Audit quality management as an introduction to improve and develop the audit performance at the SAIs

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Introduction:

The collapse of some American companies and their exposure to bankruptcy, despite their financial statements being audited by the largest accounting and auditing firms, led to the need for a set of controls, custom, ethical and professional principles to achieve confidence and credibility in the information contained in the financial statements. Among the most famous cases in this regard are the bankruptcy and collapse of the American energy giant (Enron) and (World Com) the second largest American telecommunications company, and the subsequent spread of a bad reputation for the global legal audit and accounting firm (Arthur Anderson), which audited the financial statements of these two companies, and as a result, the name of the audited company (Arthur Anderson) disappeared from the market.

In order to overcome these pressures, which are a necessary requirement for all parties to the audit process (the auditor - audited company - beneficiaries of audit services), INTOSAI gave the quality of the audit work special importance that it has addressed with standards represented in a set of policies and procedures aimed at achieving to respond to professional standards and applicable legal and organizational requirements as well as to ethical custom.

In this study, we will review three themes through which we will highlight the management of audit quality and its impact on improving and developing audit performance and these areas are the concept of the audit quality and its importance and benefits, the organizational framework and professional standards, and the elements of the audit quality control system.

The first theme: the concept of audit quality, its importance and benefits

1. the concept of audit quality

Audit quality: is the extent of commitment to a path or result of a set of pre-established conditions that are believed to be necessary for the final value provided by the path or provided by the result [1]. While audit quality control is defined as the set of policies and procedures that are developed in order to ensure that the work of the SAI is always characterized by high quality[2], ensuring the quality of audit is to ensure the quality of the processes associated with audit activities by designing procedures and setting standards, including periodic review of a range of auditing tasks that was performed, to overcome the problems associated with the processes that reduce the quality of audit outputs, the goal is that the SAI ensure reasonable assurance that the quality control system adopted is appropriately designed and operates effectively [3].

2. The importance of audit quality

The audit quality represents a general demand of all parties interested in the audit process, because the crises that have occurred require that the audit process be carried out at a high level of quality and gives more confidence and credibility and reliance on the auditor work, and the importance of audit quality stems from the following areas:

- Confirm compliance with the professional standards, which are guidelines for determining and applying audit procedures.
- Contribute to narrowing the expectation gap in the audit between both users and auditors towards the quality of the audit services, and the reason for this gap is the decrease in the actual performance of the auditor from the audit standards and the accepted quality standards, so quality in audit work is one of the methods of narrowing the expectations gap.
- Enhance the possibility of detecting violations and errors in the financial statements.
- Contribute to strengthening the concept of governance, which is a set of principles that aim to provide effective internal control procedures and well-controlled tools to raise the level of performance.
- Increase confidence in enhancing the credibility of financial statements through the quality of audit reports that are used in decision-making by many interested parties in the audit process.

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(1) The SAI guideline in the CAROSAI region on quality assurance in the financial audit work.
(2) Quality Assurance Manual for SAI / ARABOSAI PSC p7.
(3) The Manual of Comprehensive Quality Management System at the State Audit Bureau, Kuwait, 2010,p6.

- Reduction of the financial crises that came as a result of the extreme failure in control and audit quality, which required comprehensive reforms to contain these crises.

3. The benefits of audit quality

The audit quality produces brings many benefits for the SAIs, which can be summarized as follows [4]:

- Ensure a high level of audits by improving audit performance and results.
- Ensure that audits are carried out in the most efficient, time and cost-effective manner.
- Improve the capabilities of the SAI, and show the SAI that it is well managed and operates according to the highest standards and professional practices and maintains a high degree of integrity, accountability and efficiency.
- Enhance the credibility and reputation of the SAI.
- Identify the training needs of the staff of the SAI.
- Motivating the staff of the SAI.
- The SAI avoid potential litigation when its work is of high quality.

The second theme: the organizational framework and professional standards

The SAI should work in organizational and legal frameworks so that they derive their strength and independence from the most important of these frameworks, which is the Constitution, which is the basis under which the SAI is established and determines its tasks and functions and entities that are subject to its control under the law [5]. The staff of the SAI should be fully aware of the organizational and legal framework that enables them to carry out their work, and the organizational framework of the SAI consists mostly of the legislation described in the drawing below and in the hierarchy [6].

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(4) Quality Assurance Guidelines, Pacific Association of Supreme Audit Institutions,p10.
(5) A study on the reality of the SAIs in Arab countries and their prospects, ARABOSAI, 2010,p35-36.
(6) Quality Assurance Handbook IDI/AFROSAI-E,p10.

Constitution

Law

Standards

Policies
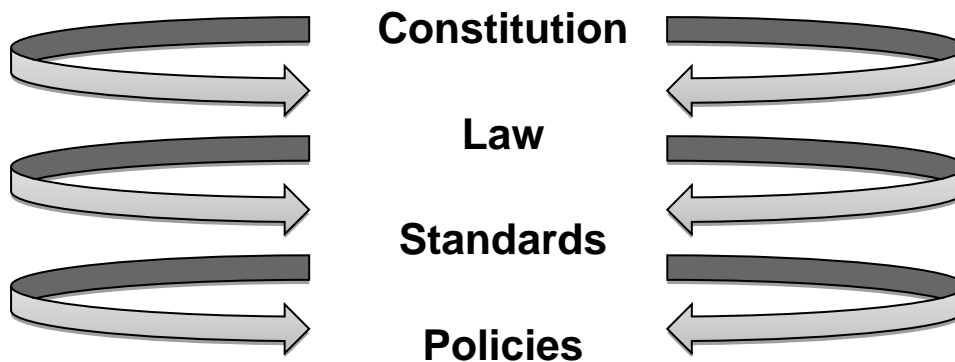
As for the auditing standards, they are the international standards of the International Organization of Supreme Audit Institutions (INTOSAI), which came in four levels: the first level includes the founding principles of INTOSAI (Lima Declaration), the second level includes the basic requirements for the work of the SAIs, the third level includes the basic principles of financial control and accounting for public sector control, as for the fourth level, it includes the guidelines for auditing and translating them into more specific, detailed and enforceable guidelines.

INTOSAI has placed special importance on quality, which has been addressed by standards of the second, third and fourth levels, including the standards of the second level, where the third principle of the standard (ISSAI 21) states that the SAIs should establish an appropriate quality assurance system around their audit activities and their reports, and they should periodically subject this system to independent review."

The standard (40) issued by INTOSAI also presents a general framework for quality control within the SAIs, and this framework is designed to be applied to the quality control system for all the work carried out by the SAIs, this standard is derived from the International Standards on Quality Control - 1 (ISQC-1) issued by the International Auditing and Assurance Standards Board (IAASB) published by the International Federation of Accountants (IFAC), which includes that the SAIs develop policies and procedures designed to enhance an internal culture that recognizes that quality is an essential element in the performance of operations.

Among the standards belonging to the third and fourth levels came the standard No. (1220) of the INTOSAI derived from the International Standards of Supreme Audit Institutions (ISSAI) No. (220) to establish

standards for the quality control of individual financial audit work tasks, while the standard No.(4000) established a quality control framework at the level of compliance control audit, as for the SAI commitment to documentation, there were the standards (1220,3000,3100,4000).

When the SAI has methodologies and audit manuals and trains its staff to use them, it responds to the requirements of the standard No.(40), but when audit teams use these methodologies and audit manuals to carry out their audit functions, such use is documented in the audit files and in this case it responds to the standards (1220,3000,3100 , 4000) [7].

The third theme: elements of an audit quality control system

A good audit based on best practices for audit quality management systems in SAIs, such as policies, practices and manuals related to audit quality management processes, contributes to the development of auditing and control work and ensures the production of high quality reports[8].

1. Leadership and guidance
The senior management of the SAI should work on the following [9]:
- Develop policies and procedures designed to promote an internal culture that recognizes that quality is an essential element in the performance of auditing functions, and the performance of the SAI's functions is consistent with the relevant legislative environment and professional standards.
- Clarify that the goal of internal audit and quality assurance review is to perform auditing work in a distinct manner, enhance continuous improvement and development procedures and apply the highest professional standards of independence and objectivity to ensure the delivery of high quality audit outcomes.
- Sufficient interest in the field of information technology in order to support the SAI.

(7) The International Organization of Supreme Audit Institutions (INTOSAI), executive summaries of the international standards for the SAIs, http://www.intosai.org/ar/issai-executive-summaries.html.
(8) International Standard on Quality Control (ISQC) 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements",p37-57.
(9) The 7th ASOSAI Research, Manual of Quality Control Management Systems, Translated by the State Audit Bureau, Kuwait,p13-24.

- Creating a strategic vision on the SAI orientation and planning for future orientations by developing a strategic plan for the SAI for (3-5) years focusing on the auditing tasks that can contribute to achieving the SAI mission and reviewing it annually and studying the risks arising from changes in the internal and external environment.
- Define risk management methods and procedures that threaten the audit work quality to ensure that the audit work is in compliance with the applicable legislative environment.

2. Rules of ethics and professional conduct.

The senior management of the SAI should work on the following [10]:

- Develop policies and procedures designed to provide reasonable assurance about the compliance of the SAI and its staff with the relevant ethical conduct requirements, and emphasize the importance of the commitment of all SAI staff to all requirements of ethical conduct in the performance of audits, which are represented in integrity, independence and objectivity, impartiality, professional confidentiality, and efficiency.
- Obtain written statements from the SAI staff confirming their adherence to the requirements of ethical conduct and that policies and procedures are in place to inform the head of the SAI in a timely manner about violations of the requirements of ethical conduct to enable him to take corrective steps.

3. Human Resources

The senior management of the SAI should work on the following [11]:

- Adopt policies and procedures to recruit qualified individuals, provide them with training, professional development and conducting periodic review of training results to assess whether programs are being effectively implemented and achieving goals.
- Develop policies and procedures designed to provide them with reasonable assurance that they have a sufficient number of competent, capable and ethical staff to perform operations in accordance with professional standards and legal and organizational requirements and enable the SAI to issue appropriate reports under the existing conditions.

(10) International Standard for Supreme Audit Institutions (ISSAI40) Quality Control for SAIs,p7-9
(11) System manual for controlling and ensuring the quality of auditing for the SAIs in The Cooperation Council for the Arab States of the Gulf, The National Audit Office of the Kingdom of Bahrain, 2013,p45-48.

- Develop a performance-based system for promotion and progress and linking performance to the benefits granted to individuals.

4. Audit work performance:

The SAI should develop policies and procedures designed to provide them with reasonable assurance that the operations are performed in accordance with professional standards and the legal and organizational requirements and the SAI to issue reports appropriate under the existing conditions and that these policies and procedures include issues related to enhancing consistency in the quality of work performance and the responsibilities of supervision and review and in this regard, the following must be worked out[12]:

- Plan the audit process in a way that ensures high-quality auditing is carried out in an economical, efficient, efficient and timely manner, the fact that audit planning is the first stage of the audit processes, then the plan must be prepared carefully enough to include the subject of audit, the terms of reference and responsibility of each team auditor, the risk identification, the audit program, the legal references, the manuals and the standers to be consulted.
- Select the right auditors, and in order to perform the audit task efficiently, the team must have the right knowledge, professional skills and expertise for the auditing tasks and provide independence and objectivity and work as one team.
- Understand the operation of the IT system in the auditee so that it assesses the efficiency and effectiveness of auditing of these systems in terms of operation and accounting processes, and determines the need for IT management in or outside the SAI.
- Use the technical support departments of the SAI or from outside it if specialized knowledge is required that the auditors do not possess, specifying the required tasks and achieving them by these experts and specialists, the desired results and the date of work completion, and to supervise their work and programs until the completion of the tasks required of them.
- Provide audit manuals, brochures and documents related to auditing that benefit the auditor in the performance of his work, and work to update them based on international variables and best professional practices.

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(12) The Manual of Comprehensive Quality Management System at the State Audit Bureau, Kuwait, previous reference,p20,p41

- Collecting, analyzing and evaluating the necessary information, identifying relative importance, assessing risk areas, identifying strengths and weaknesses, determining the extent of evidence required and properly documenting them, in addition, the observations mentioned in the previous reports and any material changes at the entity or the activity to be audited should be taken into consideration, as well as the observations revealed by other parties, when preparing for the audit process.

- Collect reliable and unquestionable evidence sufficiently to obtain a reliable and relevant result related to the audited subject, and the auditor must evaluate the importance of the evidence desired and balance the importance of this evidence with the cost of obtaining it.

- Document all the information and data supporting the audit results as evidence that the planning and implementation of the audit process has been carried out in accordance with the requirements of the audit standards and applicable legal and organization requirements.

- Supervising the audit work and follow up the auditors on an ongoing basis and reviewing and discussing it, and ensuring that each auditor in the team has a clear and consistent understanding of the audit plan and that the audit is carried out in accordance with the manuals adopted in the SAI and the international audit standards and the implementation as planned, taking into account any changes to the plan, the working papers should include sufficient evidence to support all the findings and recommendations.

- Take the necessary procedures to comply with the quality requirements through the audit process as a whole and ensure that the auditors have followed all stages of the performance of the audit task in terms of adhering to the audit program and following the methods of analysis, samples, testing and evaluation correctly and proper documentation and use the worksheets.

- Take the necessary procedures to comply with the quality requirements through the audit process as a whole and ensure that the auditors have followed all stages of the performance of the audit task in terms of adhering to the audit program and following the methods of analysis, samples, testing and evaluation correctly and proper documentation and using the worksheets.

- Review all audit work by the team leader before submitting final audit opinions or reports, and this audit is carried out during the audit to ensure that the tasks placed have been performed in accordance with quality requirements, and review the draft reports before taking

any action.

- Support the audit report with legal texts, requirements, and rules whose violation or lack of respect leading to the discovery of irregularities, and to prepare a written report at the end of each audit process whose content is clear and easy to understand, free from ambiguity, confusion or the use of kind words and supported with acceptable and relevant audit evidence, and the auditor must maintain objectivity and independence in formulating his recommendations, and reports should refer to the standards or audit practices used when conducting the audit process in order to reassure the reader that the audit has been implemented in accordance with accepted procedures, and that the draft report is reviewed by the SAI administration to ensure sound professionalism and legal justice for its reports, findings and recommendations contained therein.

5. Foreign affairs:

The goal of the SAI to carry out audits and provide audit reports is to enhance the principle of transparency and accountability for public funds, the SAI achieves the highest levels of efficiency through corrective, reform and development procedures that are taken by the Auditee, so the relationship of the SAI with those interested in its work and reports is very important to ensure the high quality of audit work and reports, and in this regard the SAI should [13].

- Study the means necessary to achieve communication with the latest methods and techniques and ensure the high quality of this communication in form and content, and the use of various forms and tools of communication to publish audit reports and the results that were reached in order to achieve the goals of the SAI.
- Commitment to the constitutional and legal framework in its relationship with the legislative and executive authorities such as Parliament and the Council of Ministers as a supporting audit body by providing them with audit reports and maintaining effective communication with official channels with the legislative and executive authorities in order to communicate the SAI's viewpoint on the subject of the audit.

(13)The Manual of Comprehensive Quality Management System at the State Audit Bureau, Kuwait, previous reference,p41-43

- Obtaining the latest information about the work of these authorities and their committees and follow up on what is raised by their officials regarding the work of the SAI and its reports and works in advance to study it and develop a plan to monitor and analyze the needs of those stakeholder and benefit from the feedback of those stakeholder such as the legislative and executive authorities, Auditee and the community in all its components with the aim of improving the audit work.

6. Continuous system development

The senior management of the SAI should work on the following [14]:

- Ensure the monitoring of best professional practices and taking the necessary procedures to develop a quality management system for audit work and reports in the best way through multiple methods and techniques that support audit activities; it provides the SAI with reasonable assurance that the policies and procedures relating to the quality control system are appropriate and adequate and comply with professional standards and legal requirements and that the reports issued by the SAI are appropriate to these circumstances and take corrective procedures in the case of deficiencies during the monitoring process.
- Create an appropriate environment for conducting internal audit to help senior management to achieve effective management of its operations, maintain the quality of its performance, and ensure business performance efficiently and effectively.
- Assess the SAI work and reports quality through a subsequent quality assurance review, focusing on professional rules and principles and methodological recommendations, and the review is based on a sample of the files that have been audited and other files before the audit process is completed within specific standers that depend on procedural and methodological rules, and notify the management of the results of the quality assurance review.
- Assess the quality control system to ensure that it complies with quality management standards and meets its requirements, works efficiently and effectively and identifies its weaknesses and strengths.
- Monitor, analyze and document external opinions related to SAI work and take its findings into account when setting the strategic goals and quality requirements.

(14) System manual for controlling and ensuring the quality of auditing for the SAIs in The Cooperation Council for the Arab States of the Gulf, The National Audit Office of the Kingdom of Bahrain, previous reference,p97-109

- Make the necessary efforts to improve the efficiency and effectiveness of the implementation of the quality control system and achieve continuous improvement opportunities by implementing peer review tasks, taking advantage of international best practices and seeking certifications.

With regard to the role of the Audit Bureau of Jordan, which operates under Law No. 28 (1952) and its amendments which is based on the Jordanian Constitution, it has adopted the application of the audit quality management system to improve and develop audit performance in accordance with international standards and legal and organizational requirements, as such, the Audit Bureau has taken many procedures and policies during the past years related to improving audits and developing its own manuals. The Audit Bureau worked on establishing the Directorate of Institutional Performance Development and Quality Assurance, modernization of human resources systems, developing its capabilities and creating incentives to help maintain it. The strategic plan of the Audit Bureau for the years (2016-2020) also gave the issue of the development of institutional performance and quality assurance of great importance with objectives focused on institutional excellence and quality control to reach a distinct SAI in various fields and activities through the adoption and application of the best international practices of the SAIs, in addition to establishing regulations and rules that enable the Audit Bureau to improve its work to achieve institutional excellence.

In this context, the Audit Bureau has worked on the following:
- Develop policies and procedures that have fostered an internal culture that quality is an essential element in the performance of audit tasks in accordance with international standards and legal requirements to ensure the delivery of high quality audit outputs.
- Obtain written statements confirming the commitment of the Audit Bureau's staff to the Code of Ethics, which shows the policies and procedures designed in the performance of audits, which are integrity, independence, objectivity, impartiality, confidentiality, professionalism and efficiency.
- Provide audit manuals that benefit the auditor in performing his work and updating it in accordance with international changes and best professional practices.
- Perform the audit work through the staff of the Audit Bureau in accordance with the modern audit methodology that takes into

account international audit standards and legal requirements starting from planning the audit process to include the Auditee and the terms of reference and responsibilities of each auditor in the team and the identification of risks and the audit program and legal references , manuals and standards that will be referred to and ensure that each auditor has a clear and consistent understanding of the audit plan.
- Appoint individuals with appropriate qualifications and provide them with the necessary training to follow the latest developments in the field of international auditing standards, raise the level of professional competence, and provide material and moral incentives asnecessary.
- Focus on the quality of the audit output in accordance with the standards of the audit reports preparation issued by the INTOSAI.

The Audit Bureau of Jordan faces a number of difficulties and obstacles that limit the application of quality management standards and affect its ability to achieve its ambitions and objectives contained in the strategic plan of the Audit Bureau, the most important of which is not to grant him full financial and administrative independence, and the inability of some auditors to plan and implement the audit process in accordance with international standards and best professional practices. In this regard, a draft amendment to the Audit Bureau Law No. (28) 1952 was submitted to the Jordanian Council of Ministers in (2017), which includes granting the Audit Bureau the financial and administrative independence in addition to the procedures for appointing the head of the Audit Bureau to ensure its independence, and a number of audit training courses have also been conducted using the modern audit methodology.

Recommendations

Improving and developing the performance of audit work is related to the success of the Audit Quality Management System based on the awareness of human staff that quality is an essential element in the performance of the audit work and the presence of an administration that is fully prepared to change the organizational behavior of employees and determine their roles while clarifying the importance of applying Audit Quality Management, as such, the following could be recommended:-

1. The SAIs must work in legal and organizational frameworks that give it power and independence and determine its functions, tasks and Auditee.

2. The development of a documented quality control system covering all the functions and activities of the SAIs and includes mechanisms to take advantage of the results of the improvement of the performance of these SAIs and to update and develop the system itself continuously.

3. Activate all professional and audit standards to provide high quality auditing services in accordance with the best international practices taking into account the national privacy.

4. Instill a culture of quality and raise awareness of its concept and principles through holding meetings, making specialized publications and organizing seminars on the management of audit quality.

5. Appoint individuals with the appropriate qualifications and providing them with training and professional development and training them constantly and benefit from the experiences of leading bodies in order to keep up with the latest developments in international audit standards and raise the level of professional competence.

6. Provide material and moral incentives as necessary and setting a system for promotion and progress based on performance and link performance to the benefits granted.

References

Arabic references:
- The SAI guideline in the CAROSAI region on quality assurance in the financial audit work.
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