

CONTINUOUSLY AND SUSTAINABLY IMPROVE THE QUALITY OF OUR AUDITS

Value adding auditing objective 2: Ensure high quality of our audits

PERFORMANCE MEASURE

% adherence to quality standards: audit engagements

2020-21 TARGETS

80% – 90% (C1, C1#, C2 and C3 rating)

2020-21 ACTUAL

81%

Given our disappointing quality control results over the two previous performance years, we committed to an audit quality improvement action plan that we continued to implement during the performance year. Although these activities were hampered by our need to reprioritise our internal initiatives to respond to the national and global environment, we were able to turn the tide on non-compliance with audit standards. This year, we subjected 58 audit files to a post-issuance quality review and obtained an 81% compliance rate with quality standards against a target range of 80% to 90%. We are pleased with the improvement from last year, which is a result of:

- proactively reviewing selected audits that phased in the MI process
- enhancing targeted communications on audit quality
- enhancing our technical analysis
- conducting transversal root cause analysis with specific corrective actions.

We also supported new and acting engagement managers, and managers that had previously received a non-comply rating. The support plan included compulsory pre-issuance reviews, audit report consistency reviews, business executive support, coaching or peer reviews and a coaching support programme that included compulsory sessions offered by an accredited coach.

We tightened pre-issuance review processes and enforced standards of finalising and archiving audit files, and will continue to monitor the corrective actions.

Implementing the International Standards on Quality Management

The International Auditing and Assurance Standards Board modernised the International Standards on Quality Management (ISQM). Our exco approved the move to replace the ISQC1 with the ISQM 1 and 2. These new standards on managing audit quality are tailored to an evolving and increasingly complex environment that includes the impact of technology and using external service providers.

Our fundamental redesign processes to adapt to the new requirements had been slowed down due to our audit priorities. We continued to raise organisation-wide awareness, engage directly with key business process owners and explore the impact of the new standards.

We are confident that implementing the new quality management standards will contribute positively to improvements in our audit quality results.

Audit quality indicators

To improve the quality of our audit engagements, for the past few years we have worked on our audit quality indicators (AQIs). AQIs provide an early warning of potential threats to audit quality, and are subdivided into two main categories: in-flight AQIs and post-flight AQIs. In-flight AQIs are indicators based on real-time data of specific audits and audit support activities and shared during an audit cycle. Post-flight AQIs are indicators based on historical data and shared after the audit cycle to provide insight on emerging audit quality risks.

We approved our current set of AQIs in July 2020 and issued four in-flight AQI reports designed to promote and deepen our internal culture, which recognises that our audit quality is our licence to operate. Going forward, we intend to use these reports for corrective action.

Contracted audit firms accountability model

We have strengthened controls on the quality of audit work that we expect from contracted audit firms. This is in response to the poor quality of audits produced by some of these firms, which had an impact on our audit product.

The contracted audit firm accountability model was introduced in May 2019. It requires any firm we contract to ensure that its audits meet the minimum quality standards and undergo quality control reviews before submission to the AGSA. This process and continuous monitoring led to an improved audit product.

We have also worked on a system of consequences for contracted audit firms that have adverse quality outcomes.

Pre-issuance reviewers

We rely on pre-issuance reviewers to improve audit quality. We engage with these reviewers on their, and the engagement manager's responsibilities, as well as escalation processes during the review process.

As part of strengthening the pre-issuance review process, we investigated the role of pre-issuance reviewers on files that had obtained non-comply quality control assessment ratings in 2019-20.

Pre-issuance reviewers who did not adequately discharge their responsibilities were either removed from the database or received warning letters.

We launched a pre-issuance review online reporting platform to gather data and feedback from pre-issuance reviewers. This platform allows us to identify the root causes of poor quality reviews and improve areas of weakness in the process. Reviewers raised the following challenges:

- the allocation process was not consistent and reviewers feared raising findings because of a perception of victimisation
- skills and experience were lost because reviewers were changed annually during each audit cycle
- the allocation process was lengthy and resulted in lost time.

To address these challenges, we introduced a new allocation process that assigns reviewers to the same audit for the duration of the tender cycle.

During June and July 2020, we trained pre-issuance reviewers on their responsibilities and the audit software to ensure that they were adequately skilled to support our audit quality.