



## **QUALITY ASSURANCE FRAMEWORK**

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**Effective: 20 May 2011**

**To be reviewed: January 2012**

*Our independent work  
promotes good governance,  
transparency and  
accountability in the use of  
public funds*

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## INTRODUCTION

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1. The purpose of the OAG's quality assurance framework is to set out our overall approach to providing assurance that we meet professional standards and achieve our business objectives. Central to this strategy is delivering quality products and developing relationships with our clients, while meeting our professional and statutory requirements, and maintaining our independence. The key quality objectives of this framework to enable us to obtain this assurance are:
  - a culture of quality throughout the OAG, with quality being a concern of everyone;
  - an exemplar to our clients and stakeholders; and
  - continuous improvement in the quality of our services.
2. The basic requirements which should be adhered to in respect of OAG audit and assurance engagements are contained in International Standards on Auditing and in International Quality Control Standards. The key standards which impact upon this area are:
  - International Standard on Quality Control 1: Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements; and
  - ISA 220 'Quality Control for Audits of Historical Financial Information'.
3. The International Standard on Quality Control 1 considers quality control at an organisational level. It requires entities delivering audit services to establish and document systems of quality control and communicate these systems to their personnel. The OAG complies with this standard and staff should ensure that they are familiar with the contents of the Standard. ISQC 1 considers the following aspects of an entity's procedures:
  - leadership responsibilities;
  - ethical requirements;
  - acceptance and continuance of client relationships and specific engagements;
  - human resources;
  - engagement performance; and
  - monitoring.
4. ISA 220 considers quality control at an assignment level. All OAG audits must comply with this standard. The Standard follows a similar format to ISQC 1 and considers:

- leadership responsibilities for quality on audits;
  - ethical requirements;
  - acceptance and continuance of client relationships and specific audit engagements;
  - assignment of engagement teams;
  - engagement performance;
  - consultation and differences of opinion;
  - engagement quality control review;
  - monitoring; and
  - documentation.
5. This Framework sets out the policies and procedures that OAG has put in place to meet our overall objectives, including meeting the requirements of ISQC1 and ISA220. Because the requirements are wide ranging, not all the detailed requirements are fully addressed in this Framework. Where appropriate further detailed policies, procedures and operational guidance are available to support the Framework and these are highlighted, as appropriate, throughout the Framework. Examples include:
- OAG Code of Conduct;
  - Public Servants Code of Conduct;
  - Human Resources Policies and Procedures Manual;
  - Audit Policy Manual;
  - Independence and Ethics Policy;
  - Register of Interests Policy; and
  - Complaints Policy.
6. It should be noted that some of these further policies etc. are still in development. Where this is the case it is highlighted, and current extant OAG or Cayman Islands Government policies and guidance should continue to be followed until the new OAG policies etc are available.
7. Each member of an audit team has a personal responsibility for quality and is expected to comply with OAG policy and procedures, auditing standards and apply OAG audit approach/methodology, which includes this Framework.

## STAFF FEEDBACK

8. The OAG recognizes the importance of obtaining feedback on its quality control procedures from its employees and encourages staff to communicate their views or concerns on quality control matters.

## OVERVIEW OF QUALITY ASSURANCE IN THE OAG

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9. The work of the OAG is underpinned by this Quality Assurance Framework which is based on three key elements:
- **Embedded operational practices:** Quality control is built into our work through the Office's policies on recruitment, training and continuing professional development, the Code of Conduct, and through audit policies specific to the execution of our work. The latter covers matters such as methodology and process, and the level and nature of review of the work completed. They ensure that quality is built into the audit process rather than relying on post completion review. These practices reflect current professional practice and are fundamental in providing the Auditor General and the Management Team with assurance that the approach and execution of the audits ensures we meet professional standards, and client and stakeholder expectations.
  - **Internal Monitoring:** Our own review and support function to identify and facilitate action on risks and weak areas of audit delivery. This work is lead by a quality monitoring team , supported by the Management Team, and involves review of evidence to ensure compliance with professional standards and quality control, supporting improvement of audit reports and attainment of key performance targets.
  - **Independent Assessment:** Professional standards require that all auditors have in place an independent assessment of completed audits. The Management Team can periodically use peer review by another public audit agency or employ external reviewers to carry out independent assessments of our work.

## LEADERSHIP RESPONSIBILITIES FOR QUALITY

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10. The Auditor General is ultimately responsible for all key matters regarding the professional practice of the OAG. The Auditor General accepts responsibility for leading and promoting a quality assurance culture within the OAG and maintaining this Framework and all other necessary practical aids and guidance to support engagement quality.
11. The Auditor General determines the operating and reporting structure. In addition, the Auditor General may designate qualified staff, on an annual or other periodic basis, the person(s) responsible for recordkeeping or other administrative elements of the quality control system; however, ultimate responsibility for these functions will rest with the Auditor General. Any individuals who take on specific responsibilities and duties will be assessed by the Auditor General as possessing sufficient and appropriate experience and the ability to carry out their responsibilities.
12. Due to the present size, scale and workload of the OAG, the Auditor General has taken on the role of the **Compliance and Ethics Manager** within OAG, reporting annually on matters of ethics and compliance with professional standards, and making decisions on any areas of ethics, compliance or independence in terms of operation of OAG's quality controls and monitoring, including gifts and hospitality.
13. Within this role the Auditor General is also quality monitoring lead. This role is to organise and lead the quality monitoring team within OAG, who ensure that the requirements of this Framework, i.e. the quality controls, are being complied with across our audit portfolio. Significant areas of non-compliance are reported to the Management Team.
14. Other Leadership positions within the Framework:
  - QCR (Quality Control Reviewer). The manager responsible for performing the function of engagement quality control review.
  - HR (Human Resources). Personnel responsible for human resource functions including recordkeeping with respect to professional duties such as membership fees and continuing professional development.



15. Whilst responsibility for the OAG's system of quality control rests with the Auditor General, quality in audit delivery is the **responsibility of all staff**. All members of the Management Team must ensure that OAG quality controls are embedded within the operation of their teams, and action is taken to address any quality issues as they emerge. All staff, through their manager, have a responsibility for ensuring their approach to an individual audit is in accordance with OAG audit policy and fully complies with requirements of this Framework.

#### APPOINTED AUDITORS

16. Under the Public Management and Finance Law (2010 Revision) the Auditor General may appoint audit firms to carry out audits on his behalf. The Auditor General is ultimately responsible for the quality and conduct of the audits under his mandate and is responsible for signing all audit reports.
17. The arrangements for ensuring that the work of the Audit Firms is carried out in line with the OAG's Quality Assurance Framework are enshrined in the contract arrangements, including the terms of engagement, and detailed in the OAG's policies on contracting out audits **(to be developed)**.

## ETHICAL REQUIREMENTS

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18. The Auditor General recognizes the value of ethical leadership and accepts responsibility to provide it.

### INTUITIONAL INDEPENDENCE

19. The independence of the Auditor General and the OAG are enshrined in the Cayman Islands 2009 Constitution, and the powers are set out further in the Public Management and Finance Law (2010 Revision).
20. The Constitution requires that there shall be an Auditor General who shall have “The power and responsibility to audit the public accounts of the Cayman Islands and the accounts and financial dealings of all authorities, offices and departments of Government and of all courts, and power to undertake value for money investigations in respect of the activities of such authorities, offices and departments”.
21. It further states that “In the exercise of his or her functions, the Auditor General (and any person acting on his or her behalf in the exercise of those functions) shall not be subject to the direction or control of any other person or authority, save that the Auditor General is answerable to the Public Accounts Committee of the Legislative Assembly and must attend upon the Committee at its request.”

### ETHICS AND INDEPENDENCE

22. The Auditor General and all OAG staff must be independent both of mind and in appearance of their assurance clients and engagements.
23. Independence shall be maintained throughout the engagement period for all assurance engagements, as set forth in and by:
- The International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), specifically Section 290 and Section 291;
  - ISQC 1; and
  - International Standard on Auditing (ISA) 220, Quality Control for an Audit of Financial Statements.

24. If threats to independence cannot be eliminated or reduced to an acceptable level by applying appropriate safeguards, the Auditor General shall eliminate the activity, interest, or relationship that is creating the threat, or refuse to accept or continue the engagement (if statutorily possible).
25. All professional auditors/accountants within the OAG must comply with the ethical code associated with membership of their professional body. The **Public Servants Code of Conduct** and **OAG's Code of Conduct** outlines the ethical requirements to which OAG staff must adhere. All staff are required to sign an annual declaration stating that they have met the requirements of the Codes. These requirements encompass the five fundamental principles of professional ethics as outlined in the IESBA Code: Integrity; Objectivity; Professional Competence and Due Care; Confidentiality; and Professional Behaviour.
26. The Auditor General has an expectation that all staff maintain current knowledge of the provisions contained within the OAG Code of Conduct. This will require all staff to assume personal responsibility for the periodic review of the Code's contents.
27. For each individual client engagement staff assigned to the assurance engagement shall confirm to the Auditor General through the Caseware checklist that they are independent of the client and engagement, or notify the Auditor General of any threats to independence so that appropriate safeguards can be applied.
28. Staff must notify the Auditor General if, to their knowledge, they or any other staff member have, during the engagement, provided any service that would be a direct conflict, which could impact on the Auditor General completing the assurance engagement.
29. When asked by the Auditor General, staff shall take whatever reasonable actions are necessary and possible to eliminate or reduce any independence threat to an acceptable level. These actions may include:
  - ceasing to be a member of the assurance team;
  - ceasing or altering specific types of work or services performed in an engagement;
  - divesting of a financial or ownership interest;
  - ceasing or changing the nature of personal or business relationships with clients;
  - submitting work for additional review to an external professional accountant or other staff member; and
  - taking any other reasonable actions that are appropriate in the circumstances.

## ROTATION

30. Additional conflicts of interest can arise as a result of over-familiarity. For example, using the same personnel on audits over a prolonged period may create a familiarity that could impair the performance of an audit. It is the OAG's policy of monitoring the length of time staff serve as members of the engagement team for each audit and rotating staff between assignments, where possible, to ensure that the risk of over-familiarity does not arise.
31. Due to size of the OAG the ability to rotate staff between audits, particularly members of the Management Team, may at times be limited. In addition some degree of flexibility may be permitted in rare cases due to foreseen circumstances outside of the OAG's control and where the individual's continuity on the audit engagement is especially important to audit quality. In such cases alternative procedures will be adopted to mitigate the risks of over familiarity including engagement quality control review (EQCR) and internal quality monitoring. The circumstances under which rotation would not be recommended or required should be compelling. When a significant independence threat involves the QCR is recurring, rotation would be a primary safeguard necessary to reduce the threat to an acceptable level
32. The rotation policy does not apply to the Auditor General who is the engagement partner for all audits within the OAG. However if there is a specific independence threat for the Auditor General on a specific engagement, the Deputy Auditor General shall assume the role of engagement partner.
33. Senior audit staff should not work on an audit engagement for longer than five years. A break of two years is normally required before the auditor can then act in a senior role again at the same client. The rotation of senior staff will be planned in a way that aims to provide continuity of service to clients.

### Definition of senior staff and their roles

Senior Staff	Role
Auditor General	Engagement Partner
Deputy Auditor General Audit Manager – Attest	Engagement Manager for assurance engagements
QCR	Engagement Quality Control Review

34. Due to resource constraints or exceptional circumstances senior audit staff may be permitted to exceed the five year engagement period. In such circumstances this should be limited to a further two years where possible and the approval of the Auditor General is required.
35. Where the senior member of staff has been involved in an audit between five and seven years the audit will be subject to an EQCR. If the involvement is greater than seven years it should normally be considered for an Internal Quality Monitoring Review.
36. Other members of the audit team are also limited to working on the same audit engagement for a maximum of five years. A break of two years is normally required before the auditor can be involved again at the same client. In practice this can be extended on the approval of the Auditor General where there is a business need.
37. All staff are required to complete their rotation form annually, usually at the start of the calendar year. This will provide a reporting summary for the management team which will inform future rotation requirements. Each year the rotation of audits will be considered and any changes planned and communicated to clients. As stated above where an extension is sought, a paper must be presented to the Management Team prior to approval by the Auditor General.

## CONFLICTS OF INTEREST

38. The Auditor General and all OAG staff must follow the requirements of the **OAG Code of Conduct** regarding any interests, influences and relationships that may create a conflict of interest. The Auditor General and OAG staff must be free of any interests, influences, or relationships in respect of the client's affairs which impair professional judgment or objectivity.
39. The Auditor General is responsible for the development, implementation, compliance, enforcement, and monitoring of practice methods and procedures designed to assist the OAG staff in understanding, identifying, documenting, and addressing conflicts of interest, and determining their appropriate resolution.
40. Further policies and procedures regarding the identification and registering of interests are prescribed in the **Register of Interests – Policy and Procedures** with which all staff must comply. A register of interests is maintained by the Finance and Administration Manager. In addition, all OAG staff should notify the Auditor General and Finance and Administration Manager of any possible conflict of interest as soon as it becomes apparent during the course of the year.

41. The Auditor General will ensure that appropriate procedures are followed when conflicts and potential conflicts of interest have been identified. It is presumed, unless proven otherwise, that whenever a conflict or potential conflict is identified, the Auditor General or staff shall not act or provide advice or comment until they have thoroughly reviewed the facts and circumstances of the situation, and are confident that the required safeguards and communications are in place and it is appropriate to act.
42. After consultation with other staff, the Auditor General shall have the final authority on the resolution of any conflict of interest situation, which could include:
- refusing or discontinuing the service, engagement, or action (if statutorily possible);
  - determining and requiring specified actions and procedures to appropriately address the conflict, protect sensitive and client-specific information, and ensure appropriate consents are obtained and disclosures made when it is determined to be acceptable to act;
  - appropriately documenting the process, safeguards applied, and decisions or recommendations made;
  - administering disciplinary procedures and sanctions for non-compliance; and
  - initiating and participating in pre-emptive planning measures to assist in avoiding conflicts of interest situations that may arise.

## CONFIDENTIALITY

43. The OAG carries out its work in the public interest and is committed to the principle of openness. OAG staff should act in accordance with the Freedom of Information Act and the **OAG FOI policy**. But there are exceptions when information cannot be made available to others particularly when confidential, personal or sensitive information is involved.
44. Staff are required to comply with requirements laid down in the **OAG Code of Conduct** regarding confidentiality, and the specific OAG policies and procedures regarding freedom of information and information management.

## WHISTLEBLOWING

45. All OAG staff are expected to conduct themselves in line with the standards detailed within this Framework and the supporting policies and procedures. If a member of staff has concerns about the inappropriate conduct of a member of the OAG they are encouraged to report this to their manager or other appropriate member of the Management Team. In reporting a concern to a member of the Management Team, the staff members anonymity will be protected, and they will not be subject any action for raising any concerns in good faith.

## ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS

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46. The Auditor General's independence is enshrined in the Constitution and the PMFL. This underlines the need for his staff to be objective and impartial in all their work, including accurate, fair and balanced reporting.
47. ISQC 1 stipulates that audit organisations should establish policies and procedures to provide assurance that it only undertakes or continues relationships and engagements where it has:
- considered the integrity of the client;
  - the competency to perform the engagement;
  - the capabilities, time and resources to do so; and
  - where it has confirmed that it can comply with ethical requirements.
48. In reality, practically all the audits which the OAG undertakes are audits by statutory appointment and in these circumstances the Office cannot withdraw or decline the appointment. In a small number of other instances the OAG undertakes audits by agreement where it is in the interests of public accountability.
49. The Caseware Audit Template requires the completion of an Engagement Acceptance checklist to inform the decision on whether to recommend to accept or decline an appointment. Whilst not necessarily applicable in respect of whether the OAG undertakes the engagement, the engagement manager is required to undertake the procedures required. This consideration is used to inform the audit risk assessment and the resulting audit approach. On completion of the checklist the OAG may also consider other avenue's if issues are identified: for example, the OAG can report to the Legislative Assembly on matters that might otherwise have caused them to withdraw from the engagement. Further guidance on reporting is contained in the **Audit Policy Manual**.
50. The competency of the audit team is also considered at the outset of the audit (and throughout the duration of the audit) by the engagement manager as part of the Caseware Audit Template. This aims to ensure that the team meets the ethical and professional requirements stipulated by both the OAG and the profession. The process involves a consideration of any particular skills and competencies required. The resources of the team are assessed to ensure that the team is of sufficient size, experience and expertise to conduct the assignment. This is considered in the context of the audited organisation and their ability to produce a good quality, timely draft account, the effectiveness of their systems and controls and the reporting timetable.



## HUMAN RESOURCES

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51. The OAG has established policies and procedures designed to provide the Office with assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements. This enables the Auditor General to issue audit reports that are appropriate to the circumstances. These policies and procedures are recorded in the **HR Policies and Procedures Manual**.

### RECRUITMENT

52. The OAG seeks to recruit the best quality candidates to meet its current and future needs, using the principles of fair and open competition in line with the policies of the Cayman Islands Government. All staff must meet the professional requirement for the grade as detailed in the relevant job descriptions.
53. The OAG uses current application, interviewing, and documentation processes with respect to hiring. The OAG will consider the following items when it is seeking candidates for employment:
- verifying academic and professional credentials and checking references;
  - clarifying gaps in time on candidates' resumes;
  - considering credit and criminal-record checks;
  - clarifying with candidates the OAG's requirement to state in writing, annually and for each assurance engagement, whether they are independent and free of conflict of interest.
54. The OAG provides all new personnel orientation information as soon as is practical after commencing employment. The orientation materials include a complete copy of the OAG's policies and procedures.

### COMPETENCE AND CAPABILITY

55. In addition to ensuring that the right people are recruited, the OAG looks to develop the capabilities and competence of its staff through a combination of structured and unstructured training and development. The OAG specific policies regarding this are detailed in the OAG's **Learning and Development Policy**.

56. The OAG's Learning and Development Policy is supported by a **Learning and Development Plan** which details the planned opportunities to support the learning and development of staff. The learning and development of staff is vital to the achievement of our corporate priorities. Staff need to have the right skills and competencies to enable them to deliver high quality work therefore there is a need for a continuing programme of learning and development at individual and organisational levels.
57. It is important to emphasize that while the plan promotes learning and development, and facilitates the provision of training and development, individual members of staff must have ownership of their development needs. It is the responsibility of each employee to ensure their learning and development needs, identified as part of the Performance Appraisal and Development review, are addressed. Staff are expected to undertake continuing professional development (CPD) and to take responsibility for updating their technical knowledge. Staff are required to adhere to the requirements of their respective institute. All staff are required to confirm that they have met their CPD when they submit their Ethics and Independence form. This forms part of the **OAG's Code of Conduct**.
58. The Management Team have a responsibility to support the development of people in the OAG. They should work in partnership with staff to identify their current and future development needs as an integral part of our planning and performance processes
59. The OAG provides professional training for employees undertaking the ACCA, CPA and CGA qualifications. Specific policies on the provision of such training are detailed in the OAG's **Learning and Development Policy**.

## RESOURCE NEEDS

60. As part of the annual budget cycle the OAG undertakes full assessment of our resource needs to ensure that we have sufficient resources and staffing to deliver our mandate and the objectives of our strategic plan.
61. Throughout the year the Management Team monitor the resource needs of the office, including the need to employ specialised or short term contract staff to undertake specific areas of work.
62. All resource planning is based on the assumed productive rates for each grade of staff.

## ASSIGNMENT OF ENGAGEMENT TEAMS

63. Through its policies and procedures, the OAG ensures the assignment of appropriate staff (individually and collectively) to each engagement. The Auditor General is responsible for ensuring that the individuals assigned, and the engagement team as a whole, have the necessary competencies to complete the engagement according to professional standards and the OAG's quality control system.
64. The Auditor General and the engagement manager will also plan for coaching opportunities between junior and senior personnel to guide the development of less experienced staff.
65. When determining the appropriate personnel to assign to an engagement, particular attention will be given to continuity with the client, balanced with rotation requirements, in order to ensure adequate complement and opportunity to the engagement team.

## ENFORCEMENT OF QUALITY CONTROL POLICIES (DISCIPLINE)

66. The OAG's quality control system requires more than effective monitoring. An enforcement process is essential, and includes consequences and corrective procedures for non-compliance, disregard, lack of due care and attention, abuse, and circumvention.
67. The Auditor General has overall responsibility for the disciplinary process. Corrective action is determined and administered through a consultative process, not in an autocratic fashion. The corrective action taken will depend on the circumstances.
68. Serious, willful, and repeated infractions or disregard for OAG policies and professional rules cannot be tolerated. Appropriate steps must be taken to correct the staff member's behavior or terminate the person's relationship with the OAG. Corrective action taken by the OAG will depend on the circumstances and will comply with the OAG's **HR Management - Policies and procedures**. Such actions might include, but are not limited to:

- interviewing the person(s) involved to establish the facts and discuss causes and solutions;
- conducting follow-up interviews to ensure compliance has improved or to caution the staff involved that stronger corrective action will otherwise be required to protect the interest of clients and the OAG, such as:
  - reprimand (either oral or written);
  - mandatory requirement to complete defined continuing professional development;
  - written record filed in the personnel file;
  - employment suspension;
  - termination of employment; or
  - formal notification filed with the professional association's discipline committee.

## PERFORMANCE EVALUATION

69. All staff are required to have performance evaluations in line with the Office's **HR Management - Policies and procedures**. In addition after each assignment each staff member should have an assessment.
70. The OAG operates an annual cycle for performance management, leading to a formal performance appraisal. The system is an important part of the OAG's overall approach to performance management, continuous improvement and workforce/succession planning. The primary purpose of our scheme is to appraise performance but it is also designed to aid staff development. It provides an opportunity for reflection on past performance and setting clear objectives going forward. The system is also used to discuss and agree development needs and support required to achieve effective performance.

## ENGAGEMENT PERFORMANCE

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71. The OAG's policies and procedures are designed to provide reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and to ensure that the appropriate report is issued.
72. To facilitate staff performance on engagements consistently and according to professional standards and regulatory and legal requirements, the OAG provides guidance through the **Audit Policy Manual**, and provides standard files and working paper templates through Caseware for documenting the engagement process for clients. These templates are updated as required to reflect any changes in professional standards. Staff use these templates to document key facts, risks, and assessments related to acceptance or continuation of each engagement. Staff are encouraged to exercise professional judgment when modifying such templates to ensure that such matters are appropriately documented and assessed for each engagement in accordance with professional standards and OAG's policies.
73. The Audit Methodology Team are responsible for ensuring the Caseware software, audit template and OAG **Audit Policy Manual** is up to date and issued to all staff.
74. Also available are research tools and reference materials; a quality control system, as set out in this manual; appropriate industry-standard software and hardware tools; training, and education policies and programs, including support for compliance with professional development requirements.
75. When performing any engagement, all staff are required to:
  - follow and adhere to OAG's planning, supervision, and review policies;
  - conduct and perform audits using OAG Audit Template within Caseware. If this is not considered appropriate, the audit team should contact the Deputy Auditor General, who maintains a record of audits held out with Caseware.
  - use OAG's standard templates for correspondence, as well as its software, research tools appropriate for the engagement;
  - follow and adhere to the ethical policies of the OAG;
  - perform their work to professional and OAG standards with due care and attention;
  - document their work, analysis, consultations, and conclusions sufficiently and appropriately;
  - complete their work with objectivity and appropriate independence, on a timely and efficient basis, and document the work in an organized, systematic, complete, and legible manner;

- ensure all working papers, file documents, and memoranda are initialed, properly cross-referenced, and dated, with appropriate consultation on difficult or contentious matters;
- ensure that appropriate client communications, representations, reviews, and responsibilities are clearly established and documented; and
- ensure that the engagement report reflects the work performed and intended purpose and is issued soon after the fieldwork is complete.

## ROLE OF THE AUDITOR GENERAL AS ENGAGEMENT PARTNER

76. The engagement partner is responsible for signing the engagement report. As leader of the engagement team, the Auditor General is ultimately responsible for:

- the overall quality for each engagement;
- forming a conclusion on compliance with independence requirements from the client, and in doing so, obtaining the information required to identify threats to independence, taking action to eliminate such threats or reduce them to an acceptable level by applying appropriate safeguards, and ensuring appropriate documentation is completed;
- ensuring that appropriate procedures regarding the acceptance and continuance of client relationships have been followed, and that conclusions reached in this regard are appropriate and have been documented;
- ensuring that the engagement team collectively has the appropriate competence and capabilities to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements;
- supervising and/or performing the engagement in compliance with professional standards and regulatory and legal requirements, and ensuring that the engagement report issued is appropriate in the circumstances;
- communicating to key members of the client's management and those charged with governance the Auditor General's identity and role as engagement partner;
- ensuring, through review of the engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the engagement report to be issued;
- taking responsibility for the engagement team by undertaking appropriate consultation (both internal and external) on difficult or contentious matters; and
- determining when a QCR should be appointed in accordance with professional standards and OAG policy; discussing significant matters arising during the engagement and identified during the engagement quality control review with the QCR; and not dating the report until the review is complete.

## ROLE OF THE ENGAGEMENT MANAGER

77. Engagement managers are responsible for supporting the Auditor General in meeting his responsibilities as engagement partner as outlined above. In addition, they are required to ensure:
- each member of staff involved in an engagement is fully briefed on their role in advance of starting work. Key objectives are agreed and feedback is provided at the end of the assignment. The lead auditor is responsible for ensuring that appropriate desk training is provided; and
  - appropriate supervision is maintained throughout the audit. This ensures that the audit is progressing to timetable; that individuals are equipped to undertake the tasks allocated; and that significant issues are considered during the course of the engagement.

## REVIEW

78. The OAG has a two stage review process. The first stage involves a review of all working papers and audit procedures by another team member with more seniority than the preparer. Detailed review is the responsibility of the engagement manager. This ensures that the audit team are complying with International Standards on Auditing. The second stage review is undertaken by the Auditor General and covers the major issues of judgement. For complex accounts, accounts where a qualified opinion is proposed and large accounts EQCRs are carried out. Further details on Review Policy are provided in the **Audit Policy Manual**.

## CONSULTATION

79. ISA 220 gives responsibility to the engagement partner for ensuring that the engagement team undertake appropriate consultation on difficult or contentious matters, and that the conclusions of consultations are documented and implemented. Due to the size of the OAG this responsibility is delegated from the engagement partner (the Auditor General) to the engagement manager (DAG or Audit Manager)
80. The first line of advice for auditors on general technical or judgmental issues will normally be through the Audit Manager. The Audit Manager may then wish to consult QCR in the first instance or as appropriate take the issue to the Auditor General or the full Management Team.
81. The exception to the above may be ethical matters that a team member might wish to discuss directly with the Auditor General.

82. In all cases where qualification is a consideration appropriate consultation is required before submitting the audit file for the Auditor General's review and this should be documented within the audit file. The QCR should be consulted when issues are identified that may lead to a qualification even if it is subsequently decided that a qualification is not required.
83. Specialised or unusual transactions may arise in a set of financial statements that require consultation with an 'expert' outside the OAG. For example there may be issues requiring a legal opinion. In such instances appropriate consultation must have taken place within the OAG, including with the Auditor General, and approval for obtaining such external advice must be approved by the Auditor General or the Deputy Auditor General.

#### **DIFFERENCES OF OPINION**

84. Where differences of opinion arise within the engagement team, with those consulted and, where applicable, between the Auditor General and the QCR, the OAG's policies and procedures for dealing with and resolving differences of opinion should be followed.
85. Differences of opinion between audit staff and the engagement manager or the Auditor General should be resolved in discussion with the QCR. If the QCR disagrees with the Auditor General the matter should be referred to the full Management Team to discuss the issue. If an agreement is not reached then the Auditor General will decide. Once agreement is reached the working papers should be signed off by those responsible for the decision.

#### **ENGAGEMENT QUALITY CONTROL REVIEW (EQCR)**

86. An EQCR is the objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the independent auditor's report.
87. International Standard on Quality Control 1 (ISQC1), requires that a system of quality control is established which is designed to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion issued is appropriate in the circumstances. As part of the system of quality control, ISQC 1 states that a EQCR should be performed for all audits meeting the agreed criteria.



88. An EQCR should be performed for all OAG audits which satisfy any of the following criteria:

- where a qualified or adverse opinion is being proposed or anticipated;
- where client activities are of special interest to the general public or media; and
- where clients are considered as being of higher audit risk, for example due to: a history of weak internal systems of control; or where complex or novel accounting issues exist e.g. PFI.

89. Each year as part of the audit planning the OAG Management team will agree the audits that require an EQCR. This will be reviewed during the course of the audit year.

90. The scope of the review will depend upon the individual circumstances of the audit. In certain circumstances it may be appropriate to consider the single issue which gives rise to the need for an EQCR. However if the EQCR is required as a result of high inherent risk a full review will be required

91. An EQCR will involve discussion with the Engagement Manager and the Auditor General, a review of the financial statements and supporting information, and consideration of whether the proposed opinion is appropriate. It is required that the QCR will ensure they are familiar with the audit plan and approach for the client early in the engagement to support the review at the reporting stage. ISQC1 requires that an EQCR is conducted in a timely manner so that significant matters are resolved prior to the opinion being issued.

92. An EQCR includes considering the following:

- significant risks identified during the engagement and the responses to those risks;
- judgements made, particularly with respect to materiality and significant risks;
- whether appropriate consultation has taken place on matters involving differences of opinion and the conclusions arising from those consultations;
- the significance of corrected and uncorrected misstatements during the engagement;
- the matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies;
- whether working papers selected for review reflect the work performed in relation to the significant judgements and support the conclusions reached; and
- the appropriateness of the opinion to be issued.

93. A timetable appropriate to the audit delivery should be established early to enable the completion of EQCR of the files on a timely basis. The EQCR process should not delay the completion of the audit, however, it is critical that an EQCR is completed prior to an opinion being given.

94. To ensure the quality and objectivity the Auditor General should ensure that the QCR nominated has had no involvement with the audit in the current or recent financial years. The QCR should be at Audit Manager level or above.
95. Conclusions reached on the review must be documented – a programme for EQCRs has been developed to capture this. Where there are differences of opinion, the engagement manager and the QCR may consult with another independent senior member of staff. These deliberations and conclusions should all be completed and documented before the opinion is provided.
96. Any time required to carry out an EQCR is chargeable to the audit involved, and therefore appropriate contingency should be included in plans to accommodate this.

## MONITORING

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97. To obtain assurance that the system of quality control is relevant, adequate, operating effectively and complied with in practice the OAG has in place policies and procedures to monitor compliance and provide assurance to the Auditor General and Management Team
98. The OAG's quality control procedures are reviewed annually and the results are considered by the Management Team. This review considers whether:
- OAG's policies are up to date;
  - independence, competence and fit and proper status of staff; and
  - the results of all monitoring activity.

### MONITORING ACTIVITY

99. The purpose of monitoring activity is to assist the Auditor General in obtaining reasonable assurance that the OAG's policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. The activity shall also help ensure compliance with practice review requirements.
100. The system has been designed to provide the Auditor General with reasonable assurance that significant and sustained breaches of policy and quality control are unlikely to occur or go undetected. Monitoring activity undertaken includes:
- Ethics and independence compliance;
  - Rotation;
  - Registration of interests;
  - Internal Quality Monitoring Reviews;
  - External Practice Reviews;
  - Client and stakeholder feedback; and
  - Complaints and allegations.

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## INTERNAL QUALITY MONITORING REVIEWS

101. The role of internal quality monitoring reviews is to provide assurance that audits are conducted in accordance with professional standards and OAG Audit Guidance. Apart from providing assurance, the objective of these reviews is to promote quality and consistency in application of our audit methodology/approach. These reviews are carried out by the Quality Monitoring Team reporting directly to the Auditor General. Please refer to the detailed **Internal Quality Monitoring Policy and Procedures**.

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## CLIENT AND STAKEHOLDER FEEDBACK

102. The quality of our audit work and the need to provide a high standard of client service are crucial if the reputation of the OAG and the Auditor General are to be maintained and enhanced. Obtaining client feedback on the quality of our financial audits is important in ensuring that we fully understand the needs and expectations of our clients and continue to provide the quality of audit they expect.

103. A client questionnaire has been designed to measure client satisfaction and to establish a benchmark for the OAG's overall performance against which future trends can be assessed.

104. It would not be efficient to request formal feedback from all clients on an annual basis and therefore clients are asked for feedback on a three-year rolling basis, subject to the following exceptions:

- clients which we are auditing for the first year or that were contracted out in the previous year. In such circumstances we will obtain feedback in the first year before reverting to a three year cycle;
- contracted out audits. It is considered beneficial to obtain feedback on contracted out audits on an annual basis;
- accounts which have received a qualified audit opinion. Feedback should normally be sought in the year of qualification with the exception of accounts which are subject to an ongoing qualification; and
- further exceptions may be made at the Management Team's discretion.

105. The client questionnaire will be sent out by the Quality Monitoring team, under cover of a formal letter from the Auditor General. The client questionnaire may be sent to the main senior management contact at the client or the audit committee, depending upon whether there is an audit committee and the exact role that it plays.

106. Clients should be encouraged to complete the questionnaire electronically. The questionnaire should be returned to the Quality Monitoring Team. The completed questionnaire will then be forwarded to the audit team. This process is designed to ensure that the whole process can be monitored centrally.
107. The responsibility to respond to the feedback on each individual audit rests with the audit team. However, where significant issues or suggestions for transferable improvements are identified, the Quality Monitoring team may clarify the client's response through a follow-up interview. This process will be conducted in close association with the Auditor General.
108. In respect of contracted out audits, there may be occasions where the firm wish to use their own client care questionnaires and related follow up procedures. In such instances, it is important to stress that ultimate responsibility for client care rests with the OAG. This need not prevent the use of the firm's questionnaire but the Quality Monitoring team must ensure that:
- they are satisfied with the areas covered by the questionnaire;
  - that the results of any feedback are made known to them;
  - that they are able to influence any response to the points made by the client; and
  - that the client is fully aware of the procedures being followed.

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#### EXTERNAL PRACTICE REVIEWS

109. Periodically the OAG will be subject to an external practice review covering the overall quality assurance framework of the Office and a sample of audits. The Management Team will engage another public audit agency or employ external reviewers to carry out independent assessments of our work based on the CAROSAI Quality Assurance Handbook.

#### REPORTING ON THE RESULTS OF MONITORING ACTIVITY

110. The results of all monitoring activity will be reported at least annually to the Management Team as part of a formal review of the quality control procedures. The report will include a description of the procedures performed and the conclusions drawn from all activity. If systematic, repetitive or significant deficiencies are noted, the report will identify the action taken to resolve them. It will build on individual reports from all areas of monitoring activity that are presented to the Management Team throughout the year.

## EVALUATING, COMMUNICATING, AND REMEDYING DEFICIENCIES

111. The OAG shall address all deficiencies detected and reported through monitoring activity. The OAG shall consider whether these deficiencies indicate structural flaws in the quality control system or demonstrate non-compliance by particular staff.
112. Structural flaws indicated by deficiencies may require changes to the quality control or documentation system. Changes to the quality control system will be referred to the Auditor General and changes to the documentation system to the Deputy Auditor General so that the corrections can be made.
113. The Auditor General shall carefully consider significant deficiencies and follow professional standards and legal requirements if it appears he has issued an inappropriate engagement report or that the engagement report's subject matter contained a misstatement or inaccuracy. In such a circumstance, the Auditor General will also consider obtaining legal advice. If deficiencies are determined to be systemic or repetitive, immediate corrective action will be taken. In most cases, deficiencies related to independence and conflict of interest will require immediate corrective action.
114. The Auditor General and the Management Team shall review detected deficiencies to determine whether courses or supplemental education work could effectively address some of the issues behind the deficiencies.

## NON-COMPLIANCE

115. Non-compliance with the OAG's quality control system is a serious matter, particularly if staff have wilfully refused to comply with OAG policy.
116. Since the quality control system is in place to protect public interest, the OAG will address wilful non-compliance transparently and rigorously. Wilful non-compliance will be addressed in a number of ways, including instituting a plan to improve performance; performance reviews; disciplinary procedures; and ultimately termination of employment.

## COMPLAINTS AND ALLEGATIONS

117. Complaints about the OAG, including the standard of our audit work should be directed to the engagement manager in the first instance. If the issue is not satisfactorily resolved a formal complaint should be raised with the Deputy Auditor General. Please refer to the OAG **Complaints Policy**.

## DOCUMENTATION

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### DOCUMENTATION OF THE OAG'S POLICIES AND PROCEDURES

118. The OAG maintains policies and procedures that specify the level and extent of documentation required in all engagements and for general OAG use (as established in the OAG Audit Policy manual/Caseware templates). The OAG also maintains policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

119. These policies ensure that documentation is sufficient and appropriate to provide evidence of:

- adherence to each element of the OAG's quality control system; and
- support for each engagement report issued, according to professional and OAG standards and legal requirements, together with evidence that the EQCR has been completed on or before the date of the report (if applicable).

### DOCUMENTATION OF THE ENGAGEMENT

120. All engagement documentation should be maintained within the appropriate Caseware file. Audit documentation held within the Caseware file should be sufficient to allow an experienced auditor who has no previous connection with the audit to understand the audit engagement, its business, risks, the procedures performed and the conclusions reached, and enable them to re-perform any work effectively if it was required.

121. The standard documentation required to be maintained for each engagement is detailed in the Audit Policy manual. This documentation shall include:

- engagement planning checklist or memorandum;
- identified issues with respect to ethics requirements (including demonstration of compliance);
- compliance with independence requirements and documentation of any discussions related to these issues;
- procedures performed to assess the risk of material misstatement due to fraud or error at the financial statement and assertion level;
- nature, timing, and extent of procedures performed in response to assessed risk including results and conclusions;
- nature, scope, and conclusions drawn from consultations;

- all communications issued and received;
- results of the EQCR which has been completed on or before the date of the report;
- confirmation that no unresolved matters exist that would cause the reviewer to believe that the significant judgments made and conclusions drawn were not appropriate;
- conclusion that sufficient, appropriate audit evidence has been accumulated and evaluated, and supports the report to be issued; and
- file closing, including appropriate sign-off.

122. OAG policy requires that final assembly of the engagement file be completed within 60 days after the date of the auditor's report.

123. Documentation of any kind must be retained for a period of no less than seven years from the date of the auditor's report, to allow those performing monitoring procedures to evaluate the extent of the OAG's compliance with its internal control system, as well as the needs of the OAG to meet professional standards, law, or regulations.

#### **DOCUMENTATION OF THE ENGAGEMENT QUALITY CONTROL REVIEW**

124. The EQCR reviewer must complete the OAG's standardized EQCR checklist for each full EQCR review, in order to provide documentation that the review was performed. This must include confirmation and supporting evidence or cross-references to it, affirming that:

- appropriately qualified external professional has performed the procedures required for an EQCR;
- the review was completed on or before the date of the engagement report;
- no unresolved matters have come to the reviewer's attention that would cause him or her to believe that the significant judgments the engagement team made and the conclusions reached were not appropriate.

#### **FILE ACCESS AND RETENTION**

125. The OAG has established policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the engagement documentation. These policies include consideration of various retention requirements under statute and regulations to ensure that engagement documentation is retained for a period sufficient to meet the needs of the OAG.



126. All working papers, reports, and other documents prepared by the OAG, including client-prepared worksheets, are confidential and shall be protected from unauthorized access. The Auditor General must approve all external requests to review working papers. Working papers will not be made available to third parties unless:

- the client has authorized disclosure in writing;
- there is a professional duty to disclose the information;
- disclosure is required by a legal or judicial process; or
- disclosure is required by law or regulation.

127. Unless prohibited by law, the Auditor General must inform and obtain written authorization from the client before making working papers available for review. In the event of litigation or potential litigation, or regulatory or administrative proceedings, working papers shall not be provided without obtaining consent from the OAG's legal counsel.

128. Further detailed on document retention are contained in the OAG's ***information management policies and procedures (to be developed)***.