weaknesses** – It is critical to identify these factors since they form the basis for recommendations.
 - **Management Response** – Responses on current situation should be discussed in this part.
 - **Recommendations** – Suggestions for improvements in future by the OAGN. The recommendations should be clear, meaningful and practical.
- **Annexes** – These are generally supporting information that interested readers may like to study.

EXECUTIVE SUMMARY

The Office of the Auditor General of Nepal, a constitutional body, is the Supreme Audit Institution of the country. It derives its mandate from the Interim Constitution of Nepal, 2007. Through its audit reports to the Parliament and other stakeholders on the use of public resources, it seeks to promote transparency and good governance in the public sector. The total human resource strength of the OAG is 450, including the AG. The AG is supported by 4 Deputy Auditors General, 14 Assistant Auditors General, 42 Directors, 150 Team Leaders, and 95 support staff, in performing the OAGN functions. The OAGN is centralised at the capital city of the country. There are no field audit offices either at regional level or at district level. During the Year 2006/07, the actual expenditure incurred by the OAGN in performance of its constitutional obligations amounted to an equivalent of approximately NRS1.5 million as against recovery of approximately NRS22 million at the instance of audit observations. Thus, for every dollar spent on audit, an amount of NRS15 was contributed to the national exchequer by the OAGN.

An international team carried out a QAR of OAGN in XXXXX. The team visited the OAGN and used the combination of tools, namely, survey, document review, focus groups, interviews with both external and internal stakeholders and physical observation for gathering data and information.

The following are some of the significant issues that need priority attention of the OAGN's management:

- The legal provisions pertaining to the OAGN should be amended to strengthen its independence and mandate.
- More effective and proactive leadership is desirable to push forward reforms for strengthening the OAGN, more so at this critical stage of transition from an Interim Constitution to a new Constitution. It should leverage on the strong support of the current Public Accounts Committee (PAC), Secretary, Ministry of Finance and the Task Force studying the needs for strengthening the OAGN to forge ahead in this direction. In addition, there is a need for developing and implementing a strategic roadmap for the OAGN instead of functioning only on the basis of annual operating plans. Further, the AG should consider delegating operational decision making to lower levels, so that the top management can focus more on strategic issues.
- The professional competence, morale and size of the OAGN's staff require serious attention.
- The internal capacity for research and development of methodological guidance requires substantial strengthening.
- The OAGN needs to consider regular external audits and peer SAI reviews as a means to continuous improvement, as well as to promote accountability to its stakeholders.

- The nature and timing of the internal audit is inadequate to assist the OAGN's financial and management practices.
- There is scope for improvement in the quality of field audit supervision by Directors and Assistant Auditors General.
- The existing physical infrastructure is quite insufficient for creating a conducive working environment.
- The OAGN needs to change its work processes, audit methodologies and size of its audit reports to better meet the expectations of the PAC and other primary external stakeholders.

More details of the OAGN's current conditions, weaknesses, factors contributing to the weaknesses and recommendations under each of the eight elements of the quality management framework used by the QA team may be seen in the main body of the report.

Nepal is in a state of significant political and economic transition. The OAGN enjoys the strong support of its primary stakeholders such as the PAC and Secretary, Ministry of Finance. Consequently, it is the most appropriate time for the top management of the OAGN to act proactively and decisively to initiate measures to strengthen its independence and mandate to better meet the growing expectations of its stakeholders.

INTRODUCTION

This report is on the QAR of OAGN conducted by an international team of reviewers. The team initiated the process by sending a survey questionnaire to obtain preliminary information on the current condition relating to each element of the quality management framework used by the team as the basis for the review. Subsequently, the team visited Nepal from XX. The team was then expanded to include two managerial level staff of the OAGN. The two local team members helped provide contextual understanding and clarification of local issues during the review process. The first two days of the visit were spent in gaining a better understanding of the OAGN, through review of various documents and interaction with the local team members, and planning the needs assessment implementation strategy. This was followed by three days of in-depth data collection and analysis using the various toolkits developed as part of the IDI's Needs Assessment (NA) guidance. The team conducted focus group discussions of OAGN senior management and staff on XX. Structured interviews of the Chairman and two other members of the Public Accounts Committee and the Secretary, Ministry of Finance on XX followed by similar exercises with the AG and Deputy Auditor General on XX. Systematic physical observation of the workings of the OAGN was also conducted on XX.

OAGN BACKGROUND AND PARTICIPANTS

A. The OAGN – A brief profile and context

The OAGN was established as a Constitutional body in 1948. It recently developed its vision and mission statements. The vision of the office is to ‘Enhance Good Governance through Accountability and Transparency in the Public Sector’ while its mission is to ‘Provide trustworthy, effective and independent audit for the efficient management and utilisation of public resources’.

After a period of political turmoil during 2000 to 2003, parliamentary democracy was restored in Nepal in February 2003. Currently, the political system is founded on the Interim Constitution of 2007. A new national Constitution was adopted in 2004. While peace and stability has returned to Nepal, there is a sense of uncertainty amongst the people regarding the system of governance and the political scenario that will emerge as the provisions of the new Constitutions are tested in practice. The effect of this uncertainty about the political future of the country was perceived even amongst the management of the OAGN. The country is also under substantial economic pressures, the impact of which is evident also in the infrastructure and functioning of the OAGN.

The AG holds a Constitutional status and is appointed for a term of six years by the President on the advice of a Constitutional Council after parliamentarian hearing. The Council is composed of the Prime Minister, Speaker of Legislature-Parliament, Chief Justice of the Supreme Court and three Minister designated by the Prime Minister. The independence and mandate of the AG are defined in Articles 122 to 124 of the Interim Constitution of Nepal 2007. The Audit Act, 1991 provides in greater detail the functions, responsibilities and powers of the AG. In addition to compliance audits and audits of financial statements, the OAGN also conducts a number of performance audits of various issues every year. However, the AG does not certify the consolidated financial statements of the Government. The AG submits an annual audit report to the President who, in turn, tables it in the Legislature-Parliament. During the above-mentioned period of political turmoil, the Parliament was dissolved and consequently none of the OAGN’s audit reports received Parliamentary scrutiny. The backlog reports have now been taken up for scrutiny by the Public Accounts Committee of the Legislature-Parliament.

In the changed socio-political scenario, the primary stakeholders have high expectations from the OAGN in promoting accountability and transparency in the public sector and contributing to better governance. A Task Force consisting of representatives from primary stakeholders was formed in XX to specifically look into ways and means of strengthening the OAGN. Given the strong support it enjoys from some of the primary stakeholders, and given that a new Constitution is expected to be drafted in the near future, it is perhaps the right time for the AG to proactively take necessary steps towards amending the legal framework and move closer towards the requirements for an independence Supreme Audit Institution stated in the INTOSAI’s Lima Declaration of 1977 and Mexico Declaration of 2007.

B. Participants

A total of XXX officials participated in the structured interviews. This group included the AG and four Deputy Auditor General, the Chairman and three other members of the Public Accounts Committee, and the Secretary of the Ministry of Finance.

XXX officials participated in the unstructured interviews: one an AAG, two Directors, and one Team Leader.

The Focus Group Discussion had XXX participants for the senior level and XXX participants for the middle and junior levels representing different functional units of the OAGN.

The list of participants of the interviews and focus group discussions can be seen in Annex X.

APPROACH AND METHODOLOGY

The team initially sent a survey questionnaire to the OAGN. The questions related to the following domains of the quality management system (QMS) framework used by the review team:

- i. Independence and Legal Framework
- ii. Human Resources
- iii. Audit Standards, Methodology and Performance
- iv. Leadership and Internal Governance
- v. Administrative Support
- vi. External Stakeholder Relations
- vii. Results

In line with standard principles of survey questionnaire development, the questionnaire mainly comprised closed questions with a limited number of open questions to provide some flexibility of response to the respondents. The purpose of the survey was to gather preliminary information on the current condition of the OAGN under each of the above domains. The survey results can be seen in Annex X.

This survey was followed by a visit to the OAGN. The team reviewed various manuals and documents provided by the OAGN pertaining to its legal mandate, vision and mission, strategic plan, audit reports, audit manuals on various topics, among others. A list of the documents reviewed for gathering information relating to each of the above domains can be seen in Annex X. The local OAGN members of the team were also interviewed to provide the appropriate contextual background to these reviews.

XXX Focus Group Workshops were then conducted: one for senior management representatives and the other for the middle and lower level management and non-supervisory staff. The list of focus group participants can be seen in Annex X. These

workshops were aimed at identifying the organisation's current condition from the views of both levels of participants to ensure a comprehensive assessment of the different perspectives on quality management requirements and practices in the OAGN.

Interviews with some of the OAGN's important external stakeholders were also conducted to find out, among others, their perception of the role of the OAGN in promoting accountability and good governance, their views about the usefulness of the OAGN's audit and audit reports, and their suggestions about further improving the quality of the OAGN's audits and audit reports. The stakeholders interviewed were the Chairman of Public Accounts Committee, its Secretary and two other members, and the Secretary of Ministry of Finance. The record of the interviews can be seen in Annexes X.

An interview of the AG, held after the interviews with the above-mentioned stakeholders, was carried out to gather information and opinions about the most important challenges and opportunities facing the OAGN. It also covered the initiatives adopted and those required to address current and emerging issues and her opinion about the suggestions of its stakeholders on how the OAGN could further improve the quality of its audits and audit reports. The record of the interview can be seen in Annex X.

A group interview was also conducted with the four Deputy Auditor General who were earlier listed as participants of the Focus Group for senior management, but were not available on the scheduled date due to unforeseen urgent developments. Their views were asked about the challenges faced by the OAGN in achieving its Vision and Mission, what initiatives have been taken by its Office to address these challenges, and how they perceive their roles for the effective implementation of the strategies to address these challenges. The record of the interview can be seen in Annex X.

Besides, wherever feasible, the team physically visited the various departments, divisions, directorates, training hall and library of the OAGN to assess the existing infrastructure and identify deficiencies, if any, in facilities and support equipment that could adversely affect the OAGN's performance. The team documented their physical observations using the physical observation checklist developed as part of the capacity building needs assessment project. This can be seen in Annex X.

FINDINGS AND RECOMMENDATIONS

The team collectively conducted a **content analysis** of the substantial amount of qualitative data and information through review of documents, focus groups of senior management representatives as well of middle and junior management and non-supervisory staff, structured interview with the AG and unstructured interviews with the local members of the needs assessment team. The following are the domain-wise findings and strategies resulting from the analysis

Domain 1: Independence and Legal Framework**A. Desired Condition:**

The independence and mandate of the OAGN should be as comprehensive as laid down in the INTOSAI Lima Declaration and Mexico Declaration.

B. Current Conditions and Initiatives:

Articles 96, 109, 122, 123 and 124 in the Interim Constitution, 2007 and Sections 3 - 11 of the Audit Act, 1991 are, largely aligned with the requirements of the Lima Declaration and Mexico Declaration.

- The remuneration and other conditions of the service of the AG cannot be altered to his disadvantage during his tenure.
- The budget of the AG and the OAGN is not voted in the Legislature-Parliament.
- The AG has a fixed tenure of six years, and is not eligible for subsequent appointment in other government services.
- The AG can be removed only through impeachment proceedings approved by at least two-thirds of the membership of Legislature-Parliament.
- The AG can freely restructure his organisation as long as there is no financial implication.
- The number of employees provided to the OAGN cannot be reduced without the AG's prior approval.
- Although the Audit Act provides for various performance-related checks by the OAG, these checks are all referred to in connection to 'the accounts,' which tends to have a financial connotation.
- The AG has full access to the information of the audited entity's, including information available with private contractors engaged by them. However, in revenue audits, the OAGN does not have access to the books of accounts maintained by the tax payers in the private sector.

In consequence to the OAGN communicating various organisational problems arising out of some of the above limitations, the PAC formed a seven-member Task Force in July 2007 to review the needs for strengthening of the OAGN. The Task Force consists of the Chairman and three other members of the PAC, the AG, the Secretary, Ministry of Finance, and the Financial Comptroller General. The committee work is coordinated by one of the members of the PAC.

C. Weaknesses:

1. The legal provisions relating to financial and personnel independence of the OAGN are inadequate in reality,

2. There is some ambiguity regarding OAG's Performance Audit mandate. In addition, there is some limitation on access to information for revenue audits.

D. Factors contributing to the weaknesses:

The OAGN's independence and mandate are inadequate because of the following reasons:

1. Financial and personnel independence
 - 1.1 Before submission to the Legislature-Parliament, the proposed budget of the OAGN can be curtailed by Ministry of Finance after consultation with the OAGN, but without necessarily obtaining the latter's consent.
 - 1.2 The OAGN has to approach the Ministry of Finance even for re-appropriation of funds within the overall budget of OAGN already approved by the Legislature-Parliament.
 - 1.3 The AG does not have the authority to create the number of staff positions that is considered necessary to deliver the mandate and appointment of such staff without the approval of the Government.
2. Mandate:
 - 2.1 Ambiguity regarding the mandate of performance audit has arisen due to the use of word "accounts" in Article 123 of the Interim Constitution. Incidentally, in the year 2004, the OAGN was challenged by the auditees, and the performance audit planned with regard to those auditees was dropped. Though such a situation occurred only once, it reflects a potential risk of the OAGN being challenged again in future.
 - 2.2 The legal provisions do not explicitly provide for access to the books of accounts of tax payers in the private sector.

E. Recommendations:

The OAGN should take advantage of the strong support of the Task Force initiative and draft suitable amendments, as a top priority, to the legal provisions that addresses the above limitations. In addition, the OAGN may consider specifically including an audit of such issues as environment and forensic audits due to the expectations in this regard expressed by some of the primary stakeholders.

Since the new Constitution of Nepal is expected to be drafted in the very near future by the Constituent Assembly, this is the right time for the OAGN to be proactive in this regard by initiating draft amendments to legal provisions.

Domain 2: Human Resource**A. Desired Condition:**

The OAGN should have an adequate number of competent and motivated staff to discharge its functions effectively.

B. Current conditions and initiatives:

The OAGN staffs are guided by the service regulations which cover some of the main issues relating to human resource management –namely recruitment, selection criteria for international training, promotions, performance appraisal and post retirement benefits.

Despite several-fold increases in the volume of government transactions audited by the OAGN over the last few years consequent to a doubling of government revenues and expenditure, the staff numbers has not increased since then.

To ensure staff retention, the OAGN has a policy of obtaining written undertakings from employees to work in the OAGN for specified periods on return from professional study courses paid for by the government.

The OAGN has detailed job descriptions for all audit positions up to the level of Deputy Auditor General of OAGN. These descriptions correspond to positions in the organisational hierarchy and not to the different functional units. There is no separate documentation of the roles and responsibilities of each functional unit of the organisation.

Concerns were expressed by all levels of employees regarding the morale and motivation of the OAGN staff.

The OAGN has, among others, taken the following initiatives:

- The service regulation of the OAGN staff has been integrated in the Civil Service Act, thereby providing them the same benefits and opportunities as those in other streams of the civil service;
- The OAGN has proposed the following Human Resource (HR) related issues to the Task Force set up for strengthening the OAGN:
 - Special financial incentives for audit staff; and
 - More opportunities for exposure tours, short-term training and more study abroad.
- Annually eight OAGN staff from different levels are awarded an equivalent of six months salary each for meritorious performance.
- The OAGN has sent a proposal for special allowances for staff possessing chartered accountancy qualifications to motivate and retain them.
- The OAGN staffs is permitted to go on full time chartered accountancy courses with full salary and 25% of basic salary as special allowances. In addition, the office pays the course enrolment fees and a book allowance.

- All audit staff are expected to complete at least 18 hours of continuing education programme (CEP) every year.

C. Weaknesses:

1. The number of existing audit staff may not be adequate for the workload of the OAGN compared to the significant increase in the revenues and expenditure of the Government over the years.
2. The morale and motivation of the staff is relatively low.
3. The roles and responsibilities of functional units are not clearly stated and documented.

D. Factors contributing to the Weaknesses:

1. The OAGN has not conducted any systematic analysis of the staff requirements due to the manifold increase in the amount of revenues and expenditure covered in audit.
2. A number of factors affecting employee motivation and morale were revealed during the needs assessment such as:
 - Limited career development opportunities;
 - Inadequate financial incentives;
 - Poor physical infrastructure;
 - Inadequate guidance by supervisory officers; and
 - Inadequate training in the use of advanced audit techniques such as audit sampling.
3. Inadequate appreciation by OAGN's management of the importance of clearly identifying roles and responsibilities of different functional units for promoting work efficiency and accountability.

E. Recommendations:

1. Propose staff requirement to Government after conducting a systematic analysis of staff requirement vis-à-vis current workload.
2. The OAGN should explore ways and means to address the various factors contributing to relatively low employee morale stated in D-3 (above).
3. Document and disseminate the roles and responsibilities of each functional unit.

Domain 3: Audit Standards, Methodology and Performance**A. Desired condition:**

The OAGN's audit processes should be based on the INTOSAI Auditing Standards and other international best practices (example International Standards on Auditing) to the extent applicable to the national rules and regulations.

B. Current conditions and initiatives:

The OAGN revised its auditing standards in 2004, and these are now well aligned with INTOSAI Auditing Standards and other international best practices. It also approved revised operational guidelines for financial audit relating to expenditure, revenue, project financial statements and procurement. All these were developed under technical assistance from the World Bank. However, the guide on procurement audit will be revised to align with the recent change in the government legislation on procurement. These guidelines will be implemented from audits starting from second half of 2007.

The OAGN has a separate performance auditing guide developed in June 2000. This is now being updated based on feedback received from performance audit experiences.

Compliance with these guidelines is ensured through internal peer review quality assurance system of the OAGN.

The OAGN has received World Bank funds for developing audit tool kits to enable more effective implementation of the audit guidelines. The products are expected to be ready by September 2007.

External consultants were engaged for developing the above guidelines. The OAGN staffs were involved with the consultants from the draft stage in developing the performance audit guide. However, in the case of the financial audit guidelines, the initial drafts were prepared by the consultant and revised based on feedback received from the OAGN.

These guides were developed in English even though that is not the working language of Nepal. These were subsequently translated into the local language, which is also the official language of Nepal. Concerns were expressed by various levels of staff regarding the clarity of both versions of these guidelines.

The guidelines have been circulated to all sections. In addition, a one-day workshop was held in July 2005 to consider changes in the Annual Audit Plan format in line with the new guidelines.

Audit guidelines for some other important areas of audit, such as local government bodies and state owned enterprises have not yet been developed.

C. Weaknesses:

1. There is inadequate confidence among the staff on how to implement these guidelines.
2. There is inadequate internal capacity to develop guides.
3. No comprehensive guidelines have been developed for audit of local government bodies and state owned enterprises that are being undertaken regularly by the OAGN.

D. Factors contributing to the weaknesses:

1. Regarding inadequate confidence of staff:
 - 1.1. Development of the guides was in English, in which most of the staff were not adequately conversant;
 - 1.2. The quality of the subsequent translation into local language is not satisfactory.
2. There has been inadequate involvement of the OAGN staff in developing the financial audit related guidelines, leading to inadequate internal capacity to develop such products.
3. The OAGN does not have sufficient resources and internal expertise for developing such guidelines.

E. Recommendations:

- 1.1 In future, guides should be developed concurrently in both English and local language from the draft stage.
- 1.2 The review of the local language translation should be done by teams who collectively possess adequate experience in government audit as well as fluency in English and local languages. The revision of the local language versions should be completed and circulated as soon as possible, since the audits are expected to begin in the near future.
2. In future, the development process for audit guidelines should ensure close involvement of the selected OAGN staff with the external consultant from the initial stages of development and not confined to only the review stage. Reviewing draft guides cannot replace the capacity development resulting from being closely involved in developing the guides from initial stages.
3. Initiate steps for developing the required guidelines stated at C-3. While doing so, the OAGN may consider the suggestions at 1.1 and 2 above.

Domain 4: Leadership and Internal Governance**A. Desired condition:**

The top management of the OAGN should ensure that the institution's decision-making and control mechanism functions economically, efficiently, and effectively and thereby serves as a model organisation in promoting good governance.

B. Current Conditions and Initiatives:

Leadership and direction:

- An initiative taken by the OAGN led to the formation of the Task Force responsible for recommending measures to strengthen the OAGN.
- As per current practice, all financial decisions as well as most operational decisions are taken at the AG level.
- There was widespread expression of concern among various levels of OAGN staff regarding the quality of leadership in the OAGN.

Strategic and operational planning:

- The OAGN has Vision and Mission statements, but there is no detailed strategic plan identifying the medium term directions for achieving the Vision and Mission. The non-supervisory staffs were not involved at any stage in the development of these statements.
- The OAGN has annual operational plans separately for audit, budget management and training, respectively.

Oversight and Accountability:

- Article 123 of the Interim Constitution requires the AG to audit the OAGN. This is being done annually by a team of OAGN staff selected by the AG and is being interpreted by the office as external audit.
- Internal audit is conducted annually by private sector professional chartered accountancy firms selected by the AG.
- Both the above audits are, by and large, in the nature of financial audits.

Code of conduct:

- The conduct of the OAGN staff is guided by audit service rules and internal guidelines on code of conduct. The internal guidelines are based on the INTOSAI Code of Ethics.
- Disciplinary actions against violation of code of conduct are guided by audit service regulations. In case of potential acts of corruption, action is taken as per provisions of the Anti-Corruption Act.

- Concerns were expressed in the focus group discussion of middle level staff regarding the culture of compliance to the code of conduct.

Quality assurance:

- In addition to normal supervision at the audit planning, implementation and reporting stages by line functionaries, all draft annual audit reports are reviewed by a committee consisting of the AG, Deputy Auditor General and the concerned Assistant Auditor General (AAG), Directors and line supervisors to ensure quality and correctness.
- Concerns were raised by the members of junior staff regarding the extent and quality of field audit supervision by their senior line functionaries.
- The OAGN follows a system of "post audit quality review" of their audit processes. The process is documented and implemented annually. The review tool kits were based on the earlier audit guidelines, and have not been aligned with the recently developed auditing standards and guidelines.
- Peer review of financial audit was conducted once by a neighbouring SAI in 2003. Overall grading for the four pilot audits selected for the review was good. The peer review team observed that the audit working papers and the final reports indicated that the auditors have closely applied the guidelines approved by the OAGN.

C. Weaknesses:

1. More effective and proactive leadership is desirable to push forward reforms for strengthening the OAGN, more so at this critical stage of transition in the political and economic environment.
2. The OAGN has not prepared a strategic road-map for the medium term.
3. There is no independent external audit of the OAGN to assure its accountability to the Parliament and other stakeholders.
4. The nature and timing of internal audit is inadequate to assist the OAGN's financial and management practices.
5. There is scope for improvement in the quality of field audit supervision by Directors and Assistant Auditor Generals, particularly due to the inadequate confidence expressed by various members of staff on how to implement the new audit guidelines.
6. There is scope for improving the post audit quality review system.

D. Factors contributing to the Weaknesses:

- 1.1 There is over centralisation of decision making in the AG.
- 1.2 Inadequate exposure of senior management to the international community of auditors and to audit best practices.

2. There is inadequate appreciation of the concept and the need for strategic planning. Currently the annual audit plans are being accepted as strategic plans.
3. There is a conflict of interest between interpretations of Article 123 of the Constitution as a provision for external audit, since it involves the AG auditing the accounts of his own Office.
- 4.1 The internal audits in the OAGN, being post mortem audits, do not adequately facilitate timely action on irregularities.
- 4.2 The OAGN's internal audits, being financial audits, do not look into performance aspects of business operations.
- 5.1 The minimum supervisory checks to be done by the Directors and higher level management are not documented. Consequently, there is inadequate assurance on the quality of supervision from these levels.
- 5.2 Supervision by the Directors and Higher level management are normally conducted towards the end of field audits, by which time it may be too late for the field audit teams to make necessary improvements.
- 6 The Post Audit Quality Review toolkits have not yet been aligned with the latest auditing standards and operating guidelines developed in 2005.

E. Recommendations:

- 1.1 The AG should review the current status of delegation of authority. Distinction should be made between operational and policy decision making, while determining the desirable extent of delegation of authority. The AG should consider delegating operational decision making to lower levels as much as possible.
- 1.2 The OAGN should explore possible agreements with peer OAGN's and other agencies to provide greater opportunity to senior management for international interaction and knowledge sharing.
2. Develop senior management's capacity in strategic planning and management. In this connection, the suggestion 1.3 above may also be beneficial.
3. The OAGN may explore ways of avoiding the conflict of interest inherent in the current system of external audit of the OAGN under Article 123 of the Constitution. Since a high-level Task Force has been constituted by the Public Accounts Committee of Parliament to recommend strategies for strengthening the OAGN, this may be the right time to propose, among others, inclusion of external audit of the OAGN by auditors appointed independently by an appropriate body rather than by the AG.
4. The responsibility of internal audit may be expanded to cover performance related issues of all units of the OAGN. Moreover, it would be appropriate to carry out concurrent internal audit in addition to the audit after the close of the financial year.

- 5.1 The OAGN should develop and implement guidelines identifying the nature and extent of supervisory checks of field audit teams by Directors and Higher level management.
- 5.2 The Directors should determine the timing of the field supervision based on their assessment of the importance of the audit and the capacity of the field audit teams, instead of generally visiting all teams only towards the end of the field audits.
6. The post audit quality review toolkits should be reviewed against the latest auditing standards and operating guidelines, and suitably updated.

Domain 5: Administrative Support

A. Desired condition:

The OAGN should optimally manage to ensure timely delivery of support services and infrastructure to its departments / divisions / sections.

B. Current conditions and initiatives:

The office is located in a very old building that was built for residential purposes rather than for office accommodation.

Concerns were expressed about inadequacy of physical infrastructure with particular reference to office space, equipment, furniture and fixtures, transportation for operational activities and communication facilities. In addition to confirming the above inadequacies, physical observation by the QAR team revealed other infrastructural limitations in such areas as lighting, canteen facilities, rest rooms, visitors' lounge, maintenance of building, storage space, library, internet, IT networking facilities and other IT infrastructure.

The OAGN, amongst others, has taken the following initiatives:

- Obtained with World Bank assistance 100 desktop and 20 laptop computers, several laser printers and 250 USB memory sticks.
- Obtained funds for hiring of a staff bus and purchase of seven cars.
- Installed a modern conferencing system with assistance of World Bank Funds.
- Proposed additional budget for hiring of additional office space.

C. Weaknesses:

1. The existing physical infrastructure is not sufficiently conducive for an efficient working environment.

D. Factors contributing to the Weaknesses:

- 1.1 The architecture and age of the building along with the current physical layout of the different functional units.

1.2 Inefficient management of dead stock, leading to shortage of space for productive use.

1.3 Lack of adequate financial resources.

E. Recommendations:

1.1 There is scope for more efficient physical rearrangement of related functional units and senior management within the existing space.

1.2 Implement a system of regular disposal of dead stock.

1.3 The OAGN should continue vigorously pursuing from the Government for more financial resources. It may also continue working with external donor agencies for financial and infrastructural support.

Domain 6: External Stakeholder Relations

A. Desired condition:

Sustain effective working relationship and communication with external stakeholders to ensure impact of OAGN's audit reports.

B. Current conditions and initiatives:

The OAGN is receiving strong support from the PAC and the Secretary, Ministry of Finance. At the same time, both stakeholders have expressed the need for more efficient functioning of the OAGN and change in the audit approach in line with external developments.

Concerns were expressed by the various levels of OAGN staff on the lack of appreciation by the audited entities of the work of OAGN.

The OAGN, among others, has taken the following initiatives:

- In 2006/07, the OAGN organised four interaction programmes in four regions for increasing mutual understanding between the audited entities and the OAGN. Further, such interaction programmes are planned for implementation towards end of 2007. Similar interaction programmes are held annually for Secretaries of different ministries.
- In May 2007, the OAGN presented a paper in the Parliament on the challenges faced by the OAGN in discharging its functions effectively,
- The OAGN organised a visit programme for members of PAC to its premises to discuss its problems.
- In June 2007, the AG invited the Speaker of the Parliament, Minister of Finance, Chairman of the PAC, Chief Secretary of the Government of Nepal and Secretary of the Ministry of Finance on the occasion of the OAGN's 49th Foundation Day. On that

occasion, the AG expressed the problems of the OAGN in discharging its functions effectively.

Consequent to the above initiatives, the PAC constituted a Task Force consisting of different stakeholders to look into the capacity building needs of the OAGN. The report of the Committee is expected soon.

C. Weaknesses:

1. The audit reports of the OAGN have not been adequately meeting the expectations of the PAC and the audited entities.
2. The impact of OAGN's audit observations is unsatisfactory.

D. Factors contributing to the Weaknesses:

- 1.1 The practice of conducting audits only after the close of the financial year has led to delayed submission of audit reports. This, in turn, has reduced the value addition by audit.
- 1.2 Some disagreement between two primary stakeholders (PAC and Ministry of Finance) on the one hand, and the OAGN on the other, regarding the prioritisation of audit issues and approach.
- 1.3 Inadequate appreciation by the audited entities on the roles and responsibilities of the OAGN in promoting better governance in the public sector.
- 1.4 Inadequacies mentioned with regard to Professional Staff Development have affected the professional capacity of audit staff to conduct the types of audit expected by the PAC and Ministry of Finance.
- 2.1 Delay by the audited entities in taking action on audit observations.
- 2.2 Insufficient information provided by the audited entities to the OAGN regarding action taken on audit observations.

E. Recommendations:

- 1.1 The OAGN may consider conducting concurrent audits in consultation with the PAC, over and above its constitutional obligation to conduct post audits.
- 1.2 Implement mechanisms for more effective communication with the primary stakeholders on the OAGN's roles and responsibilities as well as the obligations of the different stakeholders towards audit.
- 1.3 Refer to recommendations in Element 6 (above) for strengthening professional staff development.
- 2.1 Strengthen the penalty provision in the Financial Procedure Act 1999 to reduce delays in response by audited entities and also to improve the quality of information provided by them to the OAGN regarding actions taken on audit observations.

Domain 7: Results**A. Desired Condition:**

Deliver quality audit reports and services that promote accountability and transparency in the public sector, more efficient management and utilisation of public resources and contribute towards good governance.

B. Current Conditions and Initiatives:

Reports relating to financial audit of 4,000 audited entities units and performance audit of 33 issues were issued to the audited entities in 2006. The reason for the large number of financial audit reports is 100% coverage of audited entities units annually. The list of performance audit issues may be seen in Annex X.

The annual audit reports are submitted to Parliament approximately a year after the close of the financial year. The report consists of about 2,000 pages, and is divided into five volumes, in addition to the executive summary of more than 100 pages.

The legal provisions do not require the OAGN's report to be submitted to the President by a prescribed date nor for the President to table it in Parliament.

The AG does not certify the consolidated financial statements of the government. Also, it does not conduct specialised audits such as those relating to environment, Information Technology and fraud due to absence of explicit mandate.

The PAC expressed the need to reduce the size of the report by focusing only on priority issues, conduct more performance audits, initiate specialised audits relating to environment and fraud and improve timeliness of reports by conducting concurrent audits. The Secretary, Ministry of Finance, also raised the need for concurrent audit and timeliness of OAGN's reports to enhance the effectiveness of its audits.

The OAGN measures the impact of its financial audits in terms of the total financial value of irregularities highlighted and recovered for every local unit of currency spent on the OAGN. For example, the Audit Report 2006 mentions financial irregularities of local currency units 3,000 and actual recovery of local currency units 1,921 for every local currency units 100 spent on the OAGN. The impact of performance audit is measured in terms of the number of audit recommendations implemented by the audited entities.

C. Weaknesses:

1. Impact of OAGN's audits is less than the expectations of the primary stakeholders.

D. Factors contributing to the Weaknesses:

- 1.1 Delay in submission of the reports due to late submission of financial statements by some audited entities.
- 1.2 Delay in appointment by the OAGN of statutory auditors of wholly state-owned enterprises (SOEs).

- 1.3 Preparation of voluminous audit reports.
- 1.4 Absence of concurrent auditing.
- 1.5 Large number of audited entities units covered vis-à-vis the staff available.
- 1.6 No prescribed timeframe for submission of audit report to the President.

E. Recommendations:

- 1.1 Continue working with the Ministry of Finance and Financial Comptroller General to improve timeliness for submission of financial statements by the audited entities.
- 1.2 Implement a system for timely appointment of statutory auditors for wholly owned SOEs, including setting of fixed target date for such appointments.
- 1.3 Consider increasing the minimum financial value of audit observations that are to be included in the AG's Report. The OAGN may also consider prioritisation of the nature of information to be included in the audit report, keeping in mind the needs of the primary stakeholders.
- 1.4 There appears to be no legal impediment to concurrent audit by the OAGN. Given the strong support from the PAC and the Secretary, Ministry of Finance for concurrent auditing, the OAGN may initiate such an approach as soon as possible.
- 1.5 Section 3(1) of the Audit Act, 1991 authorises the AG to determine the nature, timing and extent of audit. The OAGN may avoid 100% coverage of audited entities units annually. Instead it may conduct an ABC analysis of audited entities units based on risk profiling; the highest risk units (Category A) may be audited annually while B & C categories may be audited biennially and triennially, respectively.
- 1.6 The OAGN may consider initiating the process for amending the legal provisions to incorporate provision for submission of audit report to the President, by a fixed date and in turn, tabling of the report in the Parliament within a prescribed period of receipt of the report by the President.

ANNEXES

- Annex X: Organisational Structure of the OAGN
- Annex X: OAGN Level Quality Management System Framework
- Annex X: Survey Results
- Annex X: List of Documents Reviewed
- Annex X: List of Interviewees and Focus Group Participants
- Annex X.: Interview Memorandum of AG
- Annex X.: Interview Memorandum of Deputies of AG
- Annex X: Interview Memorandum of Public Accounts Committee (PAC)
- Annex X.: Interview Memorandum of Secretary of Ministry of Finance
- Annex X: Physical observation report on office infrastructure
- Annex X: List of Agencies involved in Capacity Building of OAGN
- Annex X: Results of the Focus Group Discussion – Senior Management
- Annex X: Results of the Focus Group Discussion – Middle/Junior Management and non-supervisory staff
- Annex X: Performance Audit Topics Selection and Reported in 2006

Appendix 15**(Related to Chapter 4 Paragraph 4.1)****Financial Audit Process**

STAGES	ACTIVITIES	AUDITING STANDARD
PRE-ENGAGEMENT	Compliance with the Code of ethics	IFAC Code of Ethics
	Competency of audit engagement team	ISSAI 30 ISSAI 1220
PLANNING	Understanding the entity and its environment	ISA 315 ISSAI 1315
	Establishing audit objective and scope	ISSAI 1200 ISA 200
	Determining materiality	ISSAI 1315
	Assessing the risk of material misstatement	ISA 330 ISSAI 1330
	Considering the appropriateness of management's use of the going concern assumption	ISSAI 1570 ISA 570
	Considering fraud in financial audit	ISSAI 1240 ISA 240
	Preparing detailed audit plan	ISSAI 1300 ISA 300
EXECUTION	Using sampling and other means of testing	ISSAI 1530 ISA 530
	Performing tests of controls	ISSAI 1400 ISA 400
	Performing Substantive analytical procedures	ISSAI 1520 ISA 520
	Performing Test of detail	ISSAI 1400 ISA 400
	Evaluating the sufficiency and appropriateness of audit evidence	ISA 230 ISSAI 230
REPORTING	Communicating audit findings	ISA 260 ISSAI 260
	Evaluating audit conclusions	ISSAI 1700 ISA 700
	Preparing the audit report	ISSAI 1700 ISA 700

Appendix 16**(Related to Chapter 4 Paragraph 4.2 & 4.2.15)****Financial Audit Methodology Checklist**

	YES	NO	COMMENTS
I. Financial / Regularity Audit Performed:			
1. Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements			
2. Attestation of financial accountability of the government administration as a whole			
3. Audit of financial systems and transactions, including an evaluation of compliance statutes and regulations			
4. Audit of internal control and internal audit functions			
5. Audit of the probity and propriety of administrative decisions taken within the audited entity			
6. Reporting of any other matters arising from or relating to the audit that the OAGN considers should be disclosed			
II. Standards for Audit			
1. International Standards on Auditing (ISA)			
2. INTOSAI Auditing Standards			
3. OAGN Policy Standard, Operational Guideline			
III. Quality Control Procedures (ISSAI 1220)			
1. Responsibility for quality assigned audit director or team leader			
2. Audit director or team leader has considered ethical requirements.			
3. Audit director or team leader has ensured independence of the audit team.			
4. Audit director or team leader has assessed capabilities, competencies and time available to perform audits.			
5. Risks of acceptance have been			

	YES	NO	COMMENTS
considered.			
6. Audit director or team leader has taken responsibility for direction, supervision and performance of the audit team.			
7. Audit director or team leader has reviewed working papers.			
8. Appropriate consultation/resolution of contentious or difficult matters.			
9. Differences of opinion are appropriately resolved.			
10. Audit Quality Control Review has been appropriately engaged.			
11. Results of Audit Quality Control Review have been considered.			
IV. Pre-Engagement Phase			
1. Code of Ethics			
a. Integrity (adherence to high standards of behaviour)			
b. Independence (independent from audited entity and other outside interest groups)			
c. Conflicts of interest (care should be taken that services do not lead to conflict of interest)			
d. Confidentiality (information obtained in the auditing process not disclosed to third parties)			
e. Professional competence and due care			
2. Assessment of Capacity (skills and resources)			
3. Authorization Letter to audit			
V. Planning Phase			
1.1 Understanding the entity and its environment consisting of the following aspects:			
a. Industry, regulatory, and other external factors including the applicable financial reporting framework			
b. Nature of the entity, including the entity's selection and application of accounting policies			

	YES	NO	COMMENTS
c. Objectives and strategies and the related business risks that may result in a material misstatement of the financial statements			
d. Measurement and review of the entity's financial performance			
1.2 Understanding the entity's internal control consisting of the following components:			
a. Control Environment includes the governance and management functions and attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal controls and its importance in the entity.			
b. The entity's risk assessment process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.			
c. The information system, including the related business processes, relevant to financial reporting, and communication.			
d. Control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks.			
e. Monitoring of controls or activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates corrective actions to its controls.			
2. Establishing Audit Objective and Scope			
a. Expressing an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting			

	YES	NO	COMMENTS
framework			
b. Determining the audit procedures to be performed in conducting an audit in accordance with International Standards on Auditing or other professional, legal or regulatory requirements in addition to ISAs.			
3. Determining Materiality			
a. Establishing an acceptable materiality level considering both the amount (quantity) and nature(quality) of misstatements			
b. Considering audit risk in assessing the level of materiality			
4. Assessing the risk of material misstatement			
a. Determining overall responses to assessed risks at the financial statement level			
b. Designing further audit procedures to respond to assessed risks at the assertion level			
∞5. Considering Going Concern Assumption			
a. Assessing the entity's ability to continue as a going concern			
6. Considering Fraud in Financial Audit			
a. Considering risk of material misstatement arising from fraud of error			
b. Maintaining an attitude of professional scepticism throughout the audit, recognizing the possibility that a misstatement due to fraud could exist			
7. Preparing detailed audit plan			
a. Establishing an overall audit strategy which sets the scope, objective, timing, appropriate materiality level, high risk areas and evaluation of internal control. Including documentation of the key systems.			
b. Developing a detailed audit plan which			

	YES	NO	COMMENTS
includes the nature, timing and extent of audit procedures to be performed to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.			
VI. Execution Phase			
1. Using Sampling and Other Means of Testing			
a. Using audit sampling in selecting items for testing (Statistical sampling)			
b. Using other means (Non-statistical sampling)			
2. Performing Tests of Controls			
a. Performing tests of controls to obtain sufficient appropriate audit evidence that the controls are operating effectively at relevant times during the period under audit.			
3. Performing Analytical Procedures			
a. Evaluating financial information made by a study of plausible relationships among financial and non-financial data.			
b. Investigating identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.			
4. Performing Test of Details			
a. Performing tests of details of classes of transactions, account balances, and disclosures to detect material misstatements at the assertion level.			
5. Evaluating the sufficiency and appropriateness of audit evidence			
a. Recording in the working papers information on planning the audit, the nature, timing and extent of audit procedures performed, and the results thereof, and the conclusions drawn from the evidence obtained.			
b. Evaluating the sufficiency and			

	YES	NO	COMMENTS
appropriateness of audit evidence to determine whether the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.			
c. Identifying the preparer and reviewer of working papers			
VII. Reporting Phase			
1. Communicating Audit Findings			
a. Communicating audit matters arising from the audit of financial statements.			
b. Preparing management letter on a timely basis.			
2. Evaluating Audit Conclusions			
a. Reviewing and assessing the conclusions drawn from the audit evidence obtained as the basis for the expression of an audit opinion			
b. Determining significance of audit finding			
3. Preparing the Audit Report			
a. Preparing the audit report considering the following basic elements:			
- Title;			
- Addressee;			
- Opening or introductory paragraph:			
• Identification of the financial statements audited;			
• A statement of the responsibility of the entity's management and the responsibility of the auditor;			
- Scope paragraph (describing the nature of the audit)			
• A reference to the ISAs or relevant national standards or practices;			
• A description of the work the auditor performed			
- Opinion paragraph containing:			
• A reference to the financial reporting framework used to prepare the financial statements			

	YES	NO	COMMENTS
(including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards); and			
• An expression of opinion on the financial statements			
- Date of the report;			
- Auditor's address; and			
- Auditor's signature			
b. Preparing narrative report			
. 4. Follow-up of action taken on findings communicated thru management letter.			

∞ Item no. V (5) is irrelevant to OAGN in present context.

Appendix 17**(Related to Chapter 4 Paragraph 4.2 &4.2.1.5)****QA QUESTIONNAIRE FOR FINANCIAL AUDIT**

DIRECTORATE	
AUDITED ENTITY	
FINANCIAL YEAR-END OF AUDITEE	
STAGE OF COMPLETION	
REVIEW COMMENCED ON	
REVIEW COMPLETED ON	
FINDINGS DISCUSSED ON	
NAME OF REVIEWER	

We, the undersigned, confirm that the findings of this review have been:

- Discussed with management (executive manager/provincial auditor, centre manager, audit manager);
- Communicated to the whole audit team;
- Included as part of an action plan that will be included in the strategic plan, where appropriate; and
- Included as part of the training plan.

INTRODUCTION:

INTOSAI Audit Standards requires that an auditor should conduct an audit in accordance with the necessary standards. This implies that a certain standard of work should be evident in all audit files. In ensuring a consistent level of quality of audit work throughout an audit entity, it is necessary to ensure that:

- All personnel adhere to the principles of independence, integrity, objectivity, confidentiality and professional behaviour (professional requirements);
- The audit entity is staffed by personnel that have attained (and maintain) the technical standard and professional competence required to enable them to fulfil their responsibilities;
- Audit work is assigned to personnel that have the degree of technical training and proficiency required in the circumstances;
- There is sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality;

- Whenever necessary, consultation within or outside the firm is to occur with those that have appropriate expertise;
- The continued adequacy and operational effectiveness of quality control policies and procedures is monitored.

In achieving the above, IDI-ASOSAI QA Review has designed a program that focus on ensuring a high quality audit product at the financial audits level. This review document focuses on the evaluation of quality at the level of the financial audit.

The document takes cognisance of the requirements of ISA/ISSAI and the INTOSAI auditing standards. Reviewers are not restricted to the items included in the checklist and any other matters that may impact on the quality of the audit should be considered. Where-ever possible references have been made to the source of the requirements tested. This is, however, not necessarily a complete list.

The review document is to be used for all types of regularity audits, excluding performance and forensic auditing.

If the finding to a particular question is positive, a tick should be inserted in the “YES” column.

If the finding is negative, a tick should be inserted in the “NO” column, followed by an appropriate reason / explanation in the remarks column. In such an instance, reference should be made to either the minutes of the discussion of the findings with management and/or the final QAR-report.

Instances may be found where the answer to a question is “NO”, but that the situation was still within the scope of ISA/INTOSAI (e.g. non-compliance with Office methodology, although still within scope of ISA/INTOSAI). This should be clearly be spelt out and reported accordingly.

If a question is not applicable, a tick should be inserted in the N/A column, together with an adequate explanation.

All questions should, as far as possible, be referenced to the relevant working papers in the audit file.

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
A	TERMS OF REFERENCE							
1	Is a copy of the Audit Authorization letter on file? (for new and existing appointments)	Par. 3.1.4(g) & 1.0.34	ISA 210 par. 2, .10					
B	Quality Control Procedures							
1.	Has responsibility for the overall quality of the audit been assigned to an audit director or audit team leader?		ISA 220 par. 8 ISSAI 1220					
2.	Is there documentation that the Assistant Auditor General and audit director have considered whether members of the team have complied with ethical requirements (e.g. Parts A & B of IFAC Code or OAGN Code of Conduct) including integrity, objectivity, professional competence and due care, confidentiality and personal behaviour?	Par 2.2.1	ISA 220 par 8 ISSAI 1220					
3	Have any such issues been identified by the audit director or audit team leader?							
4.	If ethical issues are identified, is there documentation that these have been communicated to relevant OAGN personnel and resolved as appropriate?							
5.	Has the assistant auditor general or audit director formed a conclusion on compliance with independence requirements applicable to the audit?	Par 2.2.2 and Pars. 2.2.27 to 2.2.31	ISA 220, Par 12 ISSAI 1220					
6.	Is there documentation that the assistant auditor general /audit director has obtained information necessary to evaluate potential threats to independence?							

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
7.	Is there documentation that the information obtained has been evaluated to determine if there is a threat to the independence of the OAGN or the audit that needs to be addressed?							
8.	Have actions been taken to eliminate such threats or reduce them to acceptable levels?							
9	Is there documentation of conclusions on <ul style="list-style-type: none"> • Where relevant, is there documentation that the audit team leader/audit director / audit team leader have considered issues related to the acceptance an audit engagement: 							
	- The integrity of key management and those charged with governance of the entity.							
	- Is the audit team competent to perform the audit engagement and has the necessary time and resources							
	- Whether the OAGN and engagement team can comply with the ethical requirements.							
	• If issues arise from any of those considerations, is there documentation of how issues were resolved.		ISA 220 Para 14 and 18. ISSAI 1220					
	• Has the audit director/audit team leader ensured that the team collectively has the appropriate capabilities, competence and time to perform the audit in accordance with professional standards and applicable regulatory and legal requirements and to enable the issuance of an auditor’s report that is appropriate in the circumstances?		Ref. ISA 220 .19 ISSAI 1220					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
10	<ul style="list-style-type: none"> Is the documentation that the assistant auditor or audit director has taken responsibility for the direction, supervision and performance of the audit, by informing audit team members of: <ul style="list-style-type: none"> - their responsibilities; - the nature of the entity's business; - risk related issues - problems that may arise and - the detailed approach to the performance of the audit. 		ISA 220 Para 21 ISSAI 1220					
11	<ul style="list-style-type: none"> Has the assistant auditor general or audit director reviewed the working papers to ensure that there is sufficient appropriate audit evidence to support the conclusions reached and the auditor's report to be issued? 		ISA 220 Para 26 ISSAI 1220					
12	<ul style="list-style-type: none"> Has the assistant auditor general or audit director or members of the audit identified difficult or contentious matters requiring consultation? 							
	<ul style="list-style-type: none"> If so, has the assistant auditor general or audit director: <ul style="list-style-type: none"> - ensured appropriate consultations have taken place; - been satisfied that the nature and scope of, and conclusions resulting from such consultation are documented and agreed with the party consulted, and - determined that conclusions resulting from consultations have been implemented. 		ISA 220 Para 30. ISSAI 1220					
13	<ul style="list-style-type: none"> Have differences of opinion arisen within the team with those consulted or if applicable, with the audit quality control review? If so, have these been resolved following the OAGN's policies and procedures? 		ISA 220 Para 34 ISSAI 1220					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
14	<ul style="list-style-type: none"> Has the assistant auditor general or audit director determined if the OAGN has appointed a quality control reviewer for this audit? <ul style="list-style-type: none"> If an audit quality control reviewer (AQCR) has been appointed, has the appropriate OAGN official discussed significant matters arising from the audit with the AQCR? 		ISA 220 36 & 38. ISSAI 1220					
	<ul style="list-style-type: none"> If AQCR has been appointed, was the audit quality control review completed before the auditor's report was issued? If AQCR has been appointed, has the AQCR evaluated significant judgments made by the team and the conclusions reached in arriving at the auditor's report? 							
	<ul style="list-style-type: none"> Has the audit team leader or director considered the results of the OAGN's monitoring process? 		ISA 220 Para 41. ISSAI 1220					
C	PLANNING							
1	Do the audit working papers reflect adequate planning by means of a planning memorandum or similar documents?	Par. 3.1.3 (k)	ISA 300 par 2, 8 & 9 ISSAI 1300					
2	Is there evidence that the planning memorandum was approved timely by a senior person responsible for the audit?							
3	Were all significant changes to the audit plan documented, substantiated and approved?	Par. 3.1.4	ISA 300 par. 12 ISSAI 1300					
4	Do the audit working papers indicate an appropriate level of knowledge of the audited entities business and industry in order to identify risks, events, transactions and practices that may have a significant effect on the financial statements?	Par. 3.1.3 (a)	ISA 310 par. 8 ISSAI 1300					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
5	Were complex audits split into more manageable units in order to carry out the audit in the most effective and cost efficient way?	Par. 3.1.1	ISA 300 par 2, 8 & 9 ISSAI 1300					
6	Does the components/ accounts identified and audited cover the entire spectrum of the financial statements?	Par. 3.1.4 (b)	ISA 200 par. 2 ISSAI 1300					
7	Were audit objectives (assertions) correctly identified for each individual account or group of transactions or activities?	Par. 3.1.3 (d)	ISA 500 par. 13 & 14 ISSAI 1300					
8	Is there evidence that audit staffs who were assigned to the audit have the degree of technical training and proficiency required in the circumstances?	Par. 3.2.4 (f)						
9	Does a sufficient audit timetable exist and are the planned dates reasonable? Consider the following: <ul style="list-style-type: none"> Physical observation or inspection of the activities or programs? Receipt of certificates or audit confirmations? A starting date for the audit? A finalisation date for the detail work for senior review? A planned date for issuing the report? Completion of the planning process prior to the commencement of the detailed field work phase? Proper supervision of junior staff by senior staff? Sufficient time for final review? 	Par. 3.1.4 (e)						
10	Do the working papers reflect time spent on the engagement by the audit staff and reasons for significant variances from the budgeted audit time?							
11	Were appropriate directions given to assistants to whom work is delegated?	Par. 3.2.3 (a)						
D.	OVERALL PLANNING MATERIALITY							
1	Was an acceptable materiality level used to detect quantitative material misstatements?	Par. 3.1.3 (f) & 3.1.4 (a)	ISA 320 par. 5 ISSAI 1320					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
2	Were qualitative factors considered for materiality?	“	ISA 320 par. 5 ISSAI 1320					
3	Is the planning materiality figure still appropriate for the evaluation of the results of audit procedures and were the reasons for changes properly documented?	“	ISA 320 par. 11 ISSAI 1320					
4	Was materiality considered during the evaluation of the results of audit procedures performed and were proper conclusions reached in this regard?	“	ISA 320 par. 12-16 ISSAI 1320					
E.	RISK ASSESSMENT AND INTERNAL CONTROL							
1	Was the inherent risk assessed at the financial statement level as well as assertion level for account balances, classes of transactions and activities? Is the inherent risk assessment justifiable in view of risk factors identified?	Par. 3.1.4 (a)	ISA 400 par.11					
2	Do the working papers contain evidence that a preliminary review and evaluation of the control environment and control procedures have been carried out?	Par. 3.1.3 (e)	ISA 400 par. 19 & 20					
3	Was the internal audit department adequately evaluated?	Par. 3.1.3 (g)	ISA 610 par. 11					
4	If it was intended to rely on the work performed by Internal audit, was the work evaluated and tested to confirm its adequacy?	Par. 3.1.3 (g)	ISA 610 par.16					
5	Are the audited entities' internal controls and accounting systems sufficiently documented?	Par. 3.3.1 to 3.3.4	ISA 400 par. 12, 18 & 14					
6	Was the operational system description in an acceptable form (i.e. other system notes, integrated narrative and evaluation or flow charts)?	Par. 3.3.1 to 3.3.4	ISA 400 par. 26					
7	Was every system verified by way of for example walkthrough tests and was the verification adequately documented?	Par. 3.3.1 to 3.3.4	ISA 400 par. 15					
8	Were there appropriate conclusions on the adequacy of the systems (design of the accounting and internal control system)?	Par. 3.3.1 to 3.3.4	ISA 400 par. 21					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
9	Is the preliminary assessment of control risk for each financial statement assertion justifiable? Were key controls identified to substantiate the assessment per assertion?	Par. 3.3.1 to 3.3.4	ISA 400 par. 22 & 24					
10	Was the audit approach appropriate? Was the preliminary assessment of control risk, in conjunction with the assessment of inherent risk, considered in developing the audit approach?	Par. 3.1.4 (e)	ISA 400 par. 10					
F	INFORMATION SYSTEM ENVIRONMENT							
1	Was the extent of use and importance of the computerised environment assessed and expected audit approach documented?	Par. 3.3.4	ISA 401 par. 08			N/A		
2	Were the application systems that had a significant effect on the accounting & financial reporting process, identified for each cycle and concluded on?	Par. 3.3.4	ISA 401 ISSAI 1220			N/A		
3	Were the CIS general controls adequately evaluated taking the following into account: <input type="checkbox"/> Organisation and management controls <input type="checkbox"/> Application systems development and maintenance controls <input type="checkbox"/> Computer operation controls <input type="checkbox"/> System Software controls <input type="checkbox"/> Logical access controls <input type="checkbox"/> Disaster recovery controls	Par. 3.3.4	ISA 401 par. 07			N/A		
4	Were the CIS application controls adequately evaluated taking the following into account: <input type="checkbox"/> Control over input <input type="checkbox"/> Control over processing and computer data files <input type="checkbox"/> Controls over output	Par. 3.3.4	ISA 401 par. 08			N/A		
5	Was the overall reliance on CIS general controls taken into consideration to evaluate the effectiveness of CIS application controls?	Par. 3.3.4	ISA 401 par. 09			N/A		
6	Where no reliance could be place on general and application controls, were manual controls considered that might provide effective compensating controls at the application level?	Par. 3.3.4	ISA 401 par. 11			N/A		

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
7	Did the auditor consider an appropriate combination of manual and CAAT's procedures?	Par. 3.3.4	ISA 410 par. 15 ISA 4011 par. 07			N/A		
8	In determining the use of CAAT's were the following factors considered: <input type="checkbox"/> Computer knowledge, expertise and experience of the auditor. <input type="checkbox"/> Availability of CAAT's and suitable computer facilities. <input type="checkbox"/> Impracticability of manual tests. <input type="checkbox"/> Economic, effectiveness and efficiency. <input type="checkbox"/> Timing.	Par. 3.3.4	ISA 4011 par. 07			N/A		
9	Where CAAT's were used, does the working papers contain sufficient documentation to describe the CAAT application, such as the following:	Par. 3.2.3 (d)	ISA 4011 par. 22			N/A		
	a. PLANNING: ▪ CAAT objectives ▪ Specific CAAT to be used and exercised, ▪ Staffing, timing and cost.					N/A		
	b. EXECUTION: ▪ CAAT preparation and testing procedures and controls, ▪ Details of tests performed by the CAAT, ▪ Details of input, processing and output, and ▪ Relevant technical information about the entity's accounting system, such as computer files layouts.					N/A		
	c. AUDIT EVIDENCE: ▪ Output provided, ▪ Description of the audit work performed on the output, and ▪ Audit conclusions					N/A		
	d. REPORTING: ▪ Recommendations to management.					N/A		
G.	TESTS OF CONTROL							
1	Was audit evidence obtained through tests of control to support any assessment of control risk which is less than high?	Par. 3.3.1 to 3.3.4	ISA 400 par. 31					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
2	Does it appear that the tests of controls over the internal controls are appropriate in the circumstances?	Par. 3.3.1 to 3.3.4	ISA 400 par. 30 & 31					
3	Does it appear that the test of control results are properly assessed and evaluated?	Par. 3.3.1 to 3.3.4	ISA 400 par. 34					
4	In cases where the assessed level of control risk was revised, were the nature, timing and extent of planned substantive procedures modified?	Par. 3.3.1 to 3.3.4	ISA 400 par. 34					
H	DEVELOPMENT OF DETAIL AUDIT PROGRAMMES							
1	Is there evidence of a senior person having approved audit programmes prior to the commencement of fieldwork?	Par. 3.2.3 (d)						
2	Are audit programmes designed to support opinions furnished on financial statements?	Par. 3.2.3 (d)	ISA 500 par 2-6					
3	Are the audit programmes sufficiently comprehensive to result in satisfactory assurance in all areas of significant audit risk?	Par. 3.2.3 (d)	ISA 400 par. 42 & 47					
4	Is each step of the audit programme initialled with evidence to indicate that the work was completed?	Par. 3.2.3 (d)	ISA 230 par. 11 ISSAI 1230					
I	Substantive Procedures							
a.	Test of Details							
1	Were the test of details designed (if designed at all) to obtain assurance regarding the reasonableness of account balances or series of transactions and were all criteria met in this regard?	Par.3.5	ISA 520 par. 12					
2	Where any analytical reviews were performed to restrict the nature, timing and/or extent of test of detail, are the results from such an analysis appropriately measured against materiality? Was corroboration obtained for explanations received?		ISA 520 par. 10 & 12					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
3	Were appropriate test of detail designed and performed for each transaction, account balance and disclosure per assertion and were the sufficiency and appropriateness of the evidence considered?	Par.3.5	ISA 500R par. 12 & 17					
4	Regarding the timing of the test of detail, was the most efficient manner of conducting is taken into account?	Par.3.5	ISA 530					
5	Were procedures developed to address performance dimensions (value for money assertion) to the relevant sources?	Par.3.5						
6	Were all third-party confirmations received back? Were these confirmations compared to the client's records and differences investigated?	Par.3.5	ISA 505					
7	Where test of detail were performed on balances earlier than the year-end/closing of the books, were roll forward procedures performed on those amounts processed during the intervening period?	Par. 3.5	ISA 530 par 42					
8	If statistical or non-statistical sampling is used for substantive testing: <input type="checkbox"/> Is the sampling size and sampling approach appropriate? 15. Is the sample representative of the population?	Par. 3.5.2	ISA 530					
	Fixed Assets							
9	Is there evidence that a fixed assets register has been properly maintained?	Par. 3.5	ISA 500 par 15					
10	Is the nature and extent of tests in respect of fixed assets appropriate in respect of: Additions and disposals of fixed assets	Par. 3.5	ISA 500 par 15					
	Inventories							
11	Did the client perform a year en stock take?	Par. 3.5	ISA 500 par 15					
12	Do the audit working papers properly reflect attendance at and evaluation of the client's stock take, including: The timing and extent of stock take	Par. 3.5	ISA 500 par 15					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
	observation							
	Test counts and related follow ups							
	Bank and Cash							
13	Were bank request confirmations obtained in respect of all banking accounts?	Par. 3.5	ISA 500 par 15					
14	Were the bank certificates agreed to the bank reconciliation statements/	Par. 3.5	ISA 500 par 15					
15	Was other information, included in the financial statements, verified to determine if any inconsistencies exist?	Par. 3.5						
b.	Performing Substantive analytical Procedures							
1	Were substantive analytical procedures performed during the planning phase of the audit in order to identify risks?	Par. 3.6	ISA 520 par.8					
2	Where substantive analytical reviews were performed, does it give assurance regarding the reasonableness of account balances or series of transactions or activities?	Par. 3.6	ISA 520 par. 7(b) & 12					
3	Where any Substantive analytical reviews were performed to restrict the nature, timing and/or extent of substantive procedures are results from such analysis appropriately measured against materiality?	Par. 3.6	ISA 520 par. 15					
4	Were the objectives of the substantive analytical procedures clearly defined?	Par. 3.6	ISA 520 par. 12					
5	Were the procedures correctly executed?	Par. 3.6	ISA 520 par. 4 - 6					
6	Was the correct conclusions reached?	Par. 3.6	ISA 520 par. 13					
J	EVALUATION OF RESULTS							
1	Are errors found when sampling appropriately considered?	Par. 3.5	ISA 530 par 54 – 56					
2	Are summaries of audit differences prepared and the aggregated effect of the differences evaluated?	Par. 3.5						

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
3	Does the auditor responsible for the audit review the summary of audit differences?	Par. 3.5						
K	AUDIT WORKING PAPERS:							
1	Are, well supported, conclusions stated for each component audited?	Par. 3.5.5 to 3.5.6	ISA 230 par 11 ISSAI 1230					
2	Is there evidence of audit objectives having been met in each procedure?	Par. 3.5.5 to 3.5.6	ISA 230 par 15 ISSAI 1230					
3	Are financial statement amounts readily traceable to a respective account balance?	Par. 3.5.5 to 3.5.6						
4	Are adjusting entries adequately supported by the working papers and cross-referenced to appropriate schedules?	Par. 3.5.5 to 3.5.6	ISA 230 par 15 ISSAI 1230					
5	Is there adequate support in the working papers for all the information contained in the notes to the financial statements?	Par. 3.5.5 to 3.5.6	ISA 230 par 15 ISSAI 1230					
6	Generally do the working papers: <ul style="list-style-type: none"> ▪ Include indexing/signatures and dating by preparer and reviewer? ▪ Indicate the meanings of audit tick marks? ▪ Indicate source of information? ▪ Indicate the purpose of photocopied documents? ▪ Containing memoranda or other evidence covering significant and unusual accounting and reporting matters? ▪ Indicate that all schedules, prepared by the audited entities, have been cast and cross cast? 	Par. 3.5.5 to 3.5.6	ISA 230 par 15 ISSAI 1230					
7	Are all queries and exceptions arising from audit tests adequately explained and resolved?	Par. 3.5.5 to 3.5.6	ISA 230 par 15 ISSAI 1230					
8	Where appropriate do the audit working papers have evidence of consultation procedures with those who have appropriate expertise?	Par. 3.5.5 to 3.5.6	ISA 230 par 15 ISSAI 1230					
L	REVIEW							
1	Do the audit working papers demonstrate adequate manager involvement in planning/supervision/review process of the audit?	Par. 3.2.3	ISA 220 par 21 -27 ISSAI 1220					

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
M	OTHER AUDIT CONSIDERATIONS							
1	Were adequate procedures designed in respect of auditing the budgetary process of the audited entities?	Par. 3.6.4	ISA 250					
2	Are events subsequent to the financial statement date adequately documented and are significant events considered for disclosure/?	Par. 3.5	ISA 560					
3	Are management representation letters obtained, signed by the appropriate members of management, or other forms of representation obtained?	Par. 3.5	ISA 580					
4	Was there adequate communication with the audited entities throughout the audit (audit steering committee meetings)?	Par. 3.5	ISA 230 par 15 ISSAI 1230					
O	COMPLIANCE WITH LAWS AND REGULATIONS							
1	Were adequate procedures designed and executed to be able to express an opinion on the compliance with laws and regulations?	Par. 3.5	ISA 250					
P	REPORTING							
1	Are the financial statements properly presented and intelligible and do they meet the applicable standards?	Par. 4.0.1 to 4.0.29	ISA 200 par 2					
2	Are the notes to the financial statements in accordance with professional standards and sufficient and appropriate in the circumstances?	Par. 4.0.1 to 4.0.29	ISA 200 par 2					
3	Are the accounting policies and the nature and effect of any changes therein clearly disclosed in the financial statements?	Par. 4.0.1 to 4.0.29	ISA 200 par 2 & ISA 700 par 14					
4	Are the audit reports in accordance with the applicable standards?	Par. 4.0.1 to 4.0.29	ISA 700					
5	Were procedures performed to ensure the completeness of financial statements?	Par. 4.0.1 to 4.0.29	ISA 700 par 14					
6	Were aspects or deficiencies for follow-up during the next audit identified and documented properly?	Par. 4.0.1 to 4.0.29						
7	Was there a management letter for discussion with the management of the Audited entity?	Par. 4.0.1 to 4.0.29						
8	Does the management letter set out:							

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
	<ul style="list-style-type: none"> - The problem, its nature and possible consequences? - Practical and cost-effective recommendations? - Reference to verbal or informal queries? - Any un-finalised matters from the previous year's letters? 	Par. 4.0.1 to 4.0.29						
9	Did a member of management sign the management letter?	Par. 4.0.1 to 4.0.29						
10	Were all significant matters identified in the management letter addressed in the Audit Report?	Par. 4.0.1 to 4.0.29						
11	Was the legal basis identified in the report to the Audited entity?	Par. 4.0.1 to 4.0.29						
12	Was the audit report submitted in good time in accordance with the set target dates?	Par. 4.0.1 to 4.0.29	ISA 700					
13	Were the reasons for late submission valid?	Par. 4.0.1 to 4.0.29						
14	<p>Had the following been confirmed prior to disclosure:</p> <ul style="list-style-type: none"> ▪ That information, which is made public, is properly backed-up by supporting documentation. ▪ That the facts, which are made public, are properly presented for the sake of the necessary transparency, openness and accessibility. ▪ That the level of disclosure is properly defined, for example, is it an interim, final or special audit report. 	Par. 4.0.1 to 4.0.29						
	<ul style="list-style-type: none"> ▪ That the accounting officer concerned is informed in writing about the information that will be made public. 							
15	<p>Generally, do the audit working papers, the audit procedures undertaken, and the results of the audit procedures support and confirm the audit opinion furnished?</p> <p>In my opinion, based on the review performed, the audit was performed with due care.</p>	Par. 4.0.1 to 4.0.29						

	Description	INTOSAI Ref.	ISA /ISSAI Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
Q	CONTRACTING OUT							
1	Was an engagement letter issued to the audit firm stipulating their responsibilities?							
2	What measures had been taken to establish proper communication channels between the controller and the firm?							
3	Did the controller approve the audit plan after proper review thereof?							
4	Were all changes to the audit plan approved by the controller?							
5	Did the controller ensure that the auditing standards were complied with? Did the controller perform an overall review of the work performed by the firm?							
6	Did the controller adequately monitor the audit costs?							
7	Was the budgetary process evaluated?							
8	Was adequate work done on the compliance with laws and regulations?							
9	Did the controller ensure that copies of the relevant audit files were retained or available?							
R	FRAUD AND ERROR							
1	Where indications of fraud were discovered during the audit, was it adequately followed up?	Par. 3.4.1	ISA 240					
S	RELATED PARTIES							
1	Were audit procedures designed to obtain sufficient audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements?	Par. 2.2.31	ISA 550					
T	USING THE WORK OF ANOTHER AUDITOR							
1	Were the work performed by other auditors, properly evaluated and taken into consideration during the current audit. (Computer audit, Performance audit and Forensic audit)	Par 3.1.3 (h)	ISA 600					

Examples of substantive procedures for the review Public Enterprises' audit files

		INTOSAI Ref.	ISA Ref.	YES	NO	N/A	Comments (Describe the brief explanation of findings and link it to next template which showed the next Appendix)	WP Ref.
U.	EXAMPLE OF SUBSTANTIVE PROCEDURES FOR PUBLIC ENTERPRISES							
a.	Long term liabilities							
1.	Has third party confirmation been obtained in respect of all long-term amounts owing?	Par. 3.5	ISA 500 par 15					
2.	Are long term liabilities within the audited entities permitted borrowing powers?	Par. 3.5						
3.	Are the lender's terms being complied with in respect of the long term liabilities?	Par. 3.5						
b.	Fixed Assets							
1.	Is there evidence that a fixed assets register has been properly maintained?	Par. 3.5	ISA 500 par 15					
2.	Is the nature and extent of tests in respect of fixed assets appropriate in respect of: <ul style="list-style-type: none"> ▪ Additions and disposals of fixed assets ▪ Ownership and physical existence ▪ Transactions before and after the balance sheet date to determine that a proper cut off has taken place ▪ The balances of fixed asset and related accounts 							
3.	Were leases reviewed and do the working papers establish that leases were properly accounted for (e.g. Capitalised if appropriate, income or expense agreed to lease, etc.)?	Par. 3.5	ISA 500 par 15					
4.	Were title deeds inspected in respect of property ownership?	Par. 3.5	ISA 500 par 15					
5.	Were original external confirmations obtained for all material assets and liabilities where appropriate? (Refer to 5.1.3 Vol. IV (2) Part 2, Section 3). If not, what alternative procedures were performed with regard to the verification of material assets and liabilities?	Par. 3.5	ISA 500 par 15					

c.	Investments							
1.	Do the working papers show that details were examined in respect of: 1. Purchase price/date 2. Changes during the year 3. Market Value at year end	Par. 3.5	ISA 500 par 15					
2.	Was information obtained and evaluated with regards to purchases and sales before and after the year-end so that a proper cut off was achieved?	Par. 3.5	ISA 500 par 15					
3.	Were appropriate calculations of investment income checked and correlated with recorded income?	Par. 3.5	ISA 500 par 15					
4.	Was adequate consideration given to current vs. long-terms classification of investment?	Par. 3.5	ISA 500 par 15					
d.	Inventories							
1.	Did the client perform a year en stock take?	Par. 3.5	ISA 500 par 15					
2.	Do the audit working papers properly reflect attendance at and evaluation of the client's stock take, including: ▪ The timing and extent of stock take observation ▪ Test counts and related follow ups	Par. 3.5	ISA 500 par 15					
	▪ Conclusions as to the adequacy of the stock count procedures ▪ Consideration given to counting or confirming consignment stock or stock held by others ▪ Where the stock take in taken at a date other than the balance sheet date was adequate consideration given to stock transactions between the stock take date and the balance sheet date ▪ If perpetual stock records are maintained are differences disclosed by the client's physical stock properly reflected in the account							
3.	Were cut off tests performed and appropriately documented?	Par. 3.5	ISA 500 par 15					
e.	Debtors / Accounts Receivable							
1.	Were tests performed to confirm the existence of debtors	Par. 3.5	ISA 500 par 15					

2.	Were cut off tests performed and appropriately documented as to credit notes, cash receipts and returns?	Par. 3.5	ISA 500 par 15					
3.	Was the reasonableness of the provision for doubtful accounts and write-offs adequately and appropriately covered in the working papers?	Par. 3.5	ISA 500 par 15					
4.	Are other accounts receivable adequately verified?	Par. 3.5	ISA 500 par 15					
f.	Creditors / Accounts Payable							
1.	Do the audit working papers indicate that source documents were examined?	Par. 3.5	ISA 500 par 15					
2.	Do the audit working papers indicate that adequate confirmation coverage was made and documented, or examination of suppliers' statements when considered appropriate, including zero balances and/ or unreasonable or unexpectedly low balances?	Par. 3.5	ISA 500 par 15					
3.	Were cut off tests performed and appropriately documented as to purchases and disbursements, including a search for unrecorded liabilities?	Par. 3.5	ISA 500 par 15					
4.	Were the tests of balances of the accrued liabilities adequate?	Par. 3.5	ISA 500 par 15					
5.	Are other current liabilities adequately verified?	Par. 3.5	ISA 500 par 15					
g.	Cash flow information							
1.	Have the appropriate cash inflows and cash outflows been properly recorded in the cash flow Statements?	Par. 3.5						
2.	Is there evidence on the file that the cash flow statement was audited?	Par. 3.5	ISA 500 par 15					
3.	Was other information, included in the financial statements, verified to determine if any inconsistencies exist?	Par. 3.5						

Notes: 1. Items F1-9 under the head "Information System and Environment" is withheld until the Government of Nepal and Office of the Auditor General introduced computer based accounting and auditing system.

2. Items Q1-9 under the head "Contract Out" is used only when QA review is conducted for Public Enterprises.

3. Different items of under head "Examples of Substantive procedures for public enterprises are only used in the QA review of Public enterprises audit files.

Appendix 18**(Related to Chapter 4 Paragraph 4.2.2.4)****INDIVIDUAL FINDING RECORDING FORM**

Name of Reviewer		Signature		Date	
Financial year		QAQ reference			
Reviewing object name					
Name of Director/ Audit Officer		Signature		Date	
Conducting Financial audit phase (circle please)			Planning/ Conducting/ Reporting		
WP No		WP ref No			

Observation:

Insert the observation here

Cause

Write the reason of observation including the sub element reference

Effects:

Write down impact of observation

Feedback from the Director / Audit Officer

Insert the feedback here

Recommendation

Insert recommendation

INDIVIDUAL FINDING RECORDING FORM AT THE FINANCIAL AUDIT LEVEL
FINDING RECORDING FORM AT THE FINANCIAL AUDIT LEVEL

Name of Reviewer	A	Signature		Date	31.10.2008
Financial year	2007	QAQ reference	C1		
Reviewing object name	Agency of secondary education				
Name of Director/Audit Officer	B	Signature		Date	01.11.2008
Conducting Financial audit phase (circle please)	Planning/ Conducting/ Reporting				
WP No	RW08-1	WP ref No	R – 3		

Observation:

INTOSAI Standards paragraph 3.1.3 (k), International Auditing standards 300 paragraph 2, 8 & 9 and International Standards of Supreme Audit Institution 1300 require working papers to include a planning memorandum.

Although the OAGN methodology requires the preparation of planning memorandum, there was no planning memorandum on file. There was no indication that a plan was prepared before the execution of the audit.

Cause

During the period under review the OAGN was under pressure to meet the statutory deadline and teams were going out for audits without preparing audit plans and there was no proper supervision. Last year the report was produced six weeks after the deadline.

Effects:

Objectives of the audits may not be achieved due to lack of planning and this may result in wastage of resources.

Feedback from the Director/ Audit Officer

The observation is noted and we make all the necessary effort to prepare audit plans and place them on file.

Recommendation

The OAGN should develop an operational plan that considers all resource requirements and allocates sufficient resources to enable audit teams to conduct their audits efficiently and effectively. Adherence to the operational needs should be monitored by the supervisors.

Appendix 19

(Related to Chapter 4 Paragraph 4.2.2.4)

QUALITY ASSURANCE REVIEW RECORDING FORM

1. TERMS OF REFERENCE

A. Positive observation

Summary of the Key Positive Aspects from the Review

B. Areas for improvement

QAQ reference	Observation	Causal Factors Sub-element	Effects	Recommendations	Director/ Audit Officer Comments

2. PLANNING

A. Positive observation

Summary of the Key Positive Aspects from the Review

B. Areas for improvement

QAQ reference	Observation	Causal Factors Sub-element	Effects	Recommendations	Director/Audit Officer's Comments

3. EXECUTION PHASE

A. Positive observation

Summary of the Key Positive Aspects from the Review

B. Areas for improvement

QAQ reference	Observation	Causal Factors Sub-element	Effects	Recommendations	Director/Audit Officer's Comments

4. REPORTING PHASE

A. Positive observation

Summary of the Key Positive Aspects from the Review

B. Areas for improvement

QAQ reference	Observation	Causal Factors Sub-element	Effects	Recommendations	Director/Audit Officer's Comments

Signed by

Date

SAMPLE: QUALITY ASSURANCE REVIEW RECORDING FORM**1. TERMS OF REFERENCE****A. Positive observation**

Copy of audit engagement letter was attached in audit file and it confirmed the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of reports.

B. Areas for improvement

QAQ reference	Observation	Causal Factors Sub-element	Effects	Recommendations	Director/Audit Officer's Comments
A1	There are no documents demonstrating compliance with Code of Ethics and assessment of the audit team competency.	Office does not have specific policy to assess the competency of staff before assigning the audit engagement and system of evaluating the compliance of Code of Ethics. No any guidance was given in this regard. <i>Internal Governance</i>	The audit management did not know whether they had assigned competent team to the audit.	The OAGN needs to establish the policy of objective assessment of the competency of the available manpower in the Directorate before assigning audit. There should be proper documentation of competency assessment and competency. OAGN should create a roster of its manpower considering the expertise based on each sector and nature of audit. The assessment and monitoring policy needs to be formulated recognizing the requirement of the Code of Conduct.	The policy of objective assessment of the competency of the available manpower within the respective Directorate will be formulated

2. PLANNING

A. Positive observation

Materiality logically determined and well documented according to the IAS.

B. Areas for improvement

QAQ reference	Observation	Causal Factors Sub-element	Effects	Recommendations	AAG/ Director Comments
C.1	There was no planning memorandum on file. There was no indication that a plan was prepared before the execution of the audit.	During the period under review the OAGN was under pressure to meet the statutory deadline and teams were going out for audits without preparing audit plans and there was no proper supervision. Last year the report was produced six weeks after the deadline. <i>Internal governance</i>	Objectives of the audits may not be achieved due to lack of planning and this may result in wastage of resources.	INTOSAI Standards paragraph 3.1.3 (k) and International Auditing standards 300 paragraph 2, 8 & 9 and International Standards of Supreme Audit Institution 1300 require working papers to include a planning memorandum. It would be good for the OAG to come with a proper operational plan that will cater for all resource requirements and enable audit teams to conduct their audits efficiently and effectively. Adherence to the operational needs should be monitored by the supervisors.	The observation is noted and we make all the necessary effort to prepare audit plans and place them on file.
H.5	The risk assessment did not evaluate the significance of the risks identified and the audit procedures did not clearly respond to the risks identified.	There is no manual or technical guidance related to risk assessment. <i>Audit methodology and standard (Manual and Guidance)</i>	The audit programs might lead to ineffective audit execution.	OAGN should prepare manual for the implementation of the risk assessment concept of guideline. Process, toolkit and checklist for risk assessment need to be defined in the manual;	OAGN has felt the necessity of developing manual, format and toolkit for risk and internal control assessment. Due to resources constraint OAGN has yet to develop such document.

D-6	Audit procedures in audit program appear to be inadequate to attain the audit objective.	<p>The audit programs were not updated in case additional or alternative audit procedures were undertaken during and upon completion of the audit.</p> <p><i>Audit Methodology (Tools)</i></p> <p><i>Human Resource (Training)</i></p>	The audit procedures may not attain the audit objectives.	As audit progresses, changes due to additional audit procedures should be reflected in the audit program	The audit team leader will ensure that such changes are fully demonstrated in the future.
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Signed by

Date

Appendix 20
(Related to Chapter 4 Paragraph 4.2.3)
Sample Template of draft report

FINANCIAL AUDIT REVIEW REPORT
TABLE OF CONTENTS

INTRODUCTION

APPROACH AND METHODOLOGY

OBSERVATIONS

1. Terms of reference
2. Planning
3. Execution
4. Reporting
5. General

Overall conclusion

Management response

INTRODUCTION

Please insert the background information

APPROACH AND METHODOLOGY

Please insert the main data gathering techniques

Limitations, if any, of the approach

OBSERVATIONS

1. Terms of reference

Positive observation

Areas for improvement

Observation:

Effects:

Casual factors sub elements:

Recommendation:

2. Planning

Positive observation

Areas for improvement

Observation:

Effects:

Casual factors sub elements:

Recommendation:

3. Execution

Positive observation

Areas for improvement

Observation:

Effects:

Casual factors sub elements:

Recommendation:

4. Reporting

Positive observation

Areas for improvement

Observation:

Effects:

Casual factors sub elements:

Recommendation:

5. General

Positive observation

Areas for improvement

Observation:

Effects:

Casual factors sub elements:

Recommendation:

OVERALL CONCLUSION

MANAGEMENT RESPONSE

Appendix 21

(Related to chapter 5 paragraph 5.3)

QAR Plan of performance audit

- 1. Background**
 - a. Background of topic reviewed**
 - b. Audit period**
 - c. Audit Objectives**
 - d. Audit Scope**
 - e. Audit Methodologies used**
 - f. Audit team members and Team Leader**
 - g. Numbers of Audit Findings**
- 2. Objective of QAR**
- 3. Approach and Methodology of QAR**
- 4. Key Areas to be Reviewed**
- 5. QAR Team**
- 6. QAR Timing**
- 7. QAR Budget**

Prepared by:

Date:

Approved by:

Date:

Sample QAR Plan

OFFICE OF THE AUDITOR GENERAL
QUALITY ASSURANCE REVIEW PLAN OF
PERFORMANCE AUDIT

.....

1. Background of the audit to be reviewed :

..... Project lies in part of Nepal. Project aims to..... Project started from fiscal year..... With an estimate cost of NRs but presently this cost is assumed to amounting NRs..... and incurred NRs till fiscal year.....

- a. **Audit period:** Performance audit of this project is carried in year ... by Performance Audit Division (PAD).
- b. **Audit Scope:** Analysis of detailed feasibility study, cost estimation, operation, headworks construction, project management, monitoring and evaluation system of the project .Progress evaluation and analysis of operational activities and related data of the project since project commencement i.e.2001/02 to 2008/09.
- c. **Audit team Leader, members and their qualifications**

S.N.	NAME	POSITION	QUALIFICATION

2. Objectives of the Quality Assurance Review

The main objective of quality assurance review is to evaluate compliance of performance audit guide and instructions in audit planning, executing or conducting, reporting and follow up period that indentify the gaps between intended and actual performance and suggest for implementation of guide and instruction.

3. Approach and Methodology of the Quality Assurance Review

In order to quality assurance review process the main focus will be concentrated to review the documents which are collected in auditing process either in permanent or current audit files. Documentation review will be based on Quality Assurance Review Questionnaire for individual performance audit. Likewise additional queries, interview and meeting might be held with audit team on the matters of insufficient QAR Questionnaire.

4. Key areas to be reviewed

Following key areas are indentified to review.

Key Areas	Activities to be performed	Methodologies to be used
Performance Audit Manual and Guidance	Existence of written performance audit manuals, guidance and instructions.	Document review
	Approved PA manual, guidance is aligned to international good practices.	Document review

	Policies and procedure to recruit personnel for SAI.	Document review
Compliance of Ethical Requirements	PA team member's conflict of interest, if any,	Document review and discussion with Management
	PA team members close affiliations with the management or operational activities of an audited entity.	Document review and discussion with Management.
Strategic Performance Audit Planning	Existence strategic plan for PA.	Document review
	Criteria to be followed to select audit topic and approval from Central Co-ordination Unit(CCU)	Document review
	Alignment between PA strategic plan and OAGN strategic plan.	Document review
	Determination of engagement of OAGN personnel or External expert.	Document Review.
	Selection of qualified , competent , independent external expert	Document Review.
	Monitoring and review mechanism and proper supervision at each stage of audit.	Document review.
	Documentation of supervision, monitoring and review.	Document review
Planning stage	Conduction of preliminary survey.	Document Review i.e. Information collection form.
	Adequate knowledge or understanding of audited entity or topic.	Document review
	Risk assessment procedure followed by audit team and evaluation of risk i.e. High, Medium and Low.	Document Review i.e. Process analysis Template and Risk assessment process
	Defining audit objectives for Key issues /Line of audit enquiry /Matters of Potential Significance	Document review
	Identification of audit scope.	Document review
	Assessment of audit criteria (Matter of Potential Significance-MOPS) and relevancy with audit objectives with clear sources.	Document review
	Communication of audit objectives, scope, criteria, timing, duration, audited entity to be visited.	Document review
	Appropriate audit method/techniques/procedure for gathering information.	Document review

	Preparation of Overview Report and Audit plan in prescribed format and approval	Document Review Format approved by PA division.
Conducting stage	Preparation and approval of audit program	Document Review i.e. Work Program Format.
	Changes in course of approval plan	Document review
	Collection of sufficient ,relevant and competent evidence and documentation	Document review
	Performance evaluation of audited entity.	Document review
	Techniques used for gathering evidence	Document Review , Discussion with audit team .
	Developing audit findings comparing criteria, condition, causes and consequences.	Document review
	Entry conference with the audited entity's management to discuss about its objectives, scope and timing; To meet with key audited entity staff and establish suitable liason arrangements.	Document review
	Monitoring audit progress	Document review PA Progress record form and report.
	Documentation of working paper ,documents and evidence	Document Review Audit File Documentation and Audit Review Form .Review paper as per audit tool 1 to 12.
Reporting stage	Discussion on draft preliminary findings with audited entity's appropriate and responsible level	Document review Exit conference meeting minute
	Consideration of audited entity's response	Document review
	Methodologies to be used such as criteria, condition, causes and consequences in every findings of audit.	Document review
	Recommendation based on findings and related with objectives and practical accordingly	Document review
	Evaluation of collected evidence with related findings	Document review
	Cross reference of evidence with finding.	Document review

	Reader friendly language	Document review
	Issuance of report in time	Document review
Follow up	Written response from audited entity.	Document review
	Designate a competent officer to review responses	Document review
	Review of Public Accounts Committee directions and recommendations on PA report	Document review
	Regular follow up audit.	Document review
	Areas to be covered when follow up	Document review
	Time given to implement. Audit findings and recommendations	Document review
	Documentation of monitoring report	Document Review Annual Report, Response & Decision made by management, Public Account Committee instructions if any.

5. Resources

a. QAR team members and Team Leader

S.N	NAME	POSITION	QUALIFICATION

b. Milestones and deadlines

Review work will be done in following Manner

S. No	Activities	Responsible person	Time frame

6.

7. QAR Budget:

Appendix 22**(Related to chapter 5 paragraph 5.5 (2))****Performance Audit Methodology Check Questionnaire**

DIRECTORATE	
AUDITED ENTITY/PROJECT/PROGRAMME	
PERIOD COVERED	
REVIEW COMMENCED ON	
REVIEW COMPLETED ON	
FINDINGS DISCUSSED ON	
NAMES OF REVIEWERS	

If the finding to a particular question is positive, a tick should be inserted in the “YES” column.

If the finding is negative, a tick should be inserted in the “NO” column, followed by an appropriate reason / explanation in the remarks column. In such an instance, reference should be made to either the minutes of the discussion of the findings with management and/or the final QAR report.

Instances may be found where the answer to a question is “NO”, but that the situation was still within the scope of ISSAIs (e.g. non-compliance with Office Standards/Methodology/Guidelines, although still within scope of ISA/INTOSAI). This should be clearly be spelt out and reported accordingly.

If a question is not applicable, a tick should be inserted in the N/A column, together with an adequate explanation.

The “Comments” column may be used to record such issues as additional information required, the likely sources of that information and actions to be taken to get the information. Please see example against item A.1 below.

All items should, as far as possible, be referenced to the relevant working papers in the PA audit files.

QARQ Code	Description	ISSAI/ASOSAI PA Guidelines/PAG Ref.	Yes	No	Partly	N/A	WP Ref.
Part 1: Ethical requirements							
A Ethical requirements of Auditors							
1.	Is there documentation to assure that none of the PA team members have any conflict?	ISSAI 20 Principle 4, ISSAI Para 17, 22-26, ISSAI 200 Para 2.31					
2.	Have there been any instances of PA team members participating in the management or operations of an audited entity, such as by becoming members of management committees, etc? (If yes, this will negatively affect auditor independence and should reported by the QA team in their report)	ISSAI 200 Para 2.28					
PART II: Quality Controls at each stage of the Performance Audit Process at the Individual Level							
B Planning Stage							
1.	Did the audit team conduct a pre-study (preliminary study) to establish whether conditions existed for a more comprehensive performance audit of the selected topic?	ISSAI 3000 Para 3.3 page 47; ASOSAI PA Guidelines Para 3.16					
2.	Is the background information of topics to be audited is collected and documented?	PAG 31.1,31.2, 31.3, 31.4,31.5					

3.	Is there documentation to establish that the audit team obtained adequate understanding audited agency/project, including its IT systems if any?	ISSAI 300 Para 1.3 (a) & (b), ISSAI 300 Para 1.4 (a), ISSAI 3000 Para 3.3 pages 51-52, ASOSAI PA Guidelines Para 3.11					
4.	Is there documentation to establish that the audit team performed proper risk assessment and operational process analysis of the selected agency/project, including IT system related risks, if relevant?	ISSAI 300 Para 1.4 (a), PAG 32.2,32.3					
5.	Did the audit team identify key issues /lines of audit enquiry/Matters of Potential Significance (MOPS) based on the above risk assessment to ensure that appropriate attention is devoted to important areas of the audit?	ISSAI 3000 Para 3.3 page 48, ASOSAI PA Guidelines Para 3.4,PA Guide 32.2,32.3,32.4					
6.	Did the audit team define appropriate audit objectives for each key issue/line of enquiry?	ISSAI 300 Para 1.3 (d) & 1.4 (b), ISSAI 3000 Para 3.3 page 48, ASOSAI PA Guidelines Para 3.5-3.7,PA Guide 32.5					
7.	Did audit team identify the scope of the audit?	ISSAI 300 Para 1.4 (b), ISSAI 3000 Para 3.3 pages 49-50,PA Guide 32.6					
8.	Did the audit team define appropriate audit criteria to focus the audit and to provide a basis for developing audit findings?	ISSAI 3100 Para 13,PA Guide 32.7					

9.	Were the audit criteria <ul style="list-style-type: none"> • Reasonable, • Reliable, • Objective, • Useful, • Understandable, • Comparable, • Complete and • Acceptable and attainable? 	ISSAI 3000 Para 3.3, footnote at page 52 ASOSAI - PA guidelines Para 3.22					
10.	Were the audit criteria relevant to the audit objectives for each key issue/line of audit enquiry?	ASOSAI PA Guidelines Para 4.2					
11.	Were the audit criteria arranged in a logical manner so that the audit examination could be conducted as efficiently as possible?	ASOSAI PA Guidelines Para 4.2					
12.	Were audit topic, objectives, scope and criteria communicated to the audited entity?	ISSAI 3100 Para 18					
13.	Were appropriate auditing methods/techniques/procedures determined for gathering information to test each audit criteria?	ISSAI 3000 Para 3.3 page 54, ASOSAI PA Guidelines Para 4.4					

<p>14.</p>	<p>Did the overview report prepared by audit team includes complete information such as</p> <ul style="list-style-type: none"> • Background information • Policy • Laws • Objectives and target • Financial review • Operational status of project/program • Segment operational model • Audit objectives, • Audit scope, • Lines of audit inquiry • Personnel engagement • Recommendation whether to continue or terminating the audit? 	<p>ISSAI 300 Para 1.3 & 1.4 ASOSAI, PA guidelines Para 4.28 to 4.30, P A Guide 31.7</p>					
<p>15.</p>	<p>Did the audit plan include complete information such as</p> <ul style="list-style-type: none"> • Audit objectives for each MOPS • Audit criteria to used for each audit objectives • Audit scope • Approach to audit with details • Manpower • Estimated working man days • Detailed time and work schedule? 	<p>ISSAI 300 Para 1.3 & 1.4 ASOSAI, PA guidelines Para 4.28 to 4.30, P A Guide 32.10</p>					

16.	Was the Overview Report and Audit plan was approved by appropriate authority in prescribed format?	ISSAI 200 Para 1.24					
C Conducting Stage							
1.	Did the Audit programme is prepared and approved in prescribed format	P A Guide 40.5					
2.	Did the audit team conduct the audit as per approved audit plan and programme?	ISSAI 300 Para 2.3(c)					
3.	In case of deviation from approved audit plan, were authorisations obtained from the competent authority?	ISSAI 300 2.3 Para (c)					
4.	Did the audit team recorded the audit test procedure and techniques used for gathering audit evidence?	P A Guide 40.4,40.6,40.9, 40.10,40.11 & 40.12					
5.	Did the audit team assess the performance of the audited entity such as financial and non financial performance analysis?	P A Guide 40.8					
6.	Did the audit team collect competent, relevant and sufficient evidence for testing each audit criteria?	ISSAI 300 Paras 5.1 & 5.4, ISSAI 3000 Para 4.2 page 61, ASOSAI PA Guidelines Paras 5.6 & 5.7					
7.	Did audit team develop audit findings by relating criteria to actual conditions observed during audit?	ISSAI 3000 Para 4.3 page 63, ASOSAI PA Guideline 4.31 & 4.32,PAG 50.7 & 50.8					

8.	Did the audit team assess the likely consequences of the audit findings? (This will help the audit team prioritize the audit findings and decide which ones to include in the PA report)	ISSAI 3000 Para 4.3 page 64, ASOSAI PA Guidelines Para 4.36					
D	Reporting Stage						
1.	Did audit team discuss preliminary audit findings with audited entity's management to obtain their comments by such means as organising exit conference?	ISSAI 3000, appendix 4, page 118, ISSAI 3100 Para 34, ASOSAI PA Guidelines Para 6.12, & 8.12					
2.	After the exit conference, was the audit report prepared after taking into account the audited entity's responses?	ASOSAI PA Guidelines Para 6.13					
3.	Did audit team develop audit recommendations based on criteria, condition, causes and consequences of the audit findings?	ISSAI 3000 Para 4.3 page 63, ASOSAI PA Guidelines Para 4.35					
4.	Does the audit report clearly describe the financial, administrative and managerial context within which the area examined was carried out?	Appendix to ISSAI 3100 Para 5.3 page 15					
5.	Were the collected evidence appropriately presented and used including graphics and statistics?	Appendix to ISSAI 3100 Para 5.3 page 15					
6.	Were the audit scope, objectives, audit criteria, methodology, findings, recommendations clearly mentioned on the audit report?	ISSAI 3100 Para 30, ASOSAI PA Guidelines Para 6.16, PAG 50.5 & 50.6					

7.	Was the language used in the audit report reader-friendly, well structured and unambiguous?	ISSAI 3100 Para 31					
8.	Did the audit report describe relevant facts and findings sufficiently to allow readers to understand the basis upon which the audit observations have been formed?	ASOSAI PA Guidelines Para 6.18					
9.	Did the recommendations address the audit objectives?	ISSAI 3100 Para 32, ASOSAI PA Guidelines Para 4.39					
10.	Were the audit recommendations presented in a logical fashion?	ISSAI 3100 Para 32 ASOSAI PA Guidelines Para 4.38					
11.	Did the recommendations address significant issues?	ASOSAI PA Guidelines Para 4.38					
12.	Were the recommendations practical?	ISSAI 3100 Para 32, ASOSAI PA Guidelines Para 4.39					
13.	Did the recommendations serve to add value by helping to improve the audited entity's functioning?	ISSAI 3100 Para 32, ASOSAI PA Guidelines Para 4.39					
14.	Where an audit report names specific persons or organizations, were comments sought from those parties whose reputations or interests	ASOSAI PA Guidelines Para 6.19					
15.	Was the audit report is prepared constructive and balanced by mentioning good practices adopted by the Audited entity?	ISSAI 3100 Para 31, ASOSAI PA Guidelines Para 6.21					

16.	Were all findings and conclusions included in the final report defensible, that is, supported by competent, relevant and sufficient audit evidence?	ISSAI 3100 Para 31, ASOSAI PA Guidelines Para 6.21					
17.	Was the audit report issued in time?	ISSAI 3100 Para 31, ASOSAI PA Guidelines Para 6.21,PAG 50.9					
18.	Does the audit report indicate that the audit been successful in meeting its objectives and providing useful information to improve public services?	Appendix to ISSAI 3100 Para 5.3 page 15					
E Follow-Up Stage							
1.	Is audited entity submitted written response on the findings and recommendations presented in office of the auditor general's preliminary report within 35 days of its submission?	P A Guide 80.4.2 & 80.5					
2.	If yes, is the Assistant Auditor General designate a competent officer to review the management response and to evaluate additional evidence, if any, and that officer submitted review note to AAG?	P A Guide 80.4.2					
3.	Has the Office of the Auditor General the responsibility of reviewing the actions taken on the Public Accounts Committee's directives and recommendations and report progress to the parliament?	P A Guide 80.4.3					

4.	Is the performance Audit Division has selected sample cases to provide judgement on sufficiency of the action taken and improvements observed?	PAG 80.6 & 80.7					
5.	Were follow ups done only after considering whether the impact of follow up was expected to outweigh the costs of follow up?	Appendix to ISSAI 3100, Para 5.5, ASOSAI, PA guideline, Para 7.7					
6.	If it was considered appropriate to conduct a follow up for the particular performance audit, did the follow up focus on whether audited entity's actions on the audit recommendations helped remedy the underlying causes of the problems?	ISSAI 3100 Para 37, ASOSAI, PA guideline, Para 7.1					
7.	Was sufficient time allowed to the audited entity to implement appropriate actions before conducting the follow up audit?	ISSAI 3100 Para 36					
8.	Were the results of the follow up reported to provide feedback to the legislature or/and other relevant stakeholders?	ISSAI 3100 Para 37					
9.	Did the follow up report describe the impacts of the corrective actions taken by the audited entity?	ISSAI 3100 Para 37					
Part III: Overarching Quality Controls in the Performance Audit Process							
F	Supervision						

1	Was the audit work of the PA team properly supervised at each stage of the audit process by the team leader, Audit Director and Assistant Auditor General?	ISSAI 300, Para 2.1, 2.2 & 2.3, ISSAI 3100 Para 38, ASOSAI PA Guidelines Para 8.42 P A Guide 10.12					
2	<p>Did the Supervision ensure that the:</p> <ul style="list-style-type: none"> • PA team members had a clear and consistent understanding of the audit plan? • Audit was carried out in accordance with the auditing standards and practices of the SAI? • Audit plan and action steps specified in the plan were followed unless a variation was authorised? • Working papers contain evidence supporting all findings, conclusions and recommendations? • Audit team has achieved the stated audit objectives? • Audit report includes the audit conclusions and recommendations, as appropriate? 						
G	Review						
1	Was the audit work reviewed by a member of the staff senior to the staff responsible for supervising the audit?	ISSAI 300, Para 2.1 & 2.4 P A Guide 60.6					

H	Monitoring						
1	Did Team Leader and Director regularly monitor the progress of the audit to ensure both quality and achievement of milestones against agreed timelines and costs? (For complex audits, the SAI may consider appointing a steering committee to monitor progress of audit)	ISSAI 3000 Appendix 4 page 119, ISSAI 3100 Para 38, ASOSAI PA Guidelines Para 8.44 to 8.46					
2	Did the Team Leader and Director regularly submit the monitoring reports to the competent higher authority?	ASOSAI PA Guidelines Para 8.44					
I	Professional Competence						
1	Did all the audit team members understand the audit questions, the work assigned to each of them, and the nature of responsibilities required of them by the auditing standards?	ISSAI 3100 Para 38(a), PAG 30.5					
2	If audit was conducted in an IT environment, did the audit team possess the competence required for accessing and analysing electronic data?	ASOSAI PA Guidelines Appendix A,					
3	If external expert conducted audit, is there documentation to assure that the expert is independent, objective and non conflict of interest of activity?	ISSAI 3000 Para 2.3 page 40					

4	If an external expert is engaged, is there documentation to assure that selection of external expert is transparent and qualified for the particular performance audit engagement?	ISSAI 200 Para 2.43, ISSAI 3000 Para 2.3 page 40					
5	In case an external expert was engaged, were appropriate procedures applied to assure that the expert exercised due care, professional behaviour and judgement and complied with relevant standards?	ISSAI 200 Para 2.45					
J	Proper Documentation						
1	Do the working paper files contain all key documents such as audit tool 1 to 12 of PA Guide relating to each stage of the audit process (planning, conducting, reporting and follow up)?	ASOSAI PA Guidelines Para 5.40, P A Guide Audit Tool 1 to 12					
2	Were all evidences, supporting information and findings documented?	ISSAI 300 Paras 2.3(d) & 5.5, ISSAI 3000, Appendix 3 Para 4, P A Guide Audit Tool 1 to 12 & 60.5					
3	Was the documentation sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to ascertain from the documentation what work was performed by the PA team to support their conclusions?	ISSAI 300 Para 5.7, ASOSAI PA Guidelines Paras 5.41 & 5.45					

4	Were the working papers prescribed by OAG and properly organised with appropriate indexing and cross-referencing	ASOSAI PA Guidelines Para 5.46, 5.50, 5.51,PAG 60.3,60.4 & 60.6					
5	Were the working papers neat and legible so that they retain their value as audit evidence?	ASOSAI PA Guidelines Para 5.48					
6	Are the working papers restricted to matters which are materially important and useful in relation to the audit objectives	ASOSAI PA Guidelines Para 5.49					
K	Communications & Consultation with Audited entities						
1	Did the file contains the document that Team Leader and Director communicate to the audited entity relevant information about the audit to be taken up, such as audit objectives, timing, duration, audited entity offices to be visited, names and designations of the audit team members?	ISSAI 3000 Appendix 4 page 117					
2	Did the SAI hold an entry and exit conference with the audited entity's management to apprise them of the audit, its objectives, scope, timing, and to meet with key audited entity staff and establish suitable liaison arrangements?	ASOSAI PA Guidelines Para 8.9					
3	Were discussions conducted entry and exit conference with the audited entity was conducted to an appropriate and responsible level?	ASOSAI PA Guidelines Para 8.2					

4	Did the audit file contains the document that Team Leader and Director maintain regular contact with the audited entity management to ensure that audit objectives and issued are fully appreciated by the audited entity and to obtain audited entity management's views on high risk areas that audit should cover?	ASOSAI PA Guidelines Para 8.3					
5	Did the SAI or audit team have given the audited entity reasonable notice for commencement the audit and discussion at each stage of the auditing process?	ASOSAI PA Guidelines Para 8.6					

(Items # B13: Did the audit plan and programme include complete information such as background information about the audited entity, audit approach, key audit issues/lines of enquiry, audit objectives, audit scope, audit criteria, audit techniques/procedures, required resources and detail work schedule?)

(Items # B14: Was the audit plan approved by appropriate authority?)

A. Good practice

Audit team has documented audited entity business including the agency's strategic plan, legislation and legislative acts, ministerial statements, programme evaluation and identified their objective and sub objectives are clear and rational. Audit objective and sub-objectives are interrelated.

B. Areas for improvement

QARQ reference	Finding and related Domain and Element(s) of OAGN QMS Framework	Causal Factors	Effects (Likely consequences)	Recommendations	AAG/ Director Comments
B13	Audit programme did not contain complete information. <i>Audit standards, methodology and Performance: Audit Planning</i>	During the planning period, the team was under pressure to finalise another audit report and a new team member prepared the audit programme. Team leader and audit manager did not supervise and review properly.	Team performed their work inefficiently and it may affect quality of audit	Appropriate steps may be taken to ensure adequate supervision and review.	The observation is noted and we make all the necessary effort to prepare detailed audit programme and document them on file.
B14	The audit plan though reviewed by the Division Chief, Department Head and the Auditor General, did not get signed approval <i>Audit Standards,</i>	There was no policy in place at the time of this audit.	The audit plan could be changed to suit the auditors' needs and convenience as there is no documented approval to authenticate any subsequent	Audit Methodology Division should modernise Performance Audit standards based on ISSAI 200 and the team should obtain the approval of the	However, we were not granted approval Division chief, Department head reviewed the audit. We will follow our standards in

<i>Methodology and Performance: Standards</i>		changes made in the audit plan.	audit plan as outlined in International best practices (ISSAI 200 Para 1.24).	future.
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Part II. Section name: Performance Audit Reporting (Section D of QARQ)

(Items # D17: Was the audit report issued in time?)

A. Good practice

The audit was conducted in accordance with the OAGN Performance Audit guidelines and the practices of OAGN. The report was constructive and balanced. The report was appropriately presented with graphics and statistics and the issues were clear, logical, and reader friendly.

B. Areas for improvement

QARQ reference	Finding and related Domain and Element(s) of OAGN QMS Framework	Causal Factors	Effects (Likely consequences)	Recommendations	AAG/ Director Comments
D17	As per the initial plan the report was supposed to be issued in February 2009. However, the review team discovered that the report was issued in April 2009. <i>Results (Output and impact)</i>	Other ad-hoc and pressing assignment from management.	The recommendation may not add value in the case that the agencies have already framed their Policy.	The audit plan should be realistic and the report should be issued on time. The audit team should as far as possible reduce the burden of ad-hoc assignments for timely completion of the audit. If unavoidable circumstances arise, not all the audit team should be involved.	The Performance Audit Division have agreed to observation and agreed to Implement the recommendations.

Signed by

Date

Directives to prepare Quality Assurance Review Recording Form

Quality Assurance Review Questionnaire reference: The Quality Assurance Review Questionnaire (QARQ) reference has a combined reference consisting of:

- i) The reference number allocated to the relevant section of the completed QARQ, and
- ii) The different items checked on the QARQ. For example, if the reference allocated to the completed questionnaire is 'B' and question 'Did the audit team identify the scope of the audit?' (item #6 of section B in the QARQ sample) on file was observed during the review, the reference which should be recorded on the Quality Assurance Review Recording Form is B.6.

- a) **Positive observation:** Acknowledge the good practices of the audit team. A summary of the positive responses provided in the checklist should be given at the beginning of the report.
- b) **Negative observations:** Record all material negative observations precisely, including the nature and extent of the finding. The observation evolves from the reviewer's results against appropriate evaluation criteria, based on the requirements of quality standards defined in the checklist and using professional judgment based on the Reviewer's experience.
- c) **Effect (Likely Consequences):** The reviewer must also answer the question "What risk does the weakness expose?" The real or potential impact of both positive and negative observations is identified. Its significance can be judged in relation to the extent of risks that the OAGN may be exposed to as a result of compromising on quality and continuing with the current negative practice.
- d) **Clearing of findings:**
 - i. **Comments by the AAG/Director/ Audit Officer:** The reviewer obtains from the audit team or audit management through fact-finding interviews and discussions, comments on the observations raised on the Quality Assurance Review Form. As far as possible, the comments should include the position title of the OAGN staff with whom the discussions were held.
 - ii. **Causal factors:** The answer to the question "Why is there a deviation from requirements?" should be investigated. Through discussions with the Audit team / Management, the Reviewer would identify the underlying reasons for the satisfactory or unsatisfactory conditions or observations. The identification of the causal factors assists the reviewer in determining corrective action and may form the basis for the recommendations for needed action by the audit team or other organisation in the OAGN. All pertinent discussions and comments by the staff member of the Office must be recorded on the Quality Assurance Recording Review Form.
- e) **Recommendations:** The reviewer must then arrive at a conclusion as to "What should be done?" The recommendation flows from the cause previously identified in the finding. The reviewer should come up with appropriate and practical recommendations and record them on the Quality Assurance Review Recording Form.

The relationship among the recommendations, underlying observation and causal factors must be clear and logical. The recommendation must state what needs to be changed or rectified.
- f) **Name of reviewer:** The name of the reviewer who conducted the review and made the recommendation must be stated.
- g) **Signature and date:** The review team leader must ensure that all observations are completed, correctly stated, signed off and dated on the Form(s).

Appendix 24**(Related to chapter 5 paragraph 5.7.1)****QAR REPORT ON PERFORMANCE AUDIT****BACKGROUND INFORMATION OF THE REVIEW**

Please insert the background information of the Topic

OBJECTIVES AND SCOPE

Please insert the review work objectives and scopes

APPROACH AND METHODOLOGY

Please insert the main data gathering techniques

Limitations, if any, of the approach

OBSERVATIONS**1. Performance Audit Methodology**

Positive observation

Areas for improvement

Criteria: what should be? PAG, ISSAI, ASOSAI AQMS and ASOSAI PAG

Condition (Findings): what is?

Causes: What are the main causes of findings?

Effects:

Element of OAGN QMS Framework:

Recommendation and Responsibility: Related to Causes

Audit Team/Management Response:

2. As in QARQ 1 above, write for other QARQ accordingly.

OVERALL CONCLUSION

QAR Team:

1. BACKGROUND INFORMATION

The OAGN contributes to promoting transparency, accountability and good governance in the public sector. The OAG's mission is "To carry out high quality audit in a professional manner and to submit report to the Parliament that will help promote good governance in the public sector". Among the various strategies to achieve its mission, the Auditor General has established a quality assurance function to carry out regular quality assurance reviews.

2. OBJECTIVES OF QAR

The objective of quality assurance review was to assess compliance of Performance Audit Guide (PAG) and PAD instructions while carrying out PA of project in different stages of the audit planning, executing or conducting, reporting and follow up stage to identify the gaps between intended and actual audit performance in order to suggest for full compliance of PAG and instructions. Likewise current PA practice of OAG/N was compared with best international practices particularly performance audit methodology, ethical requirements of auditors, strategic performance audit planning and overarching quality controls in the performance audit process as envisaged in draft Quality Assurance Handbook on Performance Audit.

3. APPROACH AND METHODOLOGY OF QAR

The Quality Assurance Review was mainly conducted by reviewing the documents collected in the process of audit exercise which were maintained in the permanent and current audit files. This documentation review was based on Quality Assurance Review Questionnaire given in draft Quality Assurance Handbook on Performance Audit which is suggested for individual performance audit. Likewise, meeting and discussions were held with audit team member, Directors, Assistant Auditor General of Performance Audit Division and top management of OAG/N in different stages of review to get information and clarification.

OBSERVATIONS

Positive observation

OAG/N has PAG in place for implementation which has been developed on the basis of international good practices. OAG/N has selected the audit topics or issues on the basis of selection criteria and matrix as mentioned in the P A G and final list has been approved through the decision of Central Co-ordination Unit chaired by Auditor General. In the process of audit, audit team has prepared Overview report on the topic audited and audit plan in suggested format. The audit team has to a large extent followed the due process of conducting audit activities and prepared audit report in accordance with the approach and methodologies envisaged in the Guide.

Areas for improvement

1. Ethical requirements of the Auditors

Observation:

Criteria : International Standards on Supreme Audit Institution (ISSAI) 200 Para 2.28 and 2.31 has mentioned that there should be documentation to assure that none of the PA team members have any conflict of interest between the auditor and the entity under audit and PA team members close affiliations with the management of audited entity..

Condition: The audit file does not contain any sort of document related to declaration made on the part of audit team and condition of conflict of interest between the auditor and the entity under audit and close affiliations with management of audited entity.

Causal Factors: OAG/N has not made mandatory to declare and document the condition of conflict of interest and affiliations with management of audited entity.

Effects: Audit team may be impaired the independence of their work and creditability of OAG/N.

Element of OAGN QMS Framework: Leadership and Internal Governance.

Recommendation: Office of the Auditor General should make mandatory to declare and document condition of conflict of interest and affiliations with management of audited entity.

Management Response: The suggestion will be taken into consideration and policy will be formulated.

2. Strategic Performance Audit Planning

Observation: 1

Criteria: ISSAI 3000 Para 3.2 and ASOSAI PA Guidelines Para 1.22 mentioned that SAI should approve strategic plan for Performance Audit.

Condition: OAG/N has not formulated strategic plan for Performance Audit.

Causal Factors: Existing PAG has not made specific provision to formulate strategic plan.

Effects: In the absence of strategic plan for PA topics are selected on yearly basis. Due to this reason OAG/N is facing difficulties in determining number and topics to be audited in subsequent years including resources required to carry out performance audit.

Element of OAGN QMS Framework: Leadership and Internal Governance.

Recommendation: P A G should be updated and provisions should be made to develop strategic plan for P A.

Management Response: The strategic plan on Performance Audit will be formulated in future.

Observation 2:

Criteria: Central Co-ordination Unit need to decide which selected topic or issues for P A will be carried out by SAI personnel or outsourced expert if SAI has shortage of qualified personnel. Unit should also set monitoring framework to evaluate all selected topic or issues to be audited to ensure those are reported in time.

Condition: Central Co-ordination Unit has neither practiced of separating the audit topic which are to be audited by SAI personnel or outsourced nor developed monitoring framework to ensure that all selected topic/issues are audited and reported in time.

Causal Factors: The roles and responsibilities of Central Co-ordination Unit is not clearly mentioned in P A G.

Effects: Out of the 25 topics selected by Central Co-ordination Unit in 2009/10 only 16 topics were completed. It created difficulty in determining resources needed correctly for carrying out P A.

Element of OAGN QMS Framework: Leadership and Internal Governance.

Recommendation: The role and responsibility of Central Co-ordination Unit need to be mentioned in P A G. Monitoring framework should be established while selecting topics or issues and OAG/N personnel PA capabilities should be assessed.

Management Response: Once the strategic plan is developed, it will be addressed.

3. Planning stage

Observation 1

Criteria: ISSAI 3000 Para 1.4(a) mention that P A team should document to establish that the audit team performed proper risk assessment of the selected topic or issues. P A G also suggests the risk assessment process to be followed while conducting P A.

Condition: P A team has not assessed and categorized risk as mentioned in P A G.

Causal Factors: Appropriate training was not provided to the auditors on risk assessment process.

Effects: Proper risk faced by entity may not be identified by audit and risky areas might be left out.

Element of OAGN QMS Framework: Results.

Recommendation: Training on risk assessment and categorization should be given to audit team.

Management Response: Separate form has been developed and used which helps in indentifying the risk of the audit topic. But the risk assessment form provided to the audited entities for the purpose of gathering information are not properly filled by the audited entity with required data and information which effects risk assessment process. Appropriate training will be provided to the auditors.

Observation 2

Criteria: ISSAI 3100 Para 18 mentions that audit topic, objectives, scope, criteria and methodology should be communicated to the audited entity.

Condition: OAG/N has communicated audit topics/issues to concern chief accounting officer through formal letter. Audit team organised entry meeting with audited entity and discussed on objectives, scope, criteria and methodology of P A but these were not formally communicated to audited entity.

Causal Factors: The practice of formally communicating audit objectives, scope and criteria is not adopted but practice of brief discussion on these aspects in entry meeting has been done.

Effects: Project cannot get appropriate knowledge about audit coverage so that they may not provide appropriate information.

Element of OAGN QMS Framework: External Stakeholder Relations.

Recommendation: Audit objectives, scope, criteria and methodology should be formally communicated to project.

Management Response: Among different methods of communications, organising an entry meeting is also one method. The meeting was held formally and minute. The suggestion will be taken into consideration.

Observation 3

Criteria: ISSAI 300 Para 1.3 & 1.4, ASOSAI PAG Para 4.28 to 4.30, PAG Para 32.10 mentions that Performance Audit plan should be prepared and approved in prescribed format.

Condition: Audit team has not prepared audit plan in prescribed format.

Causal Factors: Detailed audit program has prepared and documented in audit file which covered almost all information of audit plan so they felt plan is not necessary.

Effects: Audit file does not provide information regarding audit objectives for each MOPS, audit criteria to be used for each audit objectives, approach to audit with details, manpower engaged, estimated working man days and detailed time and work schedule.

Element of SAI QMS Framework: Audit Standards, Methodology, and Audit Performance

Recommendation: Audit plan should to be prepared in prescribed format and documented in audit file.

Management Response: Detailed audit program is prepared which covered matters of plan. Audit plan will be prepared in future audit as suggested in the PAG.

4. Conducting Stage**Observation 1**

Criteria: PAG Para 40.5 mentions that Performance Audit program should be prepared and approved in prescribed format.

Condition: Audit team has not been prepared Audit program in prescribed format.

Causal Factors: Detailed audit plan has prepared and documented in audit file but due to time limitation audit program may not be prepared.

Effects: Audit file does not provide information regarding field work, supervision, delegation of work, activities completed while conducting audit.

Element of OAGN QMS Framework: Audit Standards, Methodology, and Audit Performance

Recommendation: Audit program needs to be prepared in prescribed format and documented in audit file.

Management Response: Prescribed format of audit program as suggested in the PAG will be used in future audit.

Observation 2

Criteria: PAG Para 40.6 and 40.10 states that techniques applied for gathering Audit evidence and audit test procedures used should be documented in working papers.

Condition: Audit team has not documented techniques applied for gathering audit evidence and audit test procedures used in the available working papers.

Causal Factors: Detail audit plan has specified the audit techniques and methods applied for gathering information; however detail guidance to documentation techniques and test procedure to be applied is not mentioned in PAG.

Effects: Audit file need to provide information about techniques used for gathering audit evidence and audit test procedures used.

Element of OAGN QMS Framework: Audit Standards, Methodology, and Audit Performance

Recommendation: Checklist should be developed for gathering audit evidence and audit test procedures used needs to be documented in working papers.

Management Response: Checklist will be developed in future audit. Practice of developing audit programme will be also solving this issue.

5. Reporting Stage**Observation**

Criteria: ISSAI 3000, appendix 4, ISSAI 3100 Para 34, ASOSAI P A G Para 6.12 and 8.12 provides that audit team should discuss preliminary audit findings with audited entity's management to obtain their comments and audit report should prepared considering audited entity's response.

Condition: Audit team has not discussed on preliminary audit findings with project management to obtain their comments. Audit report was prepared without taking response from project management.

Causal Factors: Project office is located 500 km away from OAG/N and due to time constraints of submitting annual report exit conference could not be organised.

Effects: Comments of audited entity on audit findings was not incorporated in audit report, the audited entity may disagree on contents of audit report resulting inappropriate findings and recommendation.

Element of OAGN QMS Framework: External Stakeholder Relations

Recommendation: Audit team should discuss on preliminary audit findings with audited entity's management to obtain their comments and audit report should be prepared by taking audited entity's response.

Management Response: Due to time limitation and distance of OAG/N and project office which compelled to deliver the draft report without seeking comments of project management however the preliminary report was finalised after receiving written comments on findings of financial audit from the audited entity.

6. Follow Up Stage

Observation:

Criteria: Financial Procedure Act, 2055 Section 19 and PAG Para 80.4.2 stipulates that auditor should give 35 days' period to audited entity's to provide response on auditor's findings. On the basis of audited entity's response on auditor's findings Assistant Auditor general designate to review response.

Condition: Audit team has given 15 days period to project management for their response.

Causal Factors: To meet the dateline for submission of Auditor General's annual report 2010 the audit team could not provide required time to the audited entity.

Effects: Project management was not availed sufficient time to respond on audit report.

Element of OAGN QMS Framework: External Stakeholder Relations.

Recommendation: OAG/N should give time as specified in the legislation to audited entity for their response on auditor's findings and on the basis of audited entity's response Assistant Auditor General designate to review the responses.

Management Response: The recommendation will be implemented in future audit.

7. Overarching Quality Controls in the Performance Audit process

Observation:1

Criteria: ISSAI 300 Para 2.1,2.2,2.3,2.4,ISSAI 3100 Para, and ASOSAI P A G Para 8.42,8.44,8.45,8.46 and P A G Para 10.12,60.6 has mentioned that audit work of the P A team should properly supervised, reviewed, monitored and submitted the monitoring report to higher authority.

Condition: The audit file does not contain the documents related to monitoring of audit team and supervision of field work.

Causal Factors: Questionnaire technique was used and reviewed by supervisor. OAG/N has not deputed supervisor to supervise audit field work.

Effects: Audit work at field level was completely depending upon audit team engaged.

Element of OAGN QMS Framework: Leadership and Internal Governance.

Recommendation: Documentation of monitoring and supervision should be managed and reported to higher authority.

Management Response: Supervision and monitoring of audit work carried out will be documented in future assignments.

Observation:2

Criteria : ASOSAI P A G Para 5.40 and P A Guide states that audit working paper files should contain all key documents such as audit tools 1 to 12 which are related to different stage of the audit process.

Condition: Audit team has not documented following audit tool in working files:

Audit Tool	Name of Document	Audit Tool	Name of Document
1	Performance Audit Progress Record Form	4	Information Collection Form
5	Process Analysis Template	6	Risk Assessment Process
7	Work Programme	8	Audit finding Form
9	Audit file Documentation	10	Audit Review Form
11	Performance Audit Peer Review Form	12	Annual Report, Response & Decision of the Public Accounts Committee

Causal Factors: Performance Audit Division has not made compulsory to use these forms. Training to the auditor on the use of these formats was not given to the auditor.

Effects: Documents and evidences could not be collected and recorded. Absence of use of the prescribed tools have hampered performing audit in structured and prescribed manner.

Element of OAGN QMS Framework: Leadership and Internal Governance.

Recommendation: Audit working paper files should contain all key documents such as audit tool 1 to 12 to each stage of the audit process and senior staff should monitor.

Management Response: P A D has customized the forms which are mentioned in the PAG and used as per requirements. Some forms are found inappropriate to use and few of them have been replaced. Forms will be reviewed and used as per requirements in future audit and while updating PAG.

Observation 3

Criteria: ISSAI 3000 Appendix 3 Para 4, and ASOSAI P A G Para 5.46,5.50,5.51,5.48 provides that working papers prescribed by OAG/N should be used and all evidence, supporting information and findings should be documented and properly organised with appropriate indexing and cross-referencing.

Condition: Audit team has not used working paper prescribed by OAG/N although they collected adequate supporting documents. The collected documents are not properly indexed and cross-referenced.

Causal Factors: Absence of the proper monitoring and supervision of documentation process of the audit performance by the senior staff.

Effects: Supporting document could not be compared with audit findings due to lack of proper cross-referencing with each other which impacted review process.

Element of OAGN QMS Framework: Leadership and Internal Governance.

Recommendation: Audit team should use and maintain working papers as prescribed by OAG/N and all evidence, supporting information and findings are to be documented and properly organised with appropriate indexing and cross-referencing. Senior staff should timely supervise the documentation process.

Management Response: Recommendation will be taken into considered for improvement in documentation process.

OVERALL CONCLUSION

OAG/N has PAG in place to carry out performance audits and most of the staffs deployed in PAD are trained in related audit domain. The Quality Assurance Review team observed that PAD has complied with the PAG in conducting performance audits to a large extent. However, some major areas need to be improved to prepare the meaningful report. Presently OAG/N has no strategic plan for PA which to some extent hampered the selection process of audit topic and determining the resources needed for conducting such audit. Some others areas such as documentation of audit process e.g. documentation of preliminary survey, communication with project management during the audit, development of audit program with task allocation of each team member, holding exit conference which need to be improved. These documents are to be properly organised and cross referenced in the audit file to support the audit results. Similarly monitoring and supervision of the audit team to from the stakeholders. OAG/N has to update PAG in line with ISSAI, ASOSAI PAG and ASOSAI AQMS and train its staffs to meet the expectation of the stakeholders. On the discussion with audit team and senior staffs of PAD accepted the issues rose by review team and agreed to implement recommendations in subsequent year audit.

QUALITY ASSURANCE REVIEW TEAM

Quality Assurance team express thanks to PAD staffs, senior management of OAG/N and audit team members for cooperating us in completing the assignment successfully and wishes cooperation in future.

S.N.	Name	Position
1.		Team Leader
2.		Team Member
3.		Team Member

Date of Review Report:

References

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2. Audit Quality Management System Guidelines, ASOSAI, 2006
3. Capacity Building Needs Assessment (CBNA) Guidance, INTOSAI Development Initiative (IDI), 2009
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13. Strategic Plan 2010-2012, Office of the Auditor General

Glossary of terms

Terms	Definitions
ASOSAI	An international and independent body which aims at promoting the exchange of ideas and experience between Asian Audit Institutions in the sphere of public auditing.
Accounting Control System	A series of actions which is considered to be part of the total internal control system concerned with realising the accounting goals of the entity. This includes compliance with accounting and financial policies and procedures, safeguarding the entity's resources and preparing reliable financial reports.
Administrative Control System	A series of actions, being an integral part of the internal control system, concerned with administrative procedures needed to make managerial decisions, realise the highest possible economic and administrative efficiency and ensure the implementation of administrative policies, whether related to financial affairs or otherwise.
Audited Entity	The organisation, agency, program, activity, area or function subject to audit by the Supreme Audit Institution (SAI).
Audit Evidence	Information that forms the foundation which supports the auditor's or SAI's opinions, conclusions or reports.
Audit Mandate	The auditing responsibilities, powers, discretions and duties conferred on a SAI under the constitution or other lawful authority of a country.
Audit Methodology	Methodology is how SAI codifies its standards and practices that are to be followed by auditors in carrying out their works.
Audit Objective	A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include financial, regularity or performance issues.
Audit Planning	Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives.
Audit Procedures	Tests, instructions and details included in the audit program to be carried out systematically and reasonably.
Audit Program	Audit requirements and procedures necessary to implement the audit objectives and to make assessments against audit criteria.
Audit risk	The converse of assurance is audit risk. This is the risk that the auditor will reach the wrong conclusion regarding the financial statements being examined - i.e. that the auditor fails to express a reservation on financial statements that are in fact materially misstated.
Audit Sampling	Statistically based techniques that extrapolate from specific cases to make assertions about the population as a whole and are used when it is not feasible to analyse entire population e.g. invoices/vouchers, elements of internal control systems, agency units, etc.
Audit Scope	The framework or limits and subjects of the audit.
Auditing Standards	Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfil the audit objective. They are the criteria or yardsticks against which the quality of the audit results is evaluated.

CAATTs	Computer Assisted Audit Techniques and Tools are computer-based tools and techniques which permit auditors to increase their productivity as well as that of the audit function in gathering audit evidence by exploiting the power and speed of computer.
Client	The term client refers to the public entity or entities subject to audit or other work by the SAI (e.g. the audited organisation).
Due Care	The appropriate element of care and skill which a trained auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations.
Economy	Minimising the cost of resources used for an activity, having regard to the appropriate quality.
Effectiveness	The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.
Efficiency	The relationship between the output, in terms of goods, services or other results, and the resources used to produce them.
Engagement	The term engagement refers to the work carried out in exercising the functions of the SAI (for example, a financial audit under the relevant jurisdiction of each SAI).
Engagement partner	The term engagement partner refers to the employee, chartered accountant or other suitably qualified person who is responsible for the works, and for the report that is issued on behalf of the Head of the SAI, in accordance with the policies and procedures of the SAI.
Financial Systems	The procedures for preparing, recording and reporting reliable information concerning financial transactions.
Findings, Conclusions and Recommendations	Findings are the specific evidence gathered by the auditor to satisfy the audit objectives; conclusions are statements deduced by the auditor from those findings; recommendations are courses of action suggested by the auditor relating to the audit objectives.
Firm	The term firm refers to the SAI as a whole. Where the Head of the SAI appoints an employee, a chartered accountant or auditing partnership, or other suitably qualified person to carry out audits or other works, the firm refers to the combination of the Head of the SAI, the person appointed to carry out the audits or other work and, if applicable, the firm of which the person appointed is a partner, member or employee.
Independence	The freedom of the SAI in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind.
Internal Audit	The functional means by which the managers of an entity receive an assurance from internal sources that the processes for which they are accountable are operating in a manner which will minimise the probability of the occurrence of fraud, error or inefficient and uneconomic practices. It has many of the characteristics of external audit but may properly carry out the directions of the level of management to which it reports.

Internal Control	The whole system of financial and other controls, including the organizational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information.
INTOSAI	An international and independent body which aims at promoting the exchange of ideas and experience between Supreme Audit in the sphere of public financial control.
Legal Authority	Legal Authority means laws, regulations, orders, directives, circulars, or other documents having the force of law.
Materiality and Significance (Material)	In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material--for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to the overall view given by the accounts; the total of which it forms a part; associated terms; the corresponding amount in previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.
Opinion	The auditor's written conclusions on a set of financial statements as the result of a financial or regularity audit.
Peer	Peers are trusted individuals who are senior and experienced in their own organizations and whose recommendations carry authority. Peers come from a range of SAIs to provide a range of viewpoints.
Peer Review	Peer reviews are systematic reviews to assess the extent to which an SAI is achieving its goals and the standards it has adopted to meet these. Peer reviews may encompass one part of an SAI's activities, for example, its regularity audits, or range more widely across the whole of its functions, such as strategic planning, human resource management and internal and external communications. They can play a useful role in identifying areas where further development is needed.
Performance Audit	An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.
Public Accountability	The obligations of persons or entities, including public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.

Quality Assurance	Quality assurance is an assessment process focusing on the operation of the quality control system. It is a review completed after the audit by persons who are independent of the audit under review. Quality assurance necessarily involves the examination of specific audits. However, the purpose of the review is not to criticize specific audits. Rather, it is to determine what controls were intended to be applied to those audits, how those controls were implemented, any gaps in the controls, and other ways of improving the audit quality system.
Quality Management	Quality management is concerned with all activities of the overall management function that determine the quality policy, objectives and responsibilities and implement them by means such as quality planning, quality control, quality assurance and quality improvement within the quality system of the SAI.
Quality Control	Quality control is a process through which an SAI seeks to ensure that all phases of an audit (planning, execution, reporting, and follow-up) are carried out in compliance with the SAI's rules, practices, and procedures. A quality control system should ensure that audits are timely, comprehensive, adequately documented, and performed and reviewed by qualified staff.
Reciprocal Peer Review	If one SAI performs a peer review at a partner SAI to be reviewed by this SAI in return this mutual exercise is called a reciprocal peer review.
Regularity Audit	Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements; attestation of financial accountability of the government administration as a whole; audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations; audit of internal control and internal audit functions; audit of the probity and propriety of administrative decisions taken within the audited entity; and reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.
Report	The auditor's written opinion and other remarks on a set of financial statements as the result of a financial or regularity audit or the auditor's findings on completion of a performance audit.
Stakeholder	Parties that are affected by the entity, such as shareholders, the communities in which the entity operates, employees, customers and suppliers.
Supervision	An essential requirement in auditing which entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.
SAI	The public body of a State which, however designated, constituted or organised, exercises by virtue of law the highest public auditing function of that State.