



GOVERNANCE

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**EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT**

# The Quality of Audits by Supreme Audit Institutions: A Review of Compliance with International Standards of Supreme Audit Institutions

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# Contents

<b>Responsibilities</b>	<b>5</b>
<b>Acknowledgments</b>	<b>5</b>
<b>Abbreviations</b>	<b>7</b>
<b>Executive Summary</b>	<b>9</b>
<b>1. Introduction</b>	<b>13</b>
Background	13
Objective	14
Scope and Methodology	14
Rating System	15
<b>2. Review Findings of Compliance with ISSAIs</b>	<b>17</b>
Overall Review of the Implementation of ISSAIs	19
SAI's Independence	19
Compliance with the ISSAI System of Quality Control	20
Compliance with the ISSAI Audit Planning Phase	21
Audit Execution Phase	22
Audit Reporting and Follow-Up	23
<b>3. Findings, Conclusion, and Suggested Next Steps</b>	<b>25</b>
Findings	25
Conclusion	28
Suggested Next Steps	29
<b>Appendix A. INTOSAI Framework of Professional Pronouncements</b>	<b>31</b>
<b>Appendix B. Self-Assessment Questionnaire</b>	<b>33</b>







## Responsibilities

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## Abbreviations

IDI	INTOSAI Development Initiative
IFAC	International Federation of Accountants
IFPP	INTOSAI Framework of Professional Pronouncements
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organization of Supreme Audit Institutions
ISQC	International Standards on Quality Control
ISSAI	International Standards of Supreme Audit Institutions
FM	Financial Management
SAI	Supreme Audit Institution
SAI PMF	Supreme Audit Institution Performance Measurement Framework









## Executive Summary

Public sector auditing provides unbiased, objective assessments of public sector programs, policies, operations, and results to detect whether public resources are managed responsibly and effectively to achieve intended results and to instill confidence among citizens and stakeholders. Supreme Audit Institutions (SAIs)<sup>1</sup> perform a vital role in the functioning of governments as they inform legislatures and other stakeholders through their independent audit reports. They help promote good governance, accountability, and transparency. The work of SAIs in reducing waste and abuse of public resources has the indirect effect of making more money available for programs that fight poverty, which lie at the core of the World Bank's work to end extreme poverty.

1. SAIs include all forms public external audit bodies, including the Court of Accounts and audit general offices.



The Bank's fiduciary assurance mandate requires making arrangements to ensure that the proceeds of any financing are used only for the purposes for which it was granted, with due attention to considerations of economy and efficiency. This mandate includes requiring borrowers and recipients of Bank financing to have financial statements of Bank-financed operations audited by auditors acceptable to the Bank in accordance with auditing standards acceptable to the Bank.

This review assesses the quality of audits performed by SAIs of Bank-financed projects through the lens of audit compliance with International Standards of Supreme Audit Institutions (ISSAI), using the methodology prescribed by the ISSAI Compliance Assessment Tools developed by INTOSAI Development Initiative (IDI) and the SAI Performance Measurement Framework<sup>2</sup> (SAI PMF) adopted

by the International Organization of Supreme Audit Institutions (INTOSAI). It aims to inform, among other factors, the Bank strategy on reliance of SAIs for auditing Bank-financed operations, as part of the use of a country systems strategy.

The review was carried out through a survey<sup>3</sup> of 18 SAIs that comprise 33 percent of SAIs that fit the first selection criteria, including SAIs which had produced and published at least one audit report during 2012–2017.<sup>4</sup> The aim is the assessment of the institutional and organizational capacity of these SAIs based on these evaluation domains<sup>5</sup>:

- SAI independence
- Quality control
- Audit planning phase
- Audit execution phase
- Audit reporting and follow-up phase.

2. The SAI PMF is a methodological tool elaborated by the IDI that has been used as an inspiration in this peer review exercise, in accordance with the provisions of the INTOSAI GUID 1900 Peer Review Guidelines.

3. The selection of SAIs was based on their capacity to produce an audit report of a Bank-financed project. Twenty-two SAIs were selected across the six World Bank Regions, and a questionnaire was submitted to them by email.

4. They number 55 SAIs, which includes one SAI that produced its first audit report after the selection process.

5. The assessment domains were inspired by the SAI PMF assessment model of the SAI's environment, capability, and performance.



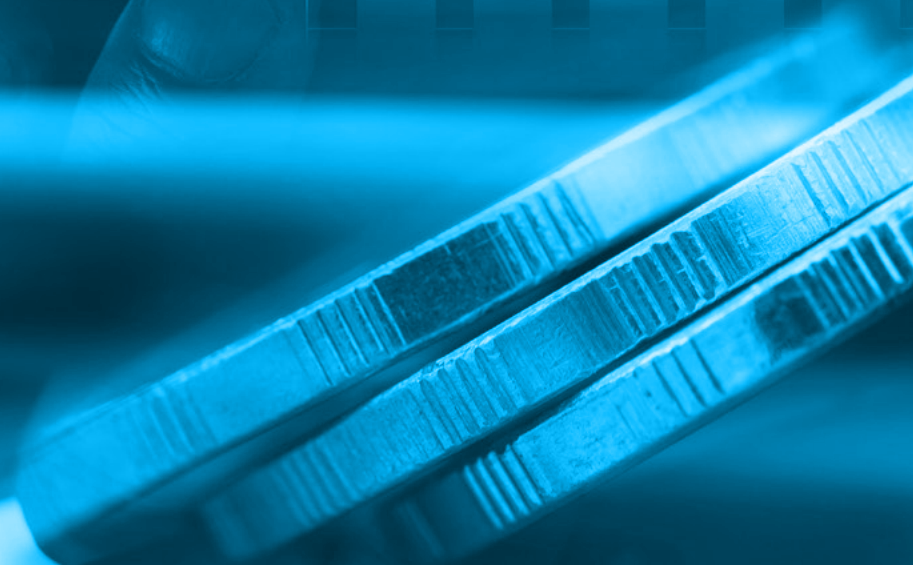


The review found that only two SAIs, or 11 percent of the selected SAIs, complied with the requirements related to all evaluation domains. With regard to each individual evaluation domain, the review found that:

- Four out of 18 SAIs, or 22 percent, complied with the implementation of the ISSAI independence requirements.
- Nine out of 18 SAIs, or 50 percent, complied with the implementation of the ISSAI quality control requirements.
- Eleven out of 18 SAIs, or 61 percent, complied with the implementation of the ISSAI audit planning phase, audit execution phase, and audit reporting and follow-up phase requirements.

With most of the SAIs partially complying with ISSAIs, the review suggests that while SAIs operate at various capacity levels based on the available resources and constitutional framework, targeted capacity building programs will help in improving the quality of audits performed. Political will and commitment from senior management coupled with technical assistance are key for driving reforms in SAIs.

The World Bank remains committed to support SAIs in building their capacity. In collaboration with INTOSAI and other multilateral and bilateral agencies, the Bank has created various platforms to stay engaged with SAIs and facilitate knowledge exchange and learning events.







# Introduction

Public sector auditing provides unbiased, objective assessments of public sector programs, policies, operations, and results to detect whether public resources are managed responsibly and effectively to achieve intended results and instill confidence among citizens and stakeholders. Supreme Audit Institutions (SAIs)<sup>6</sup> perform a vital role in the functioning of governments as they inform legislative bodies and other stakeholders through their independent audit reports. They help promote good governance, accountability, and transparency. The work of SAIs in reducing waste and abuse of public resources has the indirect effect of making more money available for programs that fight poverty.

## The Crossroads

The International Standards of SAIs (ISSAIs), updated as the INTOSAI Framework of Professional Pronouncements<sup>7</sup> (IFPP), are the authoritative international standards on public sector auditing that aim to ensure the quality of the audits conducted. To comply or meet with ISSAIs, SAIs establish policies and procedures for their engagements. Required steps are outlined in policies, audit manuals and guidelines, systems of quality control, and various other audit tools. They guide auditors to ensure audit engagements are conducted according to professional standards and SAI policies.

The World Bank's fiduciary assurance mandate requires making arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was granted, with due attention to considerations of economy and efficiency. This mandate includes requiring borrowers and recipients to have financial statements of Bank-financed operations audited by auditors acceptable to the Bank and in accordance with acceptable auditing standards. The audit of Bank-financed projects, as required by the Articles of Agreement, is the financial statements audit, and can be complemented by other types of audit as compliance and performance audits. International Standards on Auditing and ISSAIs are deemed acceptable.

The Bank regards SAIs as key players in the development processes of countries through their important role in promoting efficient, accountable, effective, and transparent public administration. Thus, the Bank sought to rely on SAIs as part of implementing its strategy on the use of country systems.<sup>8</sup> Under the Bank's Access to Information Policy, introduced in 2010, borrowers and recipients are expected to publish the audited financial statements of Bank-financed operations, while the Bank makes audits reports more accessible and transparent. Based on the last stock take of published<sup>9</sup> audit reports of Bank-financed projects, SAIs produce 40 percent of these reports (table 1), while private-sector auditors produce the rest (with a minor percentage produced by private-sector auditors hired by SAIs).

6. SAIs include all forms public external audit bodies, including court of accounts and audit general offices.

7. Details about IFPP are included in appendix A.

8. Commencing July 1, 2003, the World Bank adopted a strategy to commit to greater use of country systems in auditing of Bank-financed operations through: (i) providing technical assistance funding and leveraging Bank operations to strengthen in-country SAI capacity and impact; (ii) promoting global, regional, and bilateral SAI partnerships; and (iii) providing learning opportunities and support to Bank staff to enable implementation of the strategy.

9. Aid effectiveness forums, starting with the 2005 Paris High-Level Forum on Aid Effectiveness, have progressively called for further strengthening of country fiduciary systems including SAIs.

**TABLE 1 - Audit Reports of World Bank-Financed Projects per Region during 2012–2017**

World Bank Region	Countries with an Audit Report (number)	Countries with SAI Audit Report (number)	Representation of Countries with SAI Audit Report (percent)
Africa	47	21	45%
East Asia and Pacific	20	13	65%
Europe and Central Asia	28	5	18%
Middle East and North Africa	8	1	13%
Latin America and the Caribbean	25	7	28%
South Asia	8	8	100%
<b>Total</b>	<b>136</b>	<b>55</b>	<b>40</b>

Source: World Bank.

## Objective

The objective of the review was to assess the quality of the audits performed by SAIs of Bank-financed projects through reviewing and validating their level of compliance with ISSAIs. The process involved gathering data and evidence to support the assessment. While there are multiple factors for consideration in selecting SAIs for audit of Bank-financed projects, the review's findings provide more insight on the level of quality of the audits carried out by SAIs. The findings also inform Bank capacity building programs with SAIs by highlighting areas for improvement.

## Scope and Methodology

The review's original scope covered SAIs that produced and published at least one audit report during 2012–2017, which came to 55 SAIs (table 2). The scope was further reduced to 18 SAIs, from the 6 regions of the world in agreement between Operations, Policy, and Country Services and Governance Global Practice, Financial Management (FM) staff. The review team selected the final sample SAIs based on interest in collaboration in order to foster buy-in for the review's potential policy or operational suggested next steps.



**TABLE 2 - Selected SAIs for Review**

World Bank Region	Countries with SAI Audit Report (number)	Countries with SAI Audit Report (number)	Representation of Countries with SAI Audit Report (percent)
Africa	21	6	29
East Asia and Pacific	13	4	31
Europe and Central Asia	5	3	60
Middle East and North Africa	1	2	100
Latin America and the Caribbean	7	2	29
South Asia	8	2	25
<b>Total</b>	<b>55</b>	<b>18</b>	<b>33</b>

Source: World Bank.

Note: One SAI did not meet selection criteria at the selection stage but did during the life of the review and was added.

The review focused on five components of ISSAIs (evaluation domains):

- SAI independence
- Quality control
- Audit planning phase
- Audit execution phase
- Audit reporting and follow-up

The methodology included:

- **Self-assessment survey.** Develop and circulate a questionnaire (see appendix B ) to have the selected SAIs self-assess their level of compliance with quality standards to be considered when conducting an audit; independence standards; International Standards on Quality Control (ISQC); and standards related to the planning, execution, reporting, and follow-up.
- **Validation through relevant documentation and audit file review.** Have FM staff visit the selected SAIs to conduct an audit file review to obtain evidence and validate the results of the completed questionnaires.

## Rating System

The review team applied a simplified rating system to rate the degree of compliance with ISSAIs (table 3).

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**TABLE 3 - Simplified Rating System to Rate the Degree of Compliance with ISSAIs**

Compliant (SAI met requirement)	The ISSAI requirements and applicable auditing standards were implemented in SAI's audit practice
Partially compliant (requirement is partially met)	Improvements are necessary in some areas to fully comply with the ISSAI requirements
Noncompliant (requirement is not met)	Major deficiencies exist; there is noncompliance with the ISSAI requirement

Source: World Bank.

Note: ISSAI = International Standards of Supreme Audit Institutions; SAI = Supreme Audit Institution.

The overall assessment of the compliance is an average of the rating of the five evaluation domains. However, if the SAI was rated as noncompliant or partially compliant on the independence domain, the overall rating will be partially compliant even if it was rated as compliant in all the other domains. This is due to the importance and more weight of independence in SAI effectiveness. If the SAI self-assessed itself as compliant but did not facilitate the validation exercise, the overall rating was downgraded to the next lower rating. If the SAI self-assessed itself as partially compliant and results were not validated, the overall rating will be partially compliant.





## Review Findings of Compliance with ISSAIs

The 18 selected SAIs completed the self-assessment questionnaire. Table 4 presents the summary of the analysis of the self-assessment followed by a detailed analysis.



**TABLE 4 - Summary of the Survey Analysis by Evaluation Domain and Ratings**

SAI	Region	Independence	Quality Control	Audit Planning Phase	Audit Execution Phase	Audit Reporting and Follow-Up Phase	Overall Assessment	Comment
SAI 1	SAR	Noncompliant	Partially compliant	Partially compliant	Compliant	Partially compliant	Partially compliant	
SAI 2	SAR	Partially compliant	Partially compliant	Compliant	Compliant	Compliant	Partially compliant	
SAI 3	LAC	Compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	
SAI 4	EAP	Partially compliant	Compliant	Partially compliant	Partially compliant	Compliant	Partially compliant	
SAI 5	EAP	Compliant	Compliant	Compliant	Compliant	Partially compliant	Compliant	
SAI 6	MNA	Partially compliant	Compliant	Compliant	Compliant	Compliant	Partially compliant	
SAI 7	EAP	Partially compliant	Partially compliant	Noncompliant	Noncompliant	Noncompliant	Noncompliant	
SAI 8	AFR	Partially compliant	Partially compliant	Compliant	Compliant	Compliant	Partially compliant	
SAI 9	AFR	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Validation phase not completed
SAI 10	ECA	Partially compliant	Compliant	Compliant	Compliant	Compliant	Partially compliant	
SAI 11	AFR	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	
SAI 12	EAP	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Partially compliant	Validation phase not completed
SAI 13	MNA	Partially compliant	Partially compliant	Compliant	Compliant	Compliant	Partially compliant	
SAI 14	ECA	Compliant	Compliant	Compliant	Compliant	Compliant	Partially Compliant	Validation phase not completed
SAI 15	LAC	Partially compliant	Compliant	Compliant	Compliant	Compliant	Partially compliant	Validation phase not completed
SAI 16	AFR	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	
SAI 17	ECA	Partially compliant	Compliant	Compliant	Partially compliant	Compliant	Partially compliant	
SAI 18	AFR	Partially compliant	Compliant	Compliant	Compliant	Compliant	Partially compliant	Validation phase not completed
Noncompliant	n.a.	1	0	1	1	1	1	
		5.6%	0.0%	5.6%	5.6%	5.6%	5.56%	
Partially compliant	n.a.	13	9	6	6	6	15	
		72.2%	50.0%	33.3%	33.3%	33%	83.33%	
Compliant	n.a.	4	9	11	11	11	2	
		22.2%	50.0%	61.1%	61.1%	61.1%	11.11%	

Source: World Bank.

Note: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; n.a. = not applicable. SAI = Supreme Audit Institution; SAR = South Asia.

# Overall Review of the Implementation of ISSAIs

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The review found that overall, only 2 out of 18 SAIs, or 11 percent, successfully complied with ISSAI requirements for all the evaluation domains in the audit practice. The review also found that the audit manual framework, consisting of rules, regulations, manuals, and guidelines, complies with international standards for these SAIs.

The review concluded that the majority (15 out of 18, or 83 percent) of the selected SAIs were partially compliant with the ISSAIs. For these SAIs, the review observed that general audit manuals and guidelines explain the different types of audits (i.e., financial, compliance, and performance). While some SAIs continue to develop the audit manuals and guidelines which would be quite useful to the auditors.

The SAIs have put in place a considerable amount of work supported by the documentation provided by these institutions. They have laid strong foundations to function in compliance with ISSAIs. However, they still need to make significant improvements to implement the audit methodology during the audit process phases (i.e., planning, execution, reporting, and follow-up) and to attain the practice level set by ISSAIs in key areas:

- Independence and mandate
- Quality control
- Audit standards and guidelines.

Finally, compared to others, one out of the 18 SAIs, or 6 percent, provided little supporting information related to its implementation of the ISSAI requirements in all evaluation domains in its audit practice, which led to an overall rating of noncompliance.

## SAI's Independence

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The review found that overall, 4 SAIs, or 22 percent, complied with ISSAI requirements related to SAI independence. Thirteen SAIs, or 72 percent, had partially complied with the independence requirements even though the SAI independence requirements were identified by INTOSAI members themselves through the Lima Declaration ISSAI 1 (now INTOSAI-P 1) and the Mexico Declaration ISSAI 10 (now INTOSAI-P 10).

The SAIs mainly faced operational, rather than constitutional independence, challenges from the Executive branch. To fulfill their mandate, SAIs indicated they could carry out their work largely in an independent manner and did not experience severe interference by the Executive branch, including the Ministry of Finance. However, the operational independence of managing their finances and personnel is not guaranteed and, as a result, the SAI's financial and operational independence is restricted.

The domain's purpose is to consider the institutional basis for the SAI's operations. According to INTOSAI-P 1, an objective SAI operating in an effective manner can only be achieved if the SAI is independent from the executive branch, and the independence of the SAI's head is protected against outside influence. Therefore, the domain measures the degree of independence enjoyed by the SAI by assessing the key aspects of independence as identified by ISSAIs through the Lima Declaration (INTOSAI-P 1) and the Mexico Declaration (INTOSAI-P 10).

The survey included four questions related to these sections:

- Constitutional and legal framework
- Financial independence and autonomy
- Organizational independence autonomy
- Independence of the head of the SAI and its officials.

Four SAIs indicated compliance with the ISSAI requirements related to SAI independence. For these SAIs, the review found sufficient provisions in the constitution, the budget law, and the audit law to guarantee independence. On the other hand, 13 SAIs partially complied with the requirements. The reasons cited by them included:

- Lack of sufficient guarantees in the constitution against interference in the SAI's affairs.
- Control of the SAI's access to financial resources by the Ministry of Finance, just as it does for other government budget entities.
- None had the right to independently hire their own personnel or decide on their terms and conditions.
- Lack of a framework of incentives to retain, motivate, promote, and build the capacity of SAI staff.

Finally, one SAI, or 6 percent, had not complied with the requirements for SAI independence under the ISSAIs through INTOSAI-P 1 and INTOSAI-P 10.

# Compliance with the ISSAI System of Quality Control

The review found that only 9 out of 18 SAIs, or 50 percent, complied with the quality control requirements of the international standards. The other 9 SAIs partially complied with and implemented them in their audit practices.

The SAIs surveyed have confirmed the implementation of a number of manuals and policies aimed at ensuring uniform practices and adoption of the ISSAIs. This demonstrates they have ownership of the system of quality control. Therefore, the overall trend is the gradual movement of the SAIs' audit work toward ISSAI compliance.

The SAI's system for quality control of audit processes is the sum of all measures taken to ensure high quality of each audit product. It is carried out as an integrated part of the audit process and needs to be part of each SAI's strategy, culture, policies, and procedures to be effective. As stated in ISSAI 140 — Quality Control, the SAIs should consider their work program and whether they have resources to deliver the range of work to the desired level of quality; and that to achieve this, SAIs should have a system to prioritize their work in a way that takes into account the need to maintain quality.

The review only looked into the approach to quality and focused on quality control procedures, which are mainly implemented after an audit is completed, to see whether the audit quality control effectively operated and how policies and procedures could be improved. Quality control, however, cannot replace the important function of quality assurance, which should be provided on a continuous basis — as an ongoing element of the audit reporting process, rather than as an ex post assessment of the quality of audit files.

The review found that nine SAIs provided indications that they implemented quality control requirements in their audit practices. Examples from their audit methodology include:

- The official code of ethics is communicated to all staff. In addition, the office has an ethics committee which adds value to the process of ensuring compliance with the code of ethics.
- A training program is prepared on the basis of a needs assessment and is updated every three years.

- Customized audit methodologies are designed to suit ISSAI requirements by developing tools such as the Regularity Audit Manual, Performance Audit Manual, and the recently introduced Financial Audit Manual and Compliance Audit Manuals.
- Supervision and review procedures at the engagement level are stated in the Regularity Audit Manual, Performance Audit Manual, and the recently introduced Financial Audit Manual and Compliance Audit Manuals.
- The Quality Assurance Manual and Quality Assurance Checklists (tools) are in line with the ISSAIs that guide the quality assurance team during review.
- The in-house post-issuance team (reviewers) are independent from all other institution functions and engagements and have the required ability as stated in Quality Assurance Policy.

The review also found that nine SAIs had only partially complied with the ISSAI requirements related to quality control. The key reasons included the absence of a quality assurance unit to monitor quality and the lack of policies and procedures for the monitoring of compliance with quality control procedures. In line with ISSAI 140, quality control and quality assurance are preconditions for continuous improvement and for SAIs to be effective; however, the role and function of all actors and instruments must be clear. Maintaining a system of quality control for a SAI requires ongoing monitoring and a commitment to continuous improvement — Element 6 of the ISSAI 140 (monitoring), in other words, the quality assurance review process.

Overall, the assessment indicates that the implementation effort related to team competency, supervision, monitoring, audit management, and quality control review responsibilities is not sufficient. Therefore, SAIs need to strengthen reasonable assurance that the quality control requirements are carried out following relevant standards and applicable legal and regulatory requirements, such as ISSAI 130, the INTOSAI Code of Ethics and ISSAI 140 on Quality Control, or the International Federation of Accountants' (IFAC) guidance ISQC 1.



# Compliance with the ISSAI Audit Planning Phase

The review found that 11 out of 18 SAIs, or 61 percent, complied with the ISSAI requirements related to the audit planning phase in their audit practices. Six SAIs, or 33 percent, only partially complied.

The challenge for most SAIs is to implement the audit planning process using a risk-based methodology (Element 3 of ISSAI 140). Risk assessment is the main element in the development of the annual risk-based audit plan. Identification and prioritization of key risks is crucial to ensuring that audit resources are allocated to the significant areas of the state's activity.

Principle 5 of INTOSAI-P 12 maintains that the SAI should ensure that stakeholders' expectations and emerging risks are factored into audit plans as appropriate. Therefore, it would be advisable that SAIs apply the risk-based approach in the planning process, using the top-down and bottom-up risk assessment element. However, further steps should be taken to make it more systematic.

The questionnaire review focused on the steps of the audits (compliance, financial, and performance) the SAIs plan to conduct in a set period. The overall audit plan supports the SAI in reaching its objectives efficiently and effectively. It is, therefore, important that the overall audit plan is feasible, reflecting SAI budget and workforce.

The review found that for 11 SAIs, the audit manual framework, consisting of rules, regulations, manuals, and guidelines, complies with international standards. In the responses received, the review noted the implementation of important planning elements, such as background and information about the audited entities, audit objective, scope, questions or hypotheses, criteria, and period to be covered by the audit as well as key project timeframes and milestones and the main points for control.

Meanwhile, 6 SAIs had only partially complied with the requirements related to the audit planning phase. These SAIs have implemented a rich set of policies, procedures, and audit manuals. All are aimed at ensuring that audit engagements are of high quality and follow the ISSAIs. However, the review found that the SAIs did not give sufficient indications related to the key audit planning activities:

- Risk assessment considerations, understanding of internal control relevant to the audit objectives, and test controls on which they expect to rely
- Fraud risk assessment to enable auditors to plan and gather sufficient appropriate evidence related to identified fraud risks through the performance of suitable audit procedures
- Discussion and documentation of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place
- Cost estimates per audit, thus impeding the comparison between costs and benefits per audit engagement.

On the other hand, the quality of audit planning varies between SAIs, especially regarding the ability to prioritize a systematic and documented risk-based approach for the selection of entities to be audited against identified risks.

This gap can be filled by following an approach laid down by INTOSAI-P 100, Fundamental Principles of Public-Sector Auditing:

- Establish the terms of the audit
- Obtain understanding
- Conduct risk assessment of problem analysis
- Identify risks of fraud
- Develop an audit plan.

Finally, one out of 18 SAIs provided very little supporting information related to its implementation of the ISSAI requirements for all evaluation domains in its audit practice. This led to the rating of noncompliance.



## Audit Execution Phase

The review found that 11 out of 18 SAIs, or 61 percent, complied with the ISSAI requirements related to the audit execution phase in their audit practices. Six SAIs, or 33 percent, had only partially complied with them. For the 11 SAIs, the manuals were appropriate and explained the different types of audit. They defined general principles and set more specific criteria and approaches for the audit execution phase in the audit process. The selected audit files included audit procedures, test of control worksheet, and substantive procedures worksheets. Audit queries raised in the audit tests were escalated to the reporting phase. Supervision was conducted by three levels of reviewers. At the end of each audit phase, a quality control checklist is used to review and determine adherence to relevant procedures aligned with ISSAI requirements.

The review found that for the 6 SAIs that only partially complied, audits were implemented according to the audit plans and following the guidelines. A number of SAIs provided generic responses without references or supporting documentation that were not considered to be valid inputs in the course of the present assessment.

In this category, the challenge for SAIs is to move away from a compliance audit and toward a performance audit, which remains at an early stage for most of the SAIs reviewed. However, important foundations for financial and compliance audits are in place for many SAIs.

The review of the selected performance audit files found that the auditors used financial audit methodology, and the audit design and execution focused on compliance. Nevertheless, designing and conducting the audit execution for a good performance audit takes time.

On the positive side, the review noted indications from the SAI responses received that audit engagements are implemented according to the audit plans and following the guidelines. The SAIs surveyed indicated they gather:

- audit evidence using appropriate audit procedures
- sufficient, appropriate (valid, reliable, and relevant) audit evidence to establish findings, reach conclusions in response to the audit objectives and questions, and issue recommendations.

The review found that SAIs need to strengthen audit practice to be fully equipped with tools to enable audit staff to collect and analyze sufficient and appropriate evidence to support sound conclusions:

- SAIs need to ensure more consistent application of ISSAIs across all of their audit work.
- Audit manuals and guidance need to be developed for each type of audit (i.e., financial, compliance, and performance) to ensure full compliance with ISSAIs.
- Adopt more intensive quality assurance and consistent use of audit management software.



## Audit Reporting and Follow-Up

The review found that 11 out of 18 SAIs, or 61 percent, complied with the ISSAI requirements related to audit reporting and follow-up in their audit practices. Likewise, another 6 SAIs, or 33 percent, had only partially complied.

SAIs face an important challenge to comply with the Mexico Declaration on SAI Independence (INTOSAI-P 10), which supports using audit reports more often and promoting transparency. The following three principles are especially important:

- Principle 5: The right and obligation of SAIs to report on their work
- Principle 6: The freedom to decide the content and timing of audit reports and to publish and disseminate them
- Principle 7: The existence of effective follow-up mechanisms on SAI recommendations.

The questionnaire included 10 questions related to the audit reporting phase and report follow-up and key points, such as connecting conclusions with the audit objectives, criteria, and evidence. Wrap-up procedures are also included to make sure auditees are given an opportunity to comment on the draft, and their points are considered before issuing the final report of the execution phase to ascertain how SAIs collect and analyze evidence concerning financial, compliance, and performance audits.

The majority of the respondent SAIs indicated they produce audit reports in compliance with ISSAI requirements that provide independent and reliable information to legislatures, over-

sight bodies, those charged with governance, and the public. These reports include the following relevant information:

- Audit objectives
- Audit questions and answers to those questions
- Subject matter
- Criteria
- Methodology
- Sources of data
- Limitations on the data used
- Audit findings, conclusions, and recommendations.

The follow-up of the recommendations is in place and seems effective. However, the review found that 1 SAI did not comply with the ISSAI requirements related to audit reporting and follow-up. The review also found that 11 SAIs complied with the requirements related to the audit execution phase. On the other hand, the review found that 6 SAIs had only partially complied with the requirements related to the audit follow-up phase.

The review found that SAIs need to strengthen the following audit practices to be fully equipped with tools to enable them to meet the requirements related to audit reporting and follow-up:

- Publication and dissemination of audit reports to auditees as well as other stakeholders
- Development of an external communication strategy to maintain constructive relationships with the executive, the media, and civil society
- Systematic follow-up of the implementation of recommendations by the audited entities.







# Findings, Conclusion, and Suggested Next Steps

## Findings

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The review, which involved self-assessment followed by validation through Bank staff, provided insights with respect to SAI's compliance with ISSAIs. Specific findings under each domain and its implications are presented.

## Findings per Degree of Compliance

Two out of 18 SAs, or 11 percent, successfully complied with the ISSAI requirements of all the evaluation domains in the audit practice. Their audit manual frameworks, consisting of rules, regulations, manuals, and guidelines, complied with ISSAIs.

The majority of selected SAs, 15 out of 18, or 83 percent, partially complied with ISSAIs. They laid strong foundations to function in compliance with ISSAIs as demonstrated by the documentation they had shared. Their general audit manuals and guidelines explained the different types of audits (i.e., financial, compliance, and performance). However, SAs need to make significant improvements to implement the audit methodology during the audit process phases (i.e., planning, execution, reporting, and follow-up) and to attain the practice level set by ISSAIs in regard to independence and mandate; quality control; and audit standards and guidelines. One of the 15 SAs complied with all requirements of ISSAIs, but the review team could not validate the results, and its rating was downgraded to partially compliant.

Compared to others, 1 out of 18 SAs, or 6 percent, provided little supporting information related to its implementation of the ISSAI requirements for all evaluation domains in its audit practice, which led to its noncompliance rating.

## Findings per Evaluation Domain

**FOR INDEPENDENCE.** Four out of 18 SAs, or 22 percent, complied with the independence requirements of ISSAIs. The constitution, the budget law, and the audit law had sufficient provisions to guarantee their independence. Thirteen SAs, or 72 percent, had complied partially. The main challenge faced by these SAs is operational rather than constitutional independence from the Executive branch. They can carry out audit work largely in an independent manner and do not experience severe interference by the Executive branch, including Ministry of Finance. However, the operational independence of managing their finances and personnel is not guaranteed and, therefore, the SA's financial and operational independence is restricted. One SA had not complied with the ISSAI requirement for SAs independence. Its constitutional and legislative framework did not provide for its financial independence, and its audit law did not guarantee its independence from the executive.

**FOR QUALITY CONTROL.** Nine out of 18 SAs, or 50 percent, complied with quality control requirements of ISSAIs, whereas the other 9 partially complied. SAs have confirmed the development and implementation of a number of manuals and policies aimed at ensuring uniform practices and adop-

tion of ISSAIs, including a code of ethics, audit methodologies, and quality assurance manuals. This demonstrates that they have ownership of the system of quality control. The overall trend is that the SAs' audit work is gradually moving closer to ISSAI compliance. Key reasons for partial compliance included the absence of a quality assurance unit to monitor quality; the lack of policies and procedures for the monitoring of compliance with quality control procedures; and the insufficiency of the implementation effort related to team competency, supervision, monitoring, audit management, and quality control review responsibilities.

**FOR AUDIT PLANNING.** Eleven out of 18 SAs, or 61 percent, complied with the ISSAI requirements related to the audit planning in their audit practice. Their audit manual frameworks, consisting of rules, regulations, manuals, and guidelines, comply ISSAIs. The implementation of important planning elements such as background and information about the audited entities, audit objective, scope, questions or hypotheses, criteria and period to be covered by the audit, and key project timeframes and milestones and the main points for control, is in compliance with ISSAI requirements for the audit planning phase.

Six SAs, or 33 percent, only partially complied. The challenge for most SAs was to implement the audit planning process following a risk-based methodology (Element 3 of ISSAI 140). The SAs implemented a rich set of policies, procedures, and audit manuals aimed at ensuring that audit engagements are of high quality and follow the ISSAIs. However, the responses they provided did not include sufficient indications related to key audit planning activities: risk assessment considerations, understanding of internal control relevant to the audit objectives and test controls on which they expect to rely; fraud risk assessment to enable auditors to plan and gather sufficient appropriate evidence related to identified fraud risks through the performance of suitable audit procedures; discussion and documentation of significant matters with management; and cost estimates per audit, thus impeding the comparison between costs and benefits per audit engagement. Finally, one out of 18 SAs provided very little supporting information related to its implementation of the ISSAI requirements for audit planning in its audit practice, which led to a rating of noncompliance.

**FOR AUDIT EXECUTION.** Eleven out of 18 SAs, or 61 percent, complied with the ISSAI requirements related to the audit execution in their audit practices. Their manuals are appropriate and explain the different types of audit. They define general principles and set more specific criteria and approaches for the audit execution phase in the audit process. The select-



ed audit files included audit procedures, test of control worksheet, and substantive procedures worksheets. Audit queries raised in the audit tests were escalated to the reporting phase. Supervision is conducted by three levels of reviewers. At the end of each audit phase there is quality control checklist which reviews and concludes on adherence to relevant procedures aligned with ISSAI requirements.

Six SAIs, or 33 percent, only partially complied. They implemented audits according to audit plans and guidelines. They also had sufficient, appropriate (valid, reliable, and relevant) audit evidence to establish findings, reach conclusions in response to the audit objectives and questions, and issue recommendations. A number of SAIs provided generic responses without references or supporting documentations, which were not considered to be valid inputs in the course of the present assessment. In this category, the challenge for SAIs is to move away from a compliance audit. The assessment found that performance audits remain at an early stage for most of the SAIs reviewed. On the other hand, important foundations for financial and compliance audits are in place for many of them.

**FOR AUDIT REPORTING AND FOLLOW-UP.** Eleven out of 18 SAIs, or 61 percent, complied with the ISSAI requirements related to audit reporting and follow-up in their audit practices, whereas 6 SAIs, or 33 percent, had only partially complied. SAIs face an important challenge to comply with the Mexico Declaration on SAI, which supports using audit reports more often and promoting transparency. Three principles are especially important:

- Principle 5: The right and obligation of SAIs to report on their work
- Principle 6: The freedom to decide the content and timing of audit reports and to publish and disseminate them
- Principle 7: The existence of effective follow-up mechanisms on SAI recommendations.

The follow-up of the recommendations is in place and seems effective. The majority of the respondent SAIs indicated they produce audit reports in compliance with ISSAI requirements that provide independent and reliable information to legislatures, oversight bodies, those charged with governance, and the public. These reports include the following relevant information: audit objectives; audit questions and answers to those questions; subject matter; criteria; methodology; sources of data; limitations on the data used; audit findings; and conclusions and recommendations. One out of 18 SAIs did not comply with the ISSAI requirements related to audit reporting and follow-up.

## Suggestions per Evaluation Domain

**FOR INDEPENDENCE.** As country authorities, SAIs (where possible with international development partners support) can fill this gap by ensuring the minimum conditions provided by the Mexico Declaration (INTOSAI-P 10) apply to them:

- Appropriate and effective constitutional framework
- Financial independence autonomy
- Organizational independence and autonomy
- Independence of the head of SAI and its officials.

**FOR QUALITY CONTROL.** SAIs need to strengthen reasonable assurance that the quality control requirements are carried out following relevant standards and applicable legal and regulatory requirements, such as ISSAI 130, the INTOSAI Code of Ethics and ISSAI 140 on Quality Control, or the International Federation of Accountants IFAC guidance ISQC 1.

For Audit Planning. The quality of audit planning varies between SAIs, especially regarding the ability to prioritize a systematic and documented risk-based approach for selection of entities to be audited against identified risks. INTOSAI-P 100, Fundamental Principles of Public-Sector Auditing, can fill this gap as follows:

- Establish the terms of the audit
- Obtain understanding
- Conduct risk assessment of problem analysis
- Identify risks of fraud
- Develop an audit plan.

**FOR AUDIT EXECUTION.** SAIs need to strengthen the following audit practice to be fully equipped with tools that will enable audit staff to collect and analyze sufficient and appropriate audit evidence to support sound audit conclusions:

- Consistent application of ISSAIs across all of the audit work
- Development of audit manuals and guidance for each type of audit (i.e., financial, compliance, and performance) to ensure full compliance with ISSAIs
- More intensive quality assurance and consistent use of the audit management software.

**FOR AUDIT REPORTING AND FOLLOW-UP.** SAIs need to strengthen the following audit practices to be fully equipped with tools that will enable them to meet the requirements related to audit reporting and follow-up:

- Publication and dissemination of audit reports to auditees as well as other stakeholders
- Development of an external communication strategy to maintain constructive relationship with the executive, the media, and civil society
- Systematic follow-up of the implementation of recommendations by the audited entities.



## Conclusion

The review sets out observations for a select number of SAIs on their compliance with ISSAIs. It was conducted through a survey using self-assessed responses provided by SAIs and the validation of supporting documentation by the World Bank review team.

The review noted that SAIs have successfully complied with ISSAIs at the foundational level but remain partially compliant with the standards. The partial compliance rating represents a spectrum where each SAI scores differently and demonstrates a capability to operate at different capacity levels. As most SAIs have dual capacity and channel most of their resources into audits of donor-funded projects, the findings of this review cannot be applied to the full range of audits carried out by SAIs. They indeed have the potential and the capacity to perform at higher levels provided they have the resources and commitment.

While further capacity building projects and technical assistance aimed at strengthening SAIs capacity to perform audits will improve compliance with ISSAIs, the SAIs' independence remains a concern. Revisions to the constitutional framework to allow for financial and organizational independence as well as the independence of the head of SAI and its officials will be critical to the successful implementation of SAI reforms.

With regard to compliance and financial audits, the review found that the general audit approach overall complies with ISSAIs. However, SAIs need to invest further in understanding the concept of performance audit, especially the concepts of efficiency and effectiveness.

The quality of SAI interventions should be continuously assessed in terms of their impact on the SAIs' environment (relevant stakeholders such as auditees and related institutions). Progress on improvement in relation to ISSAI compliance necessitate a longer period to complete, and it is crucial to invest time and resources in building success. SAIs benefit from Bank projects, peer networks, INTOSAI, and other multilateral and bilateral agencies. Although the review was completed after the COVID-19 pandemic began, the review team notes that support to SAIs continues in order to strengthen their ability to audit Bank-financed projects and conduct high-priority work. During the post-emergency phase of COVID-19, a broader coalition of partners could be built to support SAIs in further strengthening donor-funded projects



## Suggested Next Steps

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Suggested next steps for the World Bank to consider include:

- Capitalize on the review report to strengthen the World Bank's engagement with SAIs and support the use of a country systems strategy.
  - Organize a knowledge exchange session with other multilateral development banks, which also rely on SAIs for project audits, to discuss the dynamics and explore further collaboration with SAIs.
  - Continue collaboration with IDI on taking this agenda forward and strengthening SAI's compliance with ISSAIs.
- Draw on the review report and explore a next phase with broader scope including assessment of SAIs' capacity to review ex post procurement of Bank-financed projects; conducting audits during the COVID-19 crisis. Deeper analysis based on Public Expenditure and Financial Accountability and SAI PMF reports could capitalize on the findings of this report.
  - Consider developing guidelines to assist Bank staff in pursuing further reliance on SAIs for auditing Bank-financed projects.







## Appendix A. INTOSAI Framework of Professional Pronouncements

The International Organization of Supreme Audit Institutions (INTOSAI) enables Supreme Audit Institutions (SAIs) to help their respective governments improve performance by producing robust auditing standards through the International Standards of Supreme Audit Institutions (ISSAI). The INTOSAI Framework of Professional Pronouncements, endorsed by the XXIII International Congress of Supreme Audit Institutions held September 25–27, 2019, in Moscow, contain three categories of professional pronouncements: the ISSAI, INTOSAI Principles (INTOSAI-P), and INTOSAI Guidance (GUID).

INTOSAI-P consists of founding and core principles. The founding principles have historical significance and specify the role and functions that SAIs should aspire to. These principles may be informative to governments and legislatures as well as SAIs and the wider public and may be used as a reference in establishing national mandates for SAIs. The core principles support the founding principles for the SAI, clarifying its role in society as well as high-level prerequisites for its proper functioning and professional conduct.

The ISSAIs are the authoritative international standards on public sector auditing. Their purpose is to:

- Ensure the quality of the audits conducted
- Strengthen the credibility of the audit reports for users
- Enhance transparency of the audit process
- Specify the auditor's responsibility in relation to the other parties involved
- Define the different types of audit engagements and the related set of concepts that provides a common language for public sector auditing.

GUID is developed by INTOSAI to support the SAI and individual auditors in:

- How to apply the ISSAIs in practice in the financial, performance, or compliance audit processes
- How to apply the ISSAIs in practice in other engagements
- Understanding a specific subject matter and the application of the relevant ISSAIs.

INTOSAI-P	INTOSAI Principles				
	INTOSAI Founding Principles INTOSAI-P 1-9				
	INTOSAI Core Principles INTOSAI-P 10-99				
ISSAI	INTOSAI Standards				Competency Standards (COMP)
	Fundamental Principles of Public Sector Auditing ISSAI 100-129				
	SAI Organisational Requirements ISSAI 130-199				
	Financial Audit	Performance Audit	Compliance Audit	Other Engagements	
	FA Principles ISSAI 200-299	PA Principles ISSAI 300-399	CA Principles ISSAI 400-499	ISSAI 600-699	
	FA Standards ISSAI 2000-2899	PA Standards ISSAI 3000-3899	CA Standards ISSAI 4000-4899	ISSAI 6000-6499	
GUID	INTOSAI Guidance				Competency Standards (COMP)
	SAI Organisational Guidance GUID 1900-1999				
	Supplementary Financial Audit Guidance GUID 2900-2999	Supplementary Performance Audit Guidance GUID 3900-3999	Supplementary Compliance Audit Guidance GUID 4900-4999	Other Engagements GUID 2900-2999	
	Subject Matter Specific Guidance GUID 5000-5999				
	Other Guidance GUID 9000-9999				

Source: Reprinted from the INTOSAI website (<https://www.intosai.org/focus-areas/audit-standards>).





## **Appendix B.**

# **Self-Assessment Questionnaire**

**TABLE B.1. - Self-Assessment Questionnaire for Supreme Audit Institutions to Determine Their Level of Compliance with Quality Standards to be Considered When Conducting an Audit**

## SAI Independence

No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>DIMENSION (I) APPROPRIATE AND EFFECTIVE CONSTITUTIONAL AND LEGAL FRAMEWORK (ISSAI 1)</b>						
1	a) The establishment, role, powers and duties of the SAI are laid down in the constitutional or comparable legal framework.	ISSAI 1.5				
	b) The independence of SAI from the executive is embedded in the constitutional or comparable legal framework.	ISSAI 1.5				
	c) The appointment, term, removal and dismissal of the SAI's head (and members, in the case of collegiate bodies) and the independence of their decision-making powers are guaranteed in the constitutional or comparable legal framework.	ISSAI 1.6				
	d) There is adequate legal protection against any interference with the SAI's independence.	ISSAI 1.5				
<b>DIMENSION (II) FINANCIAL INDEPENDENCE/AUTONOMY (ISSAI 1 AND ISSAI 10)</b>						
2	a) The legal framework explicitly or implicitly provides for the SAI's financial independence from the executive.	ISSAI 1:7				
	b) The SAI's budget is not part of the executive's budget (e.g., Ministry of Finance).	ISSAI 10:8				
	c) The SAI has the right to prepare its own budget and submit this to Parliament.	ISSAI 10:8				
	d) The SAI's budget is approved by parliament.	ISSAI 1:7				
	e) The SAI has flexibility to use its budget according to its own priorities in accordance with the national budgetary laws.	ISSAI 1:7				
	f) "If required, SAIs shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget."	ISSAI 1:7				
	g) During the past 3 years there have been no cases of interference from the executive regarding the SAI's use of its budget.	ISSAI 10:8				

No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>DIMENSION (III) ORGANIZATIONAL INDEPENDENCE/AUTONOMY (ISSAI 1 AND ISSAI 10)</b>						
3	a) The legal framework contains specific provisions which guarantee the organizational independence of the SAI.	ISSAI 10:3				
	b) The relationship between the SAI and parliament and also government is clearly defined.	ISSAI 1:8,9				
	c) The SAI has the power to determine its own rules and procedures for managing business, consistent with prevalent rules affecting other public bodies.	ISSAI 1:5				
	d) The SAI has clear governance structures documenting how decisions are made.	ISSAI 1:5				
	e) The SAI decides on all human resource matters linked to its budget in accordance with the constitution/legislation.	ISSAI 10:8				
	f) The SAI is entitled to call on and pay for external expertise as necessary.	ISSAI 1:14				
	g) The head of the SAI is free to appoint staff and establish their terms and conditions, constrained only by staffing and/or budgetary frameworks approved by parliament or its committees.	ISSAI 10:8				
<b>DIMENSION (IV) INDEPENDENCE OF THE HEAD OF THE SAI AND ITS OFFICIALS (ISSAI 1, ISSAI 19, AND ISSAI 11)</b>						
4	a) "The applicable legislation specifies the conditions for appointments, reappointments... removal... of the Head of the SAI and [where relevant] members of collegial institutions... by a process that ensures their independence from the Executive" ISSAI 10:2 (e.g., with the approval of the legislature, and where relevant, the head of state; removal only for just cause/impeachment, similar protections to those that apply to a high court judge).	ISSAI 11:2				
	b) "the Head of the SAI, and [where relevant] members of collegial institutions... [are] given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation."	ISSAI 10:2				
	c) There have been no periods longer than 3 months during which there has been no official head of the SAI within the past three years.					
	d) The last appointment of the head of the SAI was done according to the legal framework and through a transparent process that ensures their independence from the executive.					
	e) During the last 3 years, there have been no attempts to remove the head of the SAI for reasons not covered in the legal framework and without following due process of law.					



## International Standard on Quality Control (ISQC) 1

No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>KEY ETHICAL REQUIREMENTS (ISQC 1 PARAGRAPHS 20 TO 25)</b>						
5	a) The SAI has the policies and procedures for establishing, promoting, and monitoring ethical conduct among all personnel.	ISQC 1.20				
	b) The SAI has the policies and procedures for its personnel, experts contracted by the firm (SAI), and network firm personnel relating to the following: i. Integrity; ii. Objectivity; iii. Professional competence and due care; iv. Confidentiality; and v. Professional behavior.	ISSAI 1.5				
	c) The SAI has the policies and procedures for identifying, communicating, and monitoring compliance with specific independence requirements, including maintenance of adequate records.	ISQC 1.21				
<b>KEY HUMAN RESOURCES REQUIREMENTS (ISQC 1 PARAGRAPHS 29 TO 31)</b>						
6	a) The SAI has the policies and procedures in place for the following: i. Recruitment; ii. Performance evaluation; iii. Capabilities; iv. Competence; v. Career development; vi. Promotion; and vii. Disciplinary actions.	ISSAI 1:7				
	b) The SAI has professional development policies and procedures, and they are communicated to staff, how these are documented and how they are reinforced and monitored.	ISQC1. 31				
	c) The SAI has policies and procedures for assignation of responsibility for each engagement to an engagement partner and appropriate engagement team.	ISQC1. 31				

No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>KEY ENGAGEMENT PERFORMANCE REQUIREMENTS (ISQC 1 PARAGRAPHS 32 TO 47)</b>						
7	a) The SAI has policies and procedures that provide the firm (SAI) with reasonable assurance that engagements are performed in accordance with professional standards — International Standards of Auditing — and applicable legal and regulatory requirements and that appropriate reports are issued in the circumstances. Remark: Provide details of the audit methodology, whether the methodology is based on ISA or acceptable national standards, manuals, and software tools used (mapping). How regularly are the manuals and software updated?	ISQC1. 32				
	b) The SAI has supervision and review policies and procedures at the engagement level.	ISQC1. 32				
	c) The SAI has policies and procedures regarding required and voluntary consultations?	ISQC1. 34				
<b>KEY MONITORING REQUIREMENTS (ISQC-1 PARAGRAPHS 48 TO 59)</b>						
8	a) The SAI has policies and procedures for the monitoring of compliance with quality control policies and procedures. Is your monitoring (post issuance) in house or outsourced? How do you ensure the independence and evaluate the ability of the monitoring reviewers?	ISQC1. 48				
	b) The SAI has policies and procedures for the inspection of a sample of completed engagements.	ISQC1. 48				
	c) The SAI has policies and procedures that provide how the effects of monitoring deficiencies found are evaluated and how the results of the monitoring is documented and communicated to engagement partners and other appropriate personnel.	ISQC1. 49				

No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>AUDIT PLANNING REQUIREMENTS</b>						
9	The SAI has policies and procedures to: 1) identify its stakeholders 2) develop procedures for communicating with the media, the auditee and other key stakeholders 3) establish effective two-way communications with them.	ISSAI 3100/ Appendix 3.3				
10	The SAI has policies and procedures that provide to document the audit in accordance with the particular circumstances thereof. The working papers shall contain: a) details of audit planning b) results of the audit execution c) audit evidence to support all audit findings, conclusions, and recommendations.	ISSAI 300/34 ISSAI 3100/23, 24 ISSAI 3000/4.2 ISSAI 3000/ Appendix 3, 3.9, 4				
11	The SAI plans and performs the audit to determine whether the subject matter, in all material respects, is in compliance with the stated criteria.	ISSAI 4100/69				
12	The SAI obtains an understanding of internal control relevant to the audit objective and test controls on which they expect to rely.	ISSAI 4100/66				
13	The SAI identifies and assesses fraud risk and auditor plan and gathers sufficient appropriate evidence related to identified fraud risks through the performance of suitable audit procedures.	ISSAI 4100/82				
14	The SAI has policies and procedures that require the auditor, before starting the main study, to define the audit objectives, the scope, and the methodology to achieve the objectives. This could be done in the form of a pre-study. Where a pre-study is conducted it: a) establishes whether the conditions for a main study exist b) provides background knowledge and information needed to understand the entity, program, or function c) is carried out in a fairly short period.					



No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>AUDIT PLANNING REQUIREMENTS</b>						
15	<p>The SAI includes the following elements in the planning documents:</p> <p>a) the background and information about the audited entities, so as to allow an assessment of the problem and risk, possible sources of evidence, auditability, and the significance of the area considered for audit;</p> <p>b) the audit objective, scope, questions or hypotheses, criteria, and period to be covered by the audit, methodology (framework, perspective, and analytical structure that were adopted and the process that was followed to arrive at the conclusions, including techniques for gathering evidence and conducting the audit analysis);</p> <p>c) the necessary activities, staffing, and skills requirements (including the independence of the audit team, human resources, and possible external expertise);</p> <p>d) the estimated cost of the audit, the key project timeframes and milestones, and the main points for control.</p>	ISSAI 300/34, 37 ISSAI 3100/12 ISSAI 3000/3.3				
16	<p>The SAI documents discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.</p>	ISSAI 1230.10				
17	<p>The SAI makes inquiries of management regarding:</p> <p>a) Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent, and frequency of such assessments;</p> <p>b) Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;</p> <p>c) Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and</p> <p>d) Management's communication, if any, to employees regarding its views on business practices and ethical behavior.</p>	ISSAI 1240.17				

## AUDIT EXECUTION — Collecting and analyzing evidence

No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>AUDIT EXECUTION REQUIREMENTS</b>						
18	The SAI has a systematic and iterative evidence gathering process that involves a) Gathering the evidence through the use of appropriate audit procedures b) Evaluating the evidence obtained as to its sufficiency and appropriateness c) Re-assessing risk and gathering further evidence as necessary.	ISSAI 4100/94				
19	Audit evidence is gathered using a variety of techniques such as: a) Observation b) Inspection c) Inquiry d) Re-performance e) Confirmation f) Analytical procedures.	ISSAI 4100/97				
20	The SAI arranges that the work delegated to the auditor is carefully directed, supervised and reviewed.	ISSAI 300/38 ISSAI 3000/2.3 ISSAI 3100/19 ISSAI 3100/2.5, 38 ISSAI 3000/ Appendix 4				
21	The SAI obtains sufficient, appropriate (valid, reliable, and relevant) audit evidence to establish findings, reach conclusions in response to the audit objectives and questions, and issue recommendations.	ISSAI 300/38 ISSAI 3100/21 ISSAI 3000/4.2, 4.3 ISSAI 3000/ Appendix 3, 2 ISSAI 3000/ Appendix 3, 1.2 ISSAI 3000/ Appendix 3, 2.2 ISSAI 3100/20 ISSAI 3000/5.2 ISSAI 3000/ Appendix 3, 1 ISSAI 3000/5.3				

No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>AUDIT PLANNING REQUIREMENTS</b>						
22	The SAI communicates to management at an appropriate level of responsibility on a timely basis: (a) in writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances; and (b) other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.	ISSAI 1265:10				
23	On or before the date of the SAI's report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, is satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.	ISSAI 1220:17				
24	SAI takes care to ensure that reports presented are factually correct, and that findings and conclusions are presented in the proper perspective and in a balanced manner.	ISSAI 4100/137				
25	SAI reports are constructive and include, as appropriate, recommendations designed to result in improvements.	ISSAI 4100/153				
26	The SAI includes in the audit report information about the: <ul style="list-style-type: none"> <li>• Audit objectives</li> <li>• Audit questions and answers to those questions</li> <li>• Subject matter</li> <li>• Criteria</li> <li>• Methodology</li> <li>• Sources of data</li> <li>• Limitations on the data used</li> <li>• Audit findings, conclusions, and recommendations.</li> </ul>	ISSAI 300/39 ISSAI 3100/sec. 28,30 ISSAI 3000/sec. 5.2				
27	The SAI ensures that the findings clearly conclude against the audit question or explain why this was not possible.	ISSAI 3100/sec. 30				



No.	Requirements	Reference	Compliance Assessment (Yes or No)	SAI Validation of Assessment (Yes or No)	Provide Evidence to Confirm Compliance Status and Reference Documents	Reasons for Noncompliance and Partial Compliance
<b>AUDIT EXECUTION REQUIREMENTS</b>						
28	The SAI explains in the report why and how problems noted in the findings hamper performance in order to encourage the audited entity or report user to initiate corrective action.	ISSAI 1220.20				
29	The SAI's engagement quality control reviewer performs an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report. This evaluation shall involve: (a) Discussion of significant matters with the engagement partner; (b) Review of the financial statements and the proposed auditor's report; (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and (d) Evaluation of the conclusions reached in formulating the auditor's report and in consideration of whether the proposed auditor's report is appropriate.	ISSAI 1230.14				
30	The SAI assembles the audit documentation in an audit file and completes the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.	ISSAI 1230.14				

Source: World Bank.

Note: ISA = International Standards on Auditing; ISQC = International Standards on Quality Control; ISSAI = International Standards of Supreme Audit Institutions; SAI = Supreme Audit Institution.



