Internal Audit Report
Assessment of the Design of the Office of the Auditor General’s Quality Management System
16 October 2008

Mr. Stuart Barr
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Office of the Auditor General of Canada
240 Sparks Street
Ottawa, Ontario
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Dear Mr. Barr:

We are pleased to present to you a joint report prepared by PricewaterhouseCoopers LLP and the Practice Review and Internal Audit Team of the Office of the Auditor General (OAG), summarizing the results of our assessment of the design of the OAG’s Quality Management System for the following product lines: performance audits, annual financial audits, and special examinations.

Our assessment was based on General Standards of Quality Control for Firms Performing Assurance Engagements and CICA Handbook Section 5030 Quality Control Procedures for Assurance Engagements.

Yours very truly,

PricewaterhouseCoopers LLP

Julie Charron
Chief Audit Executive
Office of the Auditor General of Canada

Attach.
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Main Points

What we examined

A Quality Management System (QMS) is a system designed to provide an organization with reasonable assurance that it complies with professional standards and regulatory and legal requirements; it also ensures that reports issued by the organization are appropriate.

The Office of the Auditor General (OAG) has established a QMS in accordance with the Canadian Institute of Chartered Accountants (CICA) standards; namely the General Standards of Quality Control for Firms Performing Assurance Engagements (GSF-QC) and CICA Handbook Section 5030 Quality Control Procedures for Assurance Engagements. Those standards include policies and procedures addressing eight elements, ranging from leadership responsibilities for quality, to ethical requirements, to documentation and monitoring of its quality control system.

This assessment examined whether the design of the OAG Quality Management System meets the CICA’s General Standards of Quality Control for Firms Performing Assurance Engagements and Section 5030 Quality Control Procedures for Assurance Engagements. It did not look at the effectiveness of the QMS.

It is worth noting that this is the first assessment of this nature of the OAG’s QMS, and therefore some gaps are to be expected.

The assessment was restricted to examining the Office’s methodology and its documented policies and procedures; it did not include a review of specific audit files.

The assessment was conducted between May and September 2008 by the OAG’s Practice Review and Internal Audit Team and PricewaterhouseCoopers LLP.

Why it’s important

The rules of professional conduct and codes of ethics require that practitioners of public accounting perform their professional services in accordance with generally accepted standards of the profession, including the standards and guidance contained in the CICA Handbook.

The CICA requires that all audit firms in Canada performing assurance engagements establish a framework for, and provide guidance on, the quality control policies and procedures applicable to assurance engagements. The objective is to maintain and enhance the quality of their audits and to enable the Office to implement the requirements of quality management on a consistent basis.

A Quality Management System is therefore the cornerstone of a legislative audit office such as the OAG and an essential element of its credibility in the eyes of Parliament and the public.
What we found

The OAG partially meets the quality standards for firms and the quality control procedures for assurance engagements. This does not mean that particular audits were deficient but rather that some areas need improvements in order to fully comply with professional standards and to ensure consistency in the application of the quality management system across the Office.

- The OAG has strong leadership and an overall commitment to quality. However, roles and responsibilities of quality reviewers, product leaders, senior management committees, specialists, and the methodology group are not clearly defined, acknowledged, and understood. Clarifying roles and responsibilities of the various players involved in the development and delivery of audit methodology will enable the Office to address the major observations contained in this report.

- Audit manuals for all three product lines—annual audits, performance audits, and special examinations—are out-of-date. While several “interim” practice advisories issued between 2005 and 2008 are current, some have been outstanding for several years and there is a risk that staff may not be aware of that fact. There is currently no formal process to ensure that policies and procedures in the audit manuals are regularly updated and incorporate practice advisories issued between updates. There is also duplication of guidance on common elements of the QMS, such as leadership, ethics, independence, and monitoring. When common elements are applicable to all audit products, consideration should be given to establishing Office-wide policies.

- The nature of the work carried out by quality reviewers varies across the product lines. The process for appointing quality reviewers is not well documented and is also inconsistent between product lines. Other than a practice advisory describing the general role of quality reviewers and an audit template for annual audits, there is no policy outlining the responsibilities of a quality reviewer. Nor is there guidance outlining the steps to be carried out in an audit by a quality reviewer. Moreover, without clear criteria supporting the need for quality reviewers, there is a risk that a quality reviewer might not be appointed to a high-risk audit or might be appointed to a low-risk audit. This adds to the risk that the quality reviewer’s role is not carried out consistently. Clarifying the guidance and the role of quality reviewers for each product line, providing training, ensuring that quality review is applied consistently across product lines, and clarifying the process for appointing quality reviewers would address the problems identified in this area.

- The monitoring process related to the Office’s system of quality control and periodic file inspection of selected completed audits needs to be formalized. There is no formal policy for monitoring and evaluating the OAG quality control system and keeping it current with new developments in professional standards or changes in other Office policies. Formalizing the policies related to monitoring of the OAG’s engagement files and its quality control system would address the findings in this area.
There were some recommendations for improvement in some functional areas, such as human resources. These recommendations have been shared with management and none are considered to require immediate attention.

**The OAG has responded.** Management agrees with the recommendations and has provided a detailed response to each recommendation in the report.
Assessment of the Design of the Office of the Auditor General’s Quality Control System

1. Introduction

1.1 Review mandate

The assessment of the Design of the Office of the Auditor General’s (OAG) Quality Management System (QMS) was conducted jointly by the OAG Practice Review and Internal Audit Team and PricewaterhouseCoopers LLP. Management had identified the need for such an assessment to be performed, and it was also included in the Office of the Auditor General’s Internal Audit and Practice Review Plan 2008–09. The review was conducted from May to September 2008 on policies and procedures in place at the time.

1.2 Background

Professional standards requirements

The rules of professional conduct/code of ethics require that members engaged in the practice of public accounting perform their professional services in accordance with generally accepted standards of practice of the profession, including the standards and guidance contained in the Canadian Institute of Chartered Accountants (CICA) Handbook.

The General Standards of Quality Control for Firms performing Assurance Engagements (GSF-QC) of the CICA require that audit offices establish a framework and provide guidance on the quality control policies and procedures applicable to assurance engagements. Their objective is to maintain and enhance the quality of performance of assurance engagements by audit offices.

Recommendations on quality control procedures concerning the specific and related responsibilities of the practitioner and other members of the assurance team are set out in the Quality Control Procedures for Assurance Engagements section (HB 5030) of the CICA Handbook.

Elements of a Quality Management Framework

To comply with the CICA standards, the Office has established a system of quality control designed to provide it with reasonable assurance that the Office and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the Office or engagement practitioners are appropriate in the circumstances.
As required by the standards, the OAG’s system of quality control should include policies and procedures addressing each of the following elements:

- leadership responsibilities for quality within the OAG,
- ethical requirements,
- acceptance and continuance of client relationships and specific assurance engagements,
- human resources,
- engagement performance,
- engagement documentation,
- monitoring, and
- documentation of the quality control system.

The standards help facilitate consistent application and interpretation of standards, methodology, policies, and procedures.

## 2. About the Assessment

### 2.1 Assessment objective

The overall objective of the assessment of the design of the Office’s Quality Management System (QMS) against the General Standards of Quality Control for Firms performing Assurance Engagements (GSF-QC) and the Quality Control Procedures for Assurance Engagements (HB 5030) of the CICA Handbook is to report on those parts of the QMS where

- the design is consistent with CICA criteria; and
- further work is required for the design to be consistent with CICA criteria, including recommendations for required action to ensure consistency in the design with the CICA criteria.

### 2.2 Assessment scope

The scope of the work included the design of the Quality Management System only and did not address its effectiveness. It was restricted to an assessment of the Office methodology and to documented policies and procedures and did not include the review of specific audit files. The performance audit, annual financial audit, and special examinations product lines have been considered.

More specifically, the assessment has been conducted

- to confirm consistency and or identify modifications for each element of the General Standards of Quality Control for Firms performing Assurance Engagements (GSF-QC) and of the Quality Control Procedures for Assurance Engagements (section 5030); and
• to provide an overall assessment of the compliance of the Office’s QMS, from a design perspective, with both GSF-QC and section 5030.

2.3 Criteria

The criteria for the assessment are attached as an appendix.

2.4 Approach

Interviews were conducted with key players involved in quality at the OAG, including managers and staff, executive committee members (including the Auditor General), and product and service leaders. Documents such as audit manuals, TeamMate libraries for each of the three product lines, and the OAG intranet site were reviewed. Other key documents, such as legislation, reports, studies, policies and procedures, minutes of various committees, and delegated authorities, were also reviewed and analyzed.

3. Observations and Recommendations

Context

Audit methodology defines how the OAG codifies the standards and practices to be followed by auditors in carrying out their work. Methodology is an inherent aspect of what the Office does, why it does it, and how it does it. It gives rigour and discipline to the work, and provides the structure within which audit teams exercise professional judgment.

We found that the Office has put in place formal and informal policies and procedures to help ensure that the resultant audit reports achieve their objectives. This quality assurance process helps to ensure that appropriate audit policies are followed in addition to requiring numerous players to be involved in various phases of the audit—for example, quality reviewers, practice reviewers, senior management committees, and product leaders.

Audit manuals have been developed to guide auditors in conducting their work. They contain expected practices, audit policies, and CICA standards that must be complied with. Typically, audit manuals provide the framework for audit planning and execution, and checklists and tools help the auditors document the work. In addition, audit tools such as templates, checklists, sample reports, or detailed audit libraries help auditors conduct their activities. They are usually found on the OAG intranet site or in the Office audit software tool, TeamMate. For the purposes of this assessment, we have considered all of the above to be part of the OAG’s methodology.

Overall assessment

Overall, there are gaps that need to be addressed. Based on the work performed, the OAG partially conforms with the General Standards of Quality Control for Firms (GSF-QC).
In addition, the Office conforms with the Quality Control Procedures for Assurance Engagements (section 5030 of the CICA Handbook) for annual audits and partially conforms for performance audits and special examinations.

Appropriate policies within firms assist and enable practitioners to implement the engagement level requirements on a consistent basis. As stated in standard 5030.50 of the CICA Handbook, if a weakness is discovered in the firm’s policies and procedures, it does not mean that a particular assurance engagement is deficient. Therefore, the areas for improvement highlighted in this report do not mean that the work performed on a specific audit was deficient. As previously mentioned, review of individual files was not within the scope of this assessment.

Overall, we noted that the OAG has strong leadership and an overall commitment to quality. Many groups and individuals in the Office contribute to completion of an audit and of the audit report. They provide expert advice, guidance, legal counsel, challenge and review, methodology, audit tools, and assistance in editing, translation, and presentation of the report. Their roles and input may vary throughout the audit, depending on the complexity and findings of the audit.

Quality reviewers, product leaders, senior management committees, specialists, and the methodology team are examples of sound control mechanisms to assist in ensuring that controls are operating effectively and that the audit approach is challenged. However, we found that their roles and responsibilities are not clearly defined, acknowledged, and understood.

The Office needs to clarify the roles and responsibilities of the various parties involved—their duties, obligations, and related authorities—in the planning and delivery of audit methodology, including the existing framework and streamlining of current policies and procedures. Without a clear definition and understanding of the roles and responsibilities of the parties involved, the basic underpinnings of an effective relationship are absent. This risks confusion when the arrangement is implemented and, if things go wrong, makes it more difficult to find out why. The Office is currently facing this risk.

In our view, priority should be given to the following recommendations:

- Clarify the roles and responsibilities of various parties involved in setting methodology, and developing related audit tools, such as checklists, audit libraries (generic set of criteria, templates, audit steps), and practice advisories, including the roles of product leaders, the Professional Practices Group, Professional Development, and other internal committees.

- Update and consolidate the audit manuals and methodology for annual financial audits, performance audits, and special examinations.

- Clarify the guidance and the role of quality reviewers for each product line, provide training, and ensure consistency of application across product lines.

- Document the policies and procedures in place to address the requirements of the standards to demonstrate compliance.
The rest of the report provides our findings and recommendations for further improvement from our assessment. Exhibits 1 and 2 provide a snapshot of the Office's compliance with the related standards (GSF-QC and CICA 5030).

The assessment of criteria for each standard is based on the following definitions:

**Generally Conforms/Good**—Based on procedures performed, the relevant structures, policies, and procedures of the activity, as well as processes by which they are applied, comply with the requirements of the individual standard in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standards. There may be opportunities for improvement, but these should not represent situations where the activity has not implemented the standards.

**Partially Conforms/Satisfactory**—Based on procedures performed, the relevant structures, policies, and procedures of the activity, as well as processes by which they are applied, comply with some but not all of the requirements of the individual standard in all material respects. There are significant opportunities to improve the design of these structures, policies, and procedures to achieve the objectives of the standards. Some of the deficiencies may go beyond the control of the activity, which could result in recommendations to senior management.

**Does not Conform/Needs Significant Improvement**—Based on procedures performed, the OAG is failing to comply with the requirements of the standards. There are significant gaps in the design, requiring senior management's immediate attention.

### Exhibit 1 —The OAG Partially Conforms with most Quality Standards for Firms (GSF-QC)

<table>
<thead>
<tr>
<th>Category</th>
<th>Generally Conforms/Good</th>
<th>Partially Conforms/Satisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Responsibilities for Quality within the Firm</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Ethical Requirements</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Acceptance and Continuance of Client Relationships and Specific Assurance Engagements</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Engagement Performance</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Engagement Documentation</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Monitoring</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Documentation of the System of Quality Control</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
3.1 Leadership responsibilities

Standards (GSF.009-.013) require the OAG to have policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing assurance engagements. Such policies and procedures require the Auditor General to assume ultimate responsibility for the system of quality control.

Overall, we found that the OAG partially conforms with the leadership standards. There is a strong tone from the top and a focus on quality across the Office, but roles and responsibilities of various players involved in the planning and delivery of audit methodology need to be clarified, acknowledged, and understood.

Observation 1—Roles and responsibilities lack clarity

Standard GSF.010 states that the promotion of a quality-oriented internal culture depends on clear, consistent, and frequent actions and messages from all levels of the firm’s management, emphasizing the firm’s quality control policies and procedures.

There is a strong focus on quality in the Office, and the Auditor General has set a clear tone from the top. The structure is such that several members of senior management are involved in higher-risk engagements, including the Deputy Auditor General and the Auditor General in some cases. There is an Assistant Auditor General (AAG) responsible for each product line, currently referred to as a product leader. Moreover, specialists are involved in technical matters, quality reviewers are assigned to higher-risk assignments, and special examinations and performance audits are subject to various reviews by senior internal committees, such as the Annual Audit and Special Examination Committee and the Performance Audit Management Committee.

However, we found that the roles and responsibilities of each of these parties need to be clarified. For example, one of the objectives of the appointment of AAG product leaders in 2007, among other efforts to standardize the products, was to enhance the quality of operations within the Office. We noted that the product leaders have taken different approaches to quality, based on their individual styles and priorities. Moreover, the roles and responsibilities of the AAG product leader and the Professional Practices Group (PPG), as well as the interaction between product lines leaders, PPG, and senior OAG committees regarding quality management, are not formalized. This results in varying approaches to quality management and can lead to inconsistent quality across product lines, inconsistent application of audit methodology, and resulting confusion for staff.

Clarifying roles and responsibilities will ensure a consistent approach to quality for all product lines.

Recommendation 1

The Office of the Auditor General should clearly document, approve, and communicate the roles and responsibilities of the Assistant Auditor General (AAG) product leaders, the
Professional Practices Group, quality reviewers, and other senior OAG committees or parties involved in audit products, as related to quality.

**The OAG’s response.** Agreed. The Deputy Auditor General is currently leading an initiative to clarify the roles and responsibilities of the Assistant Auditor General (AAG) product leaders, the Professional Practices Group, quality reviewers, and other senior OAG committees or parties involved in audit products, as related to quality. These roles and responsibilities will be documented and then reviewed and approved by the Executive Committee no later than the September 2009 Executive Committee meeting and subsequently communicated to staff.

**Observation 2—Sufficiency of resources devoted to the development, documentation, and support of quality control policies and procedures is questionable**

Standard GSF .011(c) requires the OAG to devote sufficient resources for the development, documentation, and support of its quality control policies and procedures.

Audit manuals for each of the audit products are out of date and have not been consolidated to incorporate practice advisories when relevant. This may suggest that resources assigned to the development, documentation, and support of quality control policies have been historically inadequate. Moreover, the Office has accumulated a backlog of practice reviews for annual financial audits and special examinations to be conducted.

**Recommendation 2**

The Office of the Auditor General should assign adequate and sufficient resources to the development, documentation, and maintenance of methodology to allow for timely development, documentation, and support of its quality controls policies and procedures.

**The OAG’s response.** Agreed. The Office has reviewed the resource needs of the Professional Practices Group and increased the full-time equivalents from 17 to 20 in September 2008 and again from 20 to 22 effective 1 April 2009. The Office will continue to monitor resource needs and adjust staff levels as appropriate.

**3.2 Ethical requirements**

Standards (GSF .014–.027) require the OAG to establish policies and procedures designed to provide the Office with reasonable assurance that its personnel comply with applicable ethical requirements.

We found that the OAG partially conforms with these standards. The Office could improve in this area by broadening the list of team members that need to complete the Assurance Engagement Report on Independence to include all members involved in the audit, including specialists, quality reviewers, and information technology auditors.
Observation 3—Confirmation of independence is required from all members performing audit work on an engagement

Standard GSF .018 requires the OAG to establish policies and procedures designed to provide reasonable assurance that its personnel (including contracted specialists) maintain their independence.

The July 2007 Practice Advisory specifically indicates that the individuals advising the engagement team in the conduct of their audit work are not expected to complete the Assurance Engagement Report on Independence for every assurance engagement. This list includes the Auditor General, the Deputy Auditor General, quality reviewers, internal advisors, members of the annual audit practice group, internal specialists, and information technology staff.

It is our view and current assurance industry practice that the above-mentioned individuals should confirm their independence. Information technology staff can spend a significant portion of their time on an audit engagement and can participate in determining the audit approach. It is therefore important that they confirm their independence. Moreover, members of the Annual Audit Practice Team (AAPT) should also confirm their independence as they provide a detailed review of the financial statements and also act as advisors on specific audit issues. Knowing that AAPT staff come from audit operations and could have been involved with key files related to the audit engagement before joining the AAPT group, it is important that they confirm their independence. The same logic applies for internal specialists.

Confirmation of independence can take various forms. It is up to the OAG to determine what best applies. Without a confirmation from every individual involved in performing audit work on an audit file, it is our view that the requirements of the standards on independence are not fully met.

Recommendation 3

The Office of the Auditor General should formally require that all individuals involved in performing audit work in an audit engagement, and more specifically reviewers, such as quality reviewers and specialists involved in an audit engagement, confirm their independence. Practice reviewers involved in post-audit reviews should also confirm their independence at the beginning of a practice review.

The OAG’s response. Agreed. In November 2008, the Annual Audit Practice Team updated Teammate procedures for annual audits to require each member of the team, including the quality reviewer and any specialists or consultants that are part of the team, to complete the Assurance Engagement Report on Independence. The Professional Practices Group will issue a practice advisory by September 2009 to clarify that all individuals involved in performing audit work in an audit engagement, including quality reviewers and specialists, are to confirm their independence. This practice advisory will be incorporated into the Office’s audit manuals as they are updated (see Recommendation 9).
Since October 2008, practice reviewers have been required to complete an independence form before the start of any engagement.

### 3.3 Acceptance and continuance of client relationships and specific assurance engagements

Standards (GSF .029–.040) require the OAG to establish policies and procedures designed to provide it with reasonable assurance that it identifies and assesses the potential sources of risks associated with a client relationship or a specific assurance engagement. Standards also require that the Office not accept or undertake an engagement if there are constraints that would prevent completion of the engagement in accordance with professional standards and regulatory and legal requirements.

The CICA Handbook further points out that in the public sector, auditors are normally appointed in accordance with statutory procedures. Accordingly, the policies and procedures required by these CICA standards would be adapted by a legislative audit office, as appropriate, to address the specific requirements and circumstances of its jurisdiction.

Overall, we found that the Office generally conforms with these standards. The majority of the Office’s audit engagements are legislated—that is, specific legislation appoints the Auditor General as the auditor of an entity, and therefore acceptance is mandatory. However, the Office also conducts discretionary audits. These audits could be pursuant to

- the amended section 134 (2) of the *Financial Administration Act* where the Auditor General is the auditor or joint auditor of each federal Crown Corporation unless a waiver is provided by the Auditor General; or
- section 11 of the *Auditor General Act* through an appointment by the Governor in Council; or
- sections 5, 7, and 11 of the *Auditor General Act*; or
- a request by a territorial corporation; or
- acceptance of an audit of an international organization.

In these cases, acceptance of an audit is discussed in advance by senior members of the Office; however, there is no formal process for acceptance of audits. We noted that there is a formal process to review and approve audit requests from parliamentarians or standing committees.

**Observation 4—A process to assess and accept discretionary engagements is lacking**

Standard GSF .031 requires the OAG to obtain information it considers necessary before accepting or continuing to provide non-legislated audit engagements. The OAG should develop and document the process to approve discretionary audits prior to acceptance of any such engagements.
Recommendation 4

The Office of the Auditor General should document and approve its process to assess and accept discretionary audit engagements.

The OAG’s response. Agreed. The process to accept discretionary audit mandates was documented and approved at the 21 January 2009 Executive Committee meeting.

3.4 Human resources

Standards (GSF .041–.047) require the OAG to develop policies and procedures designed to provide the Office with reasonable assurance that it has sufficient personnel with the competencies and commitment to ethical principles necessary to perform its assurance engagements in accordance with professional standards and regulatory and legal requirements, and to enable appropriate reports to be issued.

We found that the OAG partially conforms with these standards. Among other personnel issues, the standards deal with the recruitment process as well as the training of staff involved in audit engagements. The OAG needs to clarify roles and responsibilities for those involved in recruiting and training. Special examination training needs to be improved.

Observation 5—Expectations of those involved in recruiting are not properly documented and communicated

Standard GSF .042(a) requires specific documented policies and procedures in the area of recruitment. The OAG’s recruitment process should include procedures that help the OAG select individuals of integrity with the capacity to develop the competencies necessary to perform the Office's work.

We found no policy related to details of communications, meetings, and/or training given to interviewers or others involved in the recruitment process. Clarification is needed for the competencies being tested for each new staff member hired.

Recommendation 5

The Office of the Auditor General should clearly document and communicate the expectations for those involved with the recruiting process. Training should be offered if deemed necessary.

The OAG’s response. Agreed. Human Resources will clearly document and communicate by September 2009 the expectations for those involved with the recruiting process and offer training if deemed necessary.
Observation 6—Responsibilities for training-related activities are not properly documented

Standard GSF .044 requires the OAG to emphasize in its policies and procedures the need for continuing training to enable personnel to develop and maintain the required competencies for their job.

Our review revealed weaknesses in the identification and approval of required courses and the responsibility for delivery of training—for example, the roles, responsibilities, and coordination of training activities as delivered by Human Resources (HR), Professional Development (PD), and the Professional Practices Group (PPG). As pointed out in the April 2006 Internal Audit report of Management of Human Resources and Professional Development Function, the roles and responsibilities of the HR/PD function should be clearly defined and this was to be done as part of the review and revision of HR Management policies. Although progress has been made, it has not been fully addressed.

Moreover, while there is a training curriculum in place, the approval process for adding new courses and making changes to the curriculum is not clearly documented and articulated. For example, clarification is needed on who approves new training (ad hoc and/or mandatory), how and when new courses are added to the training curriculum, and who has the overall responsibility to develop and provide training.

Recommendation 6

The Office of the Auditor General should clarify and clearly document the roles and responsibilities of each party (Human Resources, Professional Development, the Professional Practices Group, the methodology committee, and product leaders) involved in the development of training, including the approval process for adding new courses and making changes to course curriculum for each product line.

The OAG’s response. Agreed. Responsibility for audit training is expected to be transferred from Professional Development to the Professional Practices Group effective 1 April 2009. Management will seek approval by the Executive Committee on 22 April 2009 for this transfer and allocation of related roles and responsibilities between the Professional Practices Group and Professional Development. The Strategic Planning Committee will ensure that there is an appropriate process for adding new courses and making changes to course curriculum for each product line.

Observation 7—Training for special examinations is lacking

Standard GSF .044 requires continual training of personnel.

We noted a weakness concerning special examinations relative to learning, education, and training. Although some training has been given on selected elements of the special examination practice, a complete program, including methodology requirements and changes to the practice over time, has not been offered. Management informed us that a decision to offer such training was made due to the outdated methodology. In our view, further training is needed to ensure consistency in the audit approach and compliance with audit standards.
Recommendation 7

The Office of the Auditor General should ensure that practitioners receive comprehensive training on special examination methodology.

The OAG’s response. Agreed. The Special Examination Practice Team has offered sessions of comprehensive training on special examination methodology since November 2008.

3.5 Engagement performance

Standards (GSF .051–.084) require the OAG to establish policies and procedures designed to provide the Office with reasonable assurance that assurance engagements are performed in accordance with professional standards and regulatory and legal requirements, and that appropriate reports are issued. In particular, the Office should establish policies and procedures requiring that engagements are adequately planned, properly supervised, and appropriately reviewed.

We found that the OAG partially conforms with these standards. Roles and responsibilities for approving changes in the audit methodology need to be clarified. More specifically, the purpose of the multiple guidance tools used to provide audit guidance—that is, the audit manuals, practice advisories, checklists, and TeamMate, and the authority to modify their content, need to be clear and communicated. Moreover, audit manuals for each audit product need to be updated, with consideration given to consolidating common elements of the quality management system of various audit products. Finally, a process needs to be developed for ensuring timely updates of audit methodology.

In addition, it would be timely for the Office to formalize and review its guidance on joint and collaborative audits.

Observation 8—Roles and responsibilities for approving changes in the audit methodology are not properly documented and communicated

Standard GSF .052 requires the OAG, through its policies and procedures, to seek to establish consistency in the quality of engagement performance, including developing processes to keep all policies and procedures current.

We found that responsibilities for updating and approving office methodology and guidance are not clearly documented and determined. As noted under the Leadership section of this report, the Office does not have clear documentation outlining the roles and responsibilities in the area of audit methodology of AAPT (or PPG), the three product leaders, and senior management committees of the Office. Specifically, the roles of the product leader and others are not set out in the audit manuals of the three products or elsewhere.

Recommendation 8

Once the roles and responsibilities for audit quality have been clearly defined, including specifying who is responsible for updating and approving changes in the audit methodology,
the Office of the Auditor General should ensure that proper approvals are obtained and documented.

The OAG’s response. Agreed. Once the roles and responsibilities for audit quality have been clearly defined and approved (expected to be September 2009 – see Recommendation 1), the Office will ensure that proper approvals are obtained and documented for updating and approving significant changes in methodology.

Observation 9—Audit manuals are out of date and common Office-wide policies are not consolidated

Standard GSF .052 requires the OAG to establish, and keep current, policies and procedures designed to ensure consistency in the quality of engagements. This is often accomplished through written or electronic manuals, software tools, or other forms of standardized documentation.

Standard GSF .052(f) requires the OAG to keep engagement performance policies and procedures current.

To date, the Office has approached audit methodology separately for each of the three product lines. Audit guides, practice advisories, checklists, and the electronic tool (TeamMate) exist for each of the annual audit, performance audit, and special examination product lines. Audit manuals for each of the product lines are out of date. Although practice advisories were issued in an effort to provide guidance for new standards, they are not used consistently across the product lines and there is no process to incorporate them into the audit manuals on a timely basis.

We also noted that Office-wide policies and procedures common to all product lines on such matters as leadership, ethics and independence, acceptance and continuance, engagement documentation, and monitoring are treated differently in each of the audit manuals. It would be timely for the Office to streamline common elements of each individual audit practice into one set of Office-wide standards.

Recommendation 9

The Office of the Auditor General should consolidate and update the audit manuals for the three product lines, including incorporating existing practice advisories. The manuals should continue to be updated on a timely basis.

The Office should consolidate into one set of Office-wide policies and procedures common elements of the quality management system for all product lines, such as leadership, ethics and independence, acceptance and continuance, engagement documentation, and monitoring.

The OAG’s response. Agreed. The Annual Audit Practice Team will update the Annual Audit Manual to reflect, in all material respects, current professional standards and incorporate existing practice advisories by October 2009.
The Professional Practices Group (PPG) will consolidate common elements of the quality management system for all product lines into one set of Office-wide policies and procedures. The preliminary target for finalizing an English draft document is February 2010, with a web-ready bilingual version ready by September 2010. These timelines will be revised as appropriate, as PPG develops more detailed plans and milestones.

The Professional Practices Group will also revise the three product-line manuals (annual audit, performance audit, and special examination) for consistency in content and structure and eliminate guidance already covered in the Office-wide policies and procedures. The preliminary target for finalizing an English draft document is May 2010, with a web-ready bilingual version ready by December 2010. These timelines will be revised as appropriate, as PPG develops more detailed plans and milestones.

**Observation 10—Guidance on joint and collaborative audits has not been formalized**

Standard GSF .053 stresses the importance of providing clear direction in the area of planning, supervision, and review, including informing team members of their responsibilities.

The OAG has situations where it conducts joint audits with other professional audit firms. A joint audit is one in which two or more audit organizations are engaged to express opinions on the same set of financial statements, with a single common audit report on the financial statements being signed by each auditor. In the case of a joint audit, it is common practice for the auditing procedures to be divided between the joint auditors to avoid duplicating audit work. However, a division of work does not reduce each auditor’s responsibility for the opinion on the financial statements as a whole.

An administrative checklist for use on joint audits with other professional firms is available on the Office intranet. This form should be revised as part of the update of methodology for joint audits.

Finally, although not high in number, the OAG also conducts collaborative audits with other legislative audit offices. We found that there is no guidance on administrative arrangements and how work should be conducted. In our view, formal guidance in this area would also be beneficial.

**Recommendation 10**

The Office of the Auditor General should develop and approve guidance for audit teams involved in joint audits, including the division of work, required communication between the auditors, and access to each other’s working papers. The auditors should understand the basis on which the work is to be divided before the start of the audit. The Office should have written guidance requiring confirmation of this understanding by the engagement leader.

The OAG should develop similar guidance for collaborative audits.

**The OAG’s response.** Agreed. The Office is confident that the roles and responsibilities for joint and collaborative audits are appropriately understood in practice. Nevertheless, the
Annual Audit Practice Team will develop formal guidance for audit teams involved in joint audits and collaborative audits. This work will be completed by June 2010.

Observation 11—The process for appointing quality reviewers has not been reviewed and documented

Standard GSF .056 requires the OAG to determine review responsibilities on the basis that more experienced team members review work performed by less experienced team members.

Standard GSF .077 requires the OAG to set out criteria for the eligibility of persons who may perform quality control review.

The practice advisory lists factors to be considered when assigning quality reviewers to annual audits and special examinations. However, it is silent for performance audits.

The practice advisory on quality control reviews applicable to all product lines of the Office was issued in December 2005. OAG policy requires that a quality reviewer be appointed for each performance audit and all studies. With respect to annual audit engagements and special examinations, the product leader is responsible for recommending to the Auditor General for approval, the engagements that require a quality reviewer and the individuals who serve as quality reviewers. The September 2005 performance audit practice advisory on selection of quality reviewers indicates that the Executive Working Group on performance audits appoints the quality reviewers.

We noted that the Executive Working Group on performance audits no longer exists. However, management informed us that this function continues to be performed by the assistant auditors general who are members of the Performance Audit Management Committee. For annual audits and special examinations, the Assistant Auditor General in charge of methodology, rather than the product leaders, recommends the quality reviewers.

In our view, the process and criteria considered when assigning quality reviewers need to be reviewed and streamlined.

We also noted that the staff level of quality reviewers for the three audit products needs to be addressed in the policy. The September 2005 performance audit practice advisory on selection of quality reviewers stipulates that principals and assistant auditors general can be appointed as quality reviewers. However, the December 2005 practice advisory is silent for special examinations and annual audits. In our view, the level of risk associated with an audit should determine the level of experience required of reviewers and therefore their staff level within the OAG.

Recommendation 11

The Office of the Auditor General should review and update policies and procedures to outline the process and criteria for quality reviewers to be assigned to audit products. This process should be risk-based across all product lines.
The Office should also determine whether all performance audits should be assigned quality reviewers.

The OAG’s response. Agreed. The Executive Committee approved on 21 January 2009 updated policies for quality reviewers to be assigned on a risk basis to audit products across all product lines. The Professional Practices Group will operationalize these policies by September 2009.

Observation 12—The role and responsibilities of quality reviewers are not clear

Standard GSF .052 (d) requires the OAG to have policies and procedures that seek consistency through the methods of reviewing the work performed, the significant judgments made, and the form of the report issued.

Standard GSF .056 states that reviewers should consider whether
(a) the work has been performed in accordance with the engagement plan;
(b) the work performed is adequate in light of the results obtained, supports the conclusions reached, and is appropriately documented;
(c) significant matters have been raised for further consideration;
(d) appropriate consultations have taken place and the resulting conclusions have been documented and implemented; and
(e) the objectives of the engagement procedures have been achieved.

Standard GSF .084 requires the OAG’s quality control reviews to include documentation that
(a) the procedures required by OAG policies on engagement quality control review have been performed,
(b) the review was completed before the report was issued, and
(c) the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the assurance team made and the conclusions they reached were not appropriate.

The nature of work carried out by quality reviewers varies across product lines. Other than a practice advisory providing a general description of the role of a quality reviewer and an audit template for annual audits, which meets the requirements of standards, there is no policy outlining the responsibility of a quality reviewer and audit steps to be carried out. There is a risk that the quality reviewer’s responsibilities are not being carried out consistently.

Recommendation 12

The Office of the Auditor General should develop and standardize a policy for performance audits and special examinations that outlines the role and responsibilities of quality reviewers, including the process and documentation to be followed. This policy should be made consistent across the product lines and be clearly documented in the audit manuals of the product lines.
The OAG’s response. Agreed. The Professional Practices Group will develop and standardize a policy for performance audits and special examinations that outlines the role and responsibilities of quality reviewers, including the process and documentation to be followed. The policy will be consistent across all product lines and be clearly documented in a practice advisory by September 2009 and then reflected in audit manuals as they are updated (see Recommendation 9).

Observation 13—Policies and procedures on consultation with specialists are lacking

Standard GSF .057 requires the OAG to establish policies and procedures designed to provide it with reasonable assurance that

(a) appropriate consultation takes place on difficult or contentious matters;
(b) sufficient resources are available to enable consultation to take place;
(c) the nature and scope of, and conclusions resulting from, such consultations are documented and agreed on with the party consulted; and
(d) conclusions resulting from consultations are implemented.

The manuals for annual audit and for special examinations do not provide guidance on engagements where mandatory consultation with specialists (for example, IT personnel and actuaries) is required. An Office-wide practice advisory—Interim Policy on Consultations and Procedures to Resolve Differences of Opinion— was issued in 2005. While the practice advisory highlights where consultation with specialists is required, it does not address how such consultation is to be documented or validated by the specialist. Moreover, where consultation is obtained, there is no requirement for the specialists to review and sign off on the conclusions to ensure that their input is adequately reflected in the audit file. This observation is not applicable to performance audits as specialists are required to sign off on the report before it is released and finalized. These requirements are met for performance audits.

Recommendation 13

The Office of the Auditor General should develop a policy on consultation and disposal of comments with specialists in annual financial audits and special examinations. The policy should be approved by those responsible and reflected in the respective audit manuals.

The OAG’s response. Agreed. The Professional Practices Group will develop a policy on consultation and disposal of comments with specialists in annual financial audits and special examinations. This policy will be reflected in a practice advisory by September 2009 and then reflected in audit manuals as they are updated (see Recommendation 9).

3.6 Monitoring

Standards (GSF .094–.111) require the OAG to have policies and procedures to provide the Office with reasonable assurance that the policies and procedures related to the system of quality control are relevant and adequate, operating effectively, and complied with in practice.
Such policies and procedures should include an ongoing consideration and evaluation of the Office's system of quality control, including a periodic inspection of a selection of completed assurance engagements.

We found that the OAG partially conforms to these standards. Some practice review checklists have not been updated for changes in professional standards, and file reviews have not always been done on a timely basis.

**Observation 14—Guidance on skills and competencies of practice reviewers is not documented**

Standard GSF .097 states that a firm's system of quality control should be performed by competent individuals.

We found no policy outlining the predetermined skills and competencies or prior experience for individuals conducting practice reviews.

**Recommendation 14**

The Office of the Auditor General should document the skills and competencies that practice reviewers require.

**The OAG's response.** Agreed. Skills and competencies required for practice reviewers will be documented by December 2009.

**Observation 15—A policy on monitoring and evaluating the system of quality control is lacking**

Standard GSF .099(a)(i) states that ongoing consideration and evaluation of the system of quality control should include an analysis of new developments in professional standards and how they are reflected in a firm's policies and procedures, where appropriate.

We found no evidence that practice review methodology for annual audits had been recently reviewed and was current. As a result, changes to methodology or procedures related to new developments in professional standards and changes to regulatory or legal requirements may not be captured in current checklists.

Moreover, there is no policy for the Practice Review and Internal Audit Team to monitor and evaluate the impact of various quality control issues on the system of quality control.

**Recommendation 15**

The Office of the Auditor General should update the practice review checklists to reflect changes in professional standards for all products on an annual basis.

Moreover, the Office should develop a policy for monitoring and evaluating the impact on the system of quality control related to

- new developments in professional standards and regulatory and legal requirements,
- all product line methodology,
• written confirmations of compliance with policies and procedures on independence,
• continuing professional development (including training),
• decisions related to acceptance and continuance of client relationships and specific engagements, and
• decisions related to resolving differences of opinion.

The OAG’s response. Agreed. By January 2009, practice review checklists had been updated for all product lines. A policy for monitoring and evaluating the impact on the system of quality control will be developed and documented by December 2009.

Observation 16—A policy on inspection of engagement files is lacking

Standard GSF.100 requires the inspection of assurance engagements on a cyclical basis. Engagements selected for inspection should include at least one engagement for each practitioner over an inspection cycle, which ordinarily does not span more than four years.

Although the requirement for inspection of practitioners is noted in internal audit terms of reference, there is no formal policy on the frequency of practice reviews. At a minimum, one practice review per practitioner should be considered every four years, in accordance with CICA standards.

Recommendation 16

The Office of the Auditor General should develop and approve a formal policy for inspection of practitioners’ engagement files every four years, as required by standards of the Canadian Institute of Chartered Accountants.

The OAG’s response. Agreed. The requirement for inspection of practitioners’ engagement files every four years is already included in the Internal Audit and Practice Review charter. The policy will be formally adopted by the end of September 2009.

Observation 17—The process for disseminating results of practice reviews has not been formalized

Standard GSF .104 requires the OAG to communicate to relevant practitioners and other appropriate personnel, deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.

Although a summary report is prepared to summarize the observations noted in a cycle, there is no formal policy and procedure for communicating findings noted during practice reviews to the product leaders and other relevant groups within the OAG.

Recommendation 17

The Office of the Auditor General should develop policies and procedures for disseminating results of practice reviews, including, but not limited to, advising the practitioner, product leaders, practice development staff, and the Office Executive Committee.
The OAG’s response. Agreed. Practice review results have been disseminated as part of the Annual Audit and Accounting Update and Performance Audit Symposium respectively held in September 2008. Formal policies and procedures for disseminating results of practice reviews will be developed and communicated by December 2009.

3.7 Documentation of the system of quality control

The OAG should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

We found that the OAG partially conforms with this standard. It needs to document how it complies with each quality standard and develop a process for ensuring that the documentation is kept up to date.

Observation 18—Documentation that provides evidence of the operation of quality control elements is lacking

Standard GSF.117 requires the OAG to establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

Standard GSF.118 states that the manner in which matters are to be documented (electronic or paper) is flexible and is up to the firm to determine.

The intent of this standard is for the OAG to be able to demonstrate (by documenting):

- the policies and procedures in place to meet the requirements of the standards, including how and when new standards are addressed and how the Office has addressed the quality standards; and

- the impact of a new standard on the operations of a firm and determine whether processes, policies, and procedures need to be adjusted.

Efforts have been made to identify how the Office addresses each of the Quality Management System standards as a whole and for each of the products. One document is needed that cross-references each standard to the supporting policies and procedures in the Office.

Recommendation 18

The Office of the Auditor General should prepare and maintain a grid that cross-references each of the Quality Management System standards to the relevant documentation and that provides evidence of the operation of each element of the Office’s quality control system.

The OAG’s response. Agreed. The Professional Practices Group will prepare a grid that cross-references each of the Quality Management System standards to the relevant documentation and that provides evidence of the operation of each element of the Office’s quality control system by June 2010 and will maintain it going forward.
3.8 Quality control procedures for assurance engagements

Our assessment of quality control procedures for the three OAG assurance engagements (CICA section 5030) is that the Office generally conforms with the standards for annual audits and partially conforms for performance audits and special examinations. Exhibit 2 provides a snapshot of compliance by audit practice.

The recommendations associated with the observations noted in carrying out the work have already been reflected in the recommendations related to the General Standards for Firms (GSF-QC).

Exhibit 2—Assessment of Quality Control Procedures by Product Line (CICA 5030)

In addition to establishing quality standards for the Office as a whole, the OAG should implement quality control procedures that are applicable to the individual assurance engagement. CICA Handbook section 5030 sets out quality standards for assurance engagements. The table below outlines our assessment of each of the three OAG assurance engagements against the standards.

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<th>Annual Financial Audits</th>
<th>Performance Audits</th>
<th>Special Examinations</th>
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<td>Generally Conforms/Good</td>
<td>Generally Conforms/Good</td>
<td>Partially Conforms/Satisfactory</td>
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<tr>
<td>Overall</td>
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<td>X</td>
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<tr>
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<td>Ethical and independence requirements</td>
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<tr>
<td>Acceptance and continuance of client relationships and specific assurance engagements</td>
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<tr>
<td>Assignment of assurance teams</td>
<td>X</td>
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<td>Terms of engagement</td>
<td>X</td>
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Annual Financial Audits generally conform with the CICA quality control procedures for assurance engagements.

The Annual Audit Manual is out of date; however, procedures included in TeamMate (electronic working paper tool) have been kept current and are mandatory on all engagements. This helps to ensure a consistent approach to all annual financial audits.
**Performance Audits**

Performance audits partially conform with the CICA quality control procedures for assurance engagements. This is due to a lack of policy related to CICA 5030.25 (see Terms of engagement) as well as a lack of clarity in the role and responsibilities of quality reviewers.

The Performance Audit Manual is out of date and is currently being updated. TeamMate procedures are more current and there are a number of checklists in place for performance audits, including a performance audit control file. However, the latter has not been revised since 2003 and does not reflect any of the practice advisories or other recent updates since the introduction of CICA 5030. There is a risk that performance audits are not approached consistently. A self-assessment of 5030 quality standards could not be located.

**Terms of engagement**

CICA 5030.25 requires the practitioner to ensure that there is an understanding of and agreement on the responsibilities of both the auditor and management of the entity being audited as well as the terms and conditions under which the assurance engagement will be performed. The audit profession usually uses engagement letters to confirm this understanding.

We noted that the OAG Annual Audit and Special Examination practices require the terms of the engagements to be confirmed in an engagement letter. While the Office has in place a number of written communications with entities subject to performance audits, it has not documented the analysis of how these communications meet the requirements of the standards and therefore is unable to demonstrate how this standard is met. In our view, management should prepare this analysis and make adjustments if and as appropriate.

**Recommendation 19**

The Office of the Auditor General should investigate the relevance of confirming the terms of engagement in a performance audit and develop a policy if it is applicable.

**The OAG’s response.** Agreed. The Professional Practices Group will investigate the issue of confirming the terms of engagement in a performance audit and develop a policy if it is applicable.

**Role of quality reviewers**

CICA 5030.44 states that a quality control review for an engagement should include an objective evaluation of

(a) the significant judgments made by the assurance team,
(b) the conclusions reached in formulating the practitioner’s report, and
(c) other significant matters that have come to the attention of the engagement quality control reviewer during his or her review.
The role and responsibilities of a quality reviewer for performance audit are not consistent with CICA 5030.44. This is discussed further under the Engagement Performance section.

**Special Examinations**

Special examinations partially conform with the CICA quality control procedures for assurance engagements. This is due to the outdated Audit Manual and unclear guidance for quality reviewers.

**Planning, supervision, review, and consultation**

The Special Examinations Audit Manual has not been updated since 2000 and is silent on planning and supervision, review of working papers, and consultation in accordance with CICA 5030. This is offset by the development of a Teammate library and detailed checklist for special examinations, which do address these standards. Additional guidance is needed in the Audit Manual.

**Role of quality reviewers**

CICA 5030.44 states that a quality control review for an engagement should include an objective evaluation of

(a) the significant judgments made by the assurance team,
(b) the conclusions reached in formulating the practitioner’s report, and
(c) other significant matters that have come to the attention of the engagement quality control reviewer during his or her review.

The role and responsibilities of a quality reviewer for special examinations are not consistent with CICA 5030.44. This is discussed further under the Engagement Performance section.

**4. Conclusion**

We found that the Office partially meets the General Standards of Quality Control for Firms Performing Assurance Engagements and the Quality Control Procedures for Assurance Engagements. There are opportunities for improvement to fully comply with the standards. However, as indicated previously in the report, this does not mean that particular assurance engagements were necessarily deficient—that is, that they were not performed in accordance with professional standards and regulatory and legal requirements, or that a practitioner’s report was not appropriate in the circumstances.
Appendix—Audit Criteria

General Standards of Quality Control for Firms Performing Assurance Engagements

The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or the practitioner are appropriate in the circumstances.

1. Leadership responsibilities for quality within the Office

General Standards for Firms (GSF) .009: The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing assurance engagements. Such policies and procedures should require the firm’s chief executive officer (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent), to assume ultimate responsibility for the firm’s system of quality control.

GSF .012: Any person or person’s assigned operational responsibility for the firm’s quality control system by the firm’s chief executive officer or managing board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

2. Ethical requirements

GSF .014: The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with applicable ethical requirements.

Independence

GSF .018: The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel, and, where applicable, others subject to independence requirements (including network firm personnel and specialists contracted by the firm) maintain independence in all required circumstances. Such policies and procedures should require the firm to

(a) communicate its independence requirements to its personnel and, where applicable, others subject to them;

(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 assurance engagement; and
(c) document its evaluation of the threats to independence and the safeguards applied by the firm to respond to these threats.

GSF.019: The policies and procedures described in GSF.018 should include requirements for firm personnel

(a) to provide the firm with relevant information about client engagements, including the scope of services provided to those clients, to enable it to evaluate the overall impact, if any, on independence requirements; and

(b) to notify the firm in a timely manner of circumstances and relationships that create a threat to independence so that appropriate action can be taken.

GSF.020: The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures should include requirements for

(a) all who are subject to independence requirements to promptly notify the firm of independence breaches of which they become aware;

(b) the firm to promptly communicate identified breaches of these policies and procedures to

(i) the practitioner who, with the firm, needs to address the breach; and

(ii) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action; and

(c) prompt communication to the firm, if necessary, by the practitioner and the other individuals referred to in (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.

GSF.021: Information obtained by the firm concerning independence should be accumulated and communicated to appropriate personnel so that

(a) the firm and its personnel can readily determine whether they satisfy independence requirements,

(b) the firm can maintain and update its records relating to independence, and

(c) the firm or the practitioner can take appropriate action regarding identified threats to independence.

GSF.024: At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent.

GSF.027: The firm should establish policies and procedures

(a) setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
3. **Acceptance and continuance of client relationships and specific assurance engagements**

GSF .029: The firm should establish policies and procedures designed to provide it with reasonable assurance that it identifies and assesses the potential sources of risks associated with a client relationship or a specific assurance engagement, and should not accept or undertake an engagement if there are constraints that would prevent the completion of the engagement in accordance with professional standards and regulatory and legal requirements. The Office should communicate its decision to the appropriate authorities.

GSF .031: The firm should obtain information it considers necessary before accepting a new assurance engagement and when the firm is deciding whether it is willing to continue to provide assurance services to an entity. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific assurance engagement, it should document how the issues were resolved.

GSF .040: When the firm obtains information that would have caused it to decline an assurance engagement if that information had been available earlier, the firm should reconsider its association with the client and seek legal advice on the possible actions it could take.

4. **Human resources**

GSF .041: The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competencies and commitment to ethical principles necessary to perform its assurance engagements in accordance with professional standards and regulatory and legal requirements, and to enable the issuance of reports that are appropriate in the circumstances.

GSF .047: The firm should develop policies and procedures requiring, for each assurance engagement it undertakes,

(a) the appointment of a practitioner who has both the competencies and sufficient time to take overall responsibility for performing the engagement in accordance with professional standards and regulatory and legal requirements, and for the issuance of the practitioner’s report on behalf of the firm;

(b) communication of the identity and role of the practitioner to key management personnel and those charged with governance within the client; and

(c) the assignment of an assurance team that collectively possesses the competencies to complete the engagement.
5. Engagement performance

Planning, supervision and review; consultation; differences of opinion; and engagement quality control review.

Planning, supervision and review

GSF .051: The firm should establish policies and procedures designed to provide it with reasonable assurance that assurance engagements are performed in accordance with professional standards and regulatory and legal requirements, and that reports issued are appropriate in the circumstances. In particular, the firm should establish policies and procedures requiring that engagements be adequately planned, properly supervised, and appropriately reviewed.

Consultation

GSF .057: The firm should establish policies and procedures designed to provide it with reasonable assurance that

(a) appropriate consultation takes place on difficult or contentious matters;
(b) sufficient resources are available to enable appropriate consultation;
(c) the nature and scope of such consultations, and the conclusions resulting from them, are documented and agreed on with the party consulted; and
(d) conclusions resulting from consultations are implemented.

Differences of opinion

GSF .063: The firm should establish policies and procedures for dealing with and resolving a difference of opinion within the assurance team, with those consulted and, where applicable, between the practitioner and the engagement quality control reviewer. The practitioner’s report should not be issued until the difference of opinion is resolved.

Engagement quality control review

GSF .068: The firm should establish policies and procedures that

(a) require that an engagement quality control review be completed before the issuance of the practitioner’s report for all audit engagements to report on the financial statements of a public enterprise;
(b) for all other assurance engagements

(i) require that they be assessed against criteria established by the firm for determining whether an engagement quality control review should be performed before the issuance of the practitioner’s report; and
(ii) if so, require that such a review be completed before the issuance of the practitioner’s report; and
(c) require that the practitioner resolve all issues raised by the engagement quality control reviewer to the satisfaction of the reviewer prior to issuance of the practitioner’s report (following, if necessary, the procedures for resolving differences of opinion).

GSF .072: The firm should establish policies and procedures that set out the nature, timing, and extent of the performance of an engagement quality control review.

GSF .073: An engagement quality control review should include an objective evaluation of
(a) the significant judgments made by the assurance team,
(b) the conclusions reached in formulating the practitioner’s report, and
(c) other significant matters that have come to the attention of the engagement quality control reviewer during his or her review.

GSF .077: The firm should set out criteria for the eligibility of persons who may perform an engagement quality control review.

GSF .083: The firm should establish policies and procedures that require that the scope and conclusions of the engagement quality control review be documented appropriately.

GSF .084: The engagement quality control review should include documentation that
(a) the procedures required by the firm’s policies on engagement quality control review have been performed,
(b) the review was completed before the practitioner’s report was issued, and
(c) the reviewer was not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the assurance team made and the conclusions they reached were not appropriate.

6. Engagement documentation

Including confidentiality, safe custody, integrity, accessibility and retrievability, retention, and ownership.

Confidentiality, safe custody, integrity, accessibility and retrievability

GSF .085: The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

Retention

GSF .090: The firm should establish policies and procedures requiring the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.
7. Monitoring

Note that this assessment will be limited to formalization of the design of the Office’s Quality Management System (QMS), and will not include a review of the Office’s audit files.

GSF .094: The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively, and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed assurance engagements.

GSF .095: The firm should entrust responsibility for the monitoring process to a practitioner or practitioners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.

GSF .103: The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and should determine whether they are either

(a) instances that do not necessarily indicate that the firm’s system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and regulatory and legal requirements, and that the reports issued by the firm or a practitioner are appropriate in the circumstances; or

(b) systemic, repetitive, or other significant deficiencies that require prompt corrective action.

GSF .104: The firm should communicate to relevant practitioners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.

GSF .105: The firm’s evaluation of each type of deficiency should result in recommendations for one or more of the following:

(a) taking appropriate remedial action in relation to an assurance engagement or an individual;

(b) the communication of the findings to those responsible for training and professional development;

(c) changes to the quality control policies and procedures; and

(d) disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.

GSF .106: Where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the assurance engagement, the firm should determine what further action is appropriate to comply with
professional standards and regulatory and legal requirements. It should also consider obtaining legal advice.

GSF.107: At least annually, the firm should communicate the results of the monitoring of its quality control system to practitioners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. Such communication should enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated should include the following:

(a) a description of the monitoring procedures performed;
(b) the conclusions drawn from the monitoring procedures; and
(c) where relevant, a description of systemic, repetitive, or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.

Complaints and allegations

GSF.112: The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with

(a) complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements, and
(b) allegations of non-compliance with the firm's system of quality control.

8. Documentation of quality control policies and procedures

GSF.117: The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

Quality Control Procedures for Assurance Engagements

S5030.02: The assurance team should implement quality control procedures that are applicable to the individual assurance engagement.

1. Leadership responsibilities for quality on assurance engagements

S5030.06: The practitioner should be responsible on behalf of the firm for the quality of each assurance engagement to which he or she is appointed, and should actively promote a quality-oriented culture in the context of each such engagement.

2. Ethical requirements

S5030.10: The practitioner should consider whether members of the assurance team have complied with applicable ethical requirements.
Independence

S5030.15: The practitioner should form a conclusion on compliance with independence requirements that apply to the assurance engagement, and should

(a) obtain relevant information regarding the engagement, including the scope of services provided to the client by the firm and, where applicable, other network firms, in order to identify and evaluate circumstances and relationships that create threats to independence;

(b) evaluate information regarding identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the assurance engagement;

(c) take appropriate action to eliminate such threats or reduce them to an acceptable level by the application of safeguards or, if the matter is not resolved, communicate this promptly to the firm so that appropriate action, which may include withdrawing from the engagement, can be taken; and

(d) document relevant discussions and conclusions regarding independence.

3. Acceptance and continuance of client relationships and specific assurance engagements

S5030.18: The practitioner should be satisfied that appropriate procedures regarding the acceptance and continuance of the client relationship and the specific assurance engagement have been performed and that conclusions reached in this regard have been documented.

S5030.22: When the practitioner obtains information that would have caused the firm to decline the assurance engagement if that information had been available earlier, the practitioner should communicate that information promptly to the firm, so that the firm and the practitioner can take the necessary action.

4. Assignment of assurance teams

S5030.23: The practitioner should be satisfied that the assurance team collectively has the necessary competencies, resources, and time to perform the assurance engagement in accordance with professional standards and regulatory and legal requirements, and to enable the issuance of a practitioner’s report that is appropriate in the circumstances.

5. Engagement performance

Including terms of engagement; planning, supervision and review; consultation; differences of opinion; and engagement quality control review.

Note that this assessment will be limited to formalization of the design of the Office’s QMS, and will not include a review of the Office’s audit files.
Terms of engagement

S5030.25: The practitioner should ensure that there is an understanding and agreement with the party that engaged the firm as to the responsibilities of both the firm and management of the entity (and when applicable, those charged with governance), as well as the terms and conditions under which the assurance engagement will be performed.

Planning, supervision and review

S5030.26: The practitioner should take responsibility for the performance of the assurance engagement in compliance with professional standards and regulatory and legal requirements, and for the issuance of a practitioner’s report that is appropriate in the circumstances. In particular, the practitioner should ensure that assurance engagement work is adequately planned, properly supervised and appropriately reviewed.

S5030.32: Prior to the issuance of his or her report, the practitioner, through review of the working papers and discussion with the assurance team, should be satisfied that sufficient appropriate evidence has been obtained to support the conclusions reached and the content of the practitioner’s report.

Consultation

S5030.36: The practitioner should

(a) be responsible for the assurance team undertaking appropriate consultation on difficult or contentious matters;

(b) be satisfied that members of the assurance team have undertaken appropriate consultation during the course of the engagement, both within the assurance team and between the assurance team and others at the appropriate level within or outside the firm;

(c) be satisfied that the nature and scope of, and conclusions resulting from, such consultations are documented and agreed with the party consulted; and

(d) determine that conclusions resulting from such consultations have been implemented.

Differences of opinion

S5030.40: If a difference of opinion arises within the assurance team, with those consulted, or between the practitioner and the engagement quality control reviewer, the assurance team should follow appropriate procedures for dealing with and resolving such difference of opinion. The practitioner’s report should not be issued until the difference of opinion is resolved.
Engagement quality control review

S5030.43: For audit engagements to report on the financial statements of public enterprises, the practitioner should

(a) determine that an engagement quality control reviewer has been appointed;

(b) discuss with the reviewer significant matters arising during the engagement, including those identified by the reviewer;

(c) ensure that an engagement quality control review is completed before the issuance of the practitioner’s report, including resolution, to the satisfaction of the reviewer, of matters raised by the reviewer; and

(d) ensure that the engagement quality control review is appropriately documented.

S5030.44: An engagement quality control review should include an objective evaluation of

(a) the significant judgments made by the assurance team,

(b) the conclusions reached in formulating the practitioner’s report, and

(c) other significant matters that have come to the attention of the engagement quality control reviewer during his or her review.

All criteria were reviewed by the product leaders and the Assistant Auditor General responsible for methodology.