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# *Quality Assurance*

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# Quality Assurance

An IA quality program should consist of:

- Continuous/ongoing monitoring
- Internal quality assessments;
- External quality assessment





# Elements of Quality Review

## Why do we need a quality review?

- Strengthen assurance to all the stakeholders on the performance of the internal audit activity
- Reliance on other auditors
- More efficiency
- Reduce duplicity
- Standards understood and implemented in common way
- Check compliance with guidelines, rules etc.
- Implement corrective actions in good time (supervise, mentor)
- ...





# Elements of Quality Review

## Structure

Independence, status and reporting level in the organization

## Staff

qualifications, skills and experience

## Methodology

tools, processes and procedures - audit manual

## Audit work

execution according to the annual plan, timeliness, reporting, working papers



# Quality Assessment Milestones

- **PLAN**
  - Strategy
  - Audit plans
- **FIELDWORK**
  - Audit manual, IT system to record work, checklists, procedures
- **BEFORE REPORT**
  - Draft findings
  - Contradictory process with auditees
- **REPORT**
  - Final audit report presented
- **AFTER REPORT / CLOSE FILE**
  - Quality assessment of working papers / report



# Possible ways for quality assessment

HOW to do it?

## **Ex-ante**

- Direct supervision or mentoring during audit
- Joint audits
- Coordination of audit steps (incl. assessment of audit programmes)

## **Ex-post**

- Quality assessment of the audit documentation, report etc.
- Quality and effectiveness of communication
- Feedback from clients and from auditees





# Quality Assurance Program in Portugal (IGF)

## A- Continuous monitoring

- Hierarchical supervision
- Part of day-to-day supervision, review and coaching of the audit activity
- Incorporated in the audit routine policies and practices
- Carried out by the Team Leader over the work of the audit team
- Revised by the Audit Director, before the final draft report is conveyed to the Board for approval
- The evidence of this supervision is also transmitted to the Board, together with the final draft report, in a specific template, signed by the Audit Director (supervision must also be traceable in the working papers)



# Quality Assurance Program in Portugal (IGF)

## B- Internal Quality Assessment

- Assessing quality – key activity performance indicators to be measured against the objectives
- On a specific Audit Quality Assessment template (per audit), prepared and signed by the Audit Director
- Examples of performance indicators:
  - Audit coverage
    - Comparison of actual days input with planned days per assignment - all significant differences (above 10%) must be explained to the Board and to the Quality Committee ;
    - Actual areas covered compared with the annual audit plan – at least 90% of assignments in annual plan completed.





# Quality Assurance Program in Portugal (IGF)

## B- Internal Quality Assessment

- Examples of performance indicators (cont):
  - Productivity of the auditors
    - number of audits per auditor /year, compared with the average number of the organization – valid for the same type of audits and only for audits taking more than 20 days),
  - cost of audit day per auditor
    - compare with the same for other audit providers (being comparable with local market rates – eg, CoA, private companies, but also EC)





# Quality Assurance Program in Portugal (IGF)

## B- Internal Quality Assessment

- Examples of performance indicators (cont):
  - completion of audits by planned dates
    - At least 90% of draft audit reports issued by the target date,
  - Quality of audit reports » Add value to the management - meeting management and audited needs (*customer oriented approach*)
    - Solutions/recommendations proposed (according to a scoring system – criteria below)
    - Importance/substance (materiality/major issues, not details),
    - Timely, opportunity,
    - Feasibility
    - Value for money (quantified)





## Quality Assurance Program in Portugal (IGF)

### B- Internal Quality Assessment - procedure

- All audit reports are assessed according to specific rating system (0 to 10 points)
- Assessment is carried out and signed by the Audit Directors (Audit Directors are also accountable to the Board, and are responsible for the work of the Team Leaders of several audit teams)
- All audit reports assessed with a final rate over 8 points are verified by a Quality Committee (mandatory)
- Audit reports rated below 8 points are also verified by the Quality Committee on a random basis (at least 5% to 10% of these audits must be verified on an yearly basis)
- The results of this quality assessment activity are linked to the auditors annual performance assessment procedure





## Quality Assurance Program in Portugal (IGF)

### B- Internal Quality Assessment – Quality Committee (*peer committee*)

- Quality Committee is responsible to assure a periodic review (assessment) of the audit work on an annual basis, and is composed by senior and experienced auditors (Audit Directors and Team Leaders)
- Quality Committee is composed by 6 members, 3 of them designated by the Chairman of the Board amongst the Audit Directors (one of these is the President of the QC)
- Other 3 members of the Quality Committee are elected by all auditors amongst other Audit Directors and Team Leaders and need to have at least 20% of the votes
- Each mandate of the Quality Commission lasts for 2 years



## Quality Assurance Program in Portugal (IGF)

### B- Internal Quality Assessment – Quality Committee (*peer committee*)

- Quality Committee assesses the audit reports against the applicable international standards and internal guidance notes (detailing the strategic and operational objectives per auditor and the performance indicators and targets)
- During the assessment, a hearing of the Audit Director and/or Team Leader takes place to clarify the QC questions and to justify the audit report assessment (score)
- If needed, when QC can not ratify the audit report assessment, a light and focused written contradictory procedure can take place (however, not usual)



## Quality Assurance Program in Portugal (IGF)

### B- Internal Quality Assessment – Quality Committee (*peer committee*)

- QC decides by simple majority – the president has “quality vote”
- QC prepares a final report of its annual activity to the Chairman of the Board – report must be approved by the board, and can make recommendations to the improvement of the audit methods in place as well as to the internal guidance notes
- Also a basis for the auditors annual performance assessment
- The results of the quality assurance program are communicated to the Ministry of Finance annually, together with the Annual Activity Report. Actions to follow-up and improve the program are also reported.



# Quality Program in Portugal (IGF)

## C- External Assessment

- Contract of Confidence with the EC (Audit Authority for EU funds)
- Means annual supervision by European Commission audit departments (Commission quality assurance program)
- Also by ECA
- For the audit work on the national funds, a *peer review* exchange program with similar organizations of other countries is under preparation





## Final remarks

1. Assess **functional independence** (structure)
2. Assess **personnel adequacy** (staff quality and numbers) and any changes to circumstances
3. Assess **execution and timeliness** of the audit work
4. Assess **reporting and working papers**
5. Does Head IA have **regular feedbacks** from the audit teams? (e.g. difficulties while executing the audit – open and clear **communication** pipeline is key)





## For reflection ...

1. Is there any **motivation** for the audit unit to improve quality?
2. How do you see the introduction of **quality indicators and benchmarking**?
3. Problem balancing **costs v benefits** of assessment (limited resources, time pressure,...)
4. Who should **execute the follow - ups** of findings and recommendations of assessment?
5. Does current **financial crisis have an impact** on the quality of the audit work and on the quality assurance policy and practice?
6. What do you expect from quality assurance as a tool to **strengthen assurance** to all the stakeholders on the performance of your audit activity and raising management awareness on the important of the IA work?



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# ARE AUDITS MAKING A DIFFERENCE?

Thank you for your attention!