AUDIT QUALITY MANAGEMENT INITIATIVES IN THE OFFICE OF THE AUDITOR - GENERAL OF PAKISTAN



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The Office of the Auditor-General of Pakistan (OAGP) has taken several initiatives to ensure the Quality and effectiveness of its Audit work. A comprehensive Audit Quality Management Framework (AQMF) has been developed to provide a structured mechanism for Audit Quality Management. A Quality Assurance Wing has been established in the OAGP, headed by a Deputy Auditor-General, to operationalize this framework.

This paper gives a conceptual framework of Quality, traces the gradual evolution of the concept over the years to provide a theoretical background for understanding OAGP's Quality Management initiatives, and reviews the relevance of Quality Management for Public Sector Auditing. The paper discusses the OAGP's Quality related initiatives over the years, describes the genesis, scope and basis of AQMF, and elaborates in some detail the mechanisms provided in the Framework for effective Quality Management of all phases of Audit work.

Quality Management – The Conceptual Framework

The term Quality can be defined as the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.These characteristics in the context of Public Sector Auditing would include attributes such as Significance, Reliability, Objectivity, Scope and Completeness, Timeliness, Clarity, Efficiency and Effectiveness. Broadly speaking, the Quality of Audit is determined by its contribution towards improving Public Financial Management of the Audited area. It is judged in terms of results and impacts achieved. The results and impacts like recoveries made on the basis of Audit observations, any improvement in Internal Controls, accountability of public officials entrusted with use of public resources, changes in systems, procedures and laws provide clear indication of the effectiveness of Audit. The findings, conclusions and recommendations in the Audit Report should help the auditee, the Government, and the Parliament in improving Government operations and policy making.

The Quality Continuum – The Gradual Evolution of the Concept

Quality as a management concept has evolved over the years. Various terms such as Quality Control, Quality Assurance and Quality Management are often considered synonymous and used interchangeably. However, these terms have specific meanings and connotations, underlining the gradual evolution and development of Quality related measures. The initial understanding of the concept was as **Quality Control,** which was viewed as a product or service's compliance to specifications. The Quality Control task was to identify and remove defects, achieved

mainly through some form of measurement and inspection activity. Responsibility for Quality was not with line functionaries but was vested with separate staff departments. This had the effect of making Quality a technical rather than a managerial function. Quality Control was essentially product centric.

Quality Assurance, however, is understood as planned or systematic actions necessary to provide adequate confidence that a product or service will satisfy given requirements for Quality. Quality Assurance is process-centric as against Quality control, which focuses on end-product. However, this process focus was still limited to line functions, without involving associated managerial functions such as Strategic Management, Human Resource Management etc.

Quality Management is a broader concept which comprises the organizational structure, procedures, processes and resources needed to implement Quality Management. It involves all processes in the operational life cycle of a service that affect Quality, from initial identification of clients' needs to final satisfaction of requirements. It is designed to provide confidence to clients and stakeholders that requirements for Quality will be achieved in delivered products or services.Quality Management involves forming and managing a team of people to achieve a qualitative goal within an effective cost and time frame, which will result in developing a quality product or service.[viii]

Total Quality Management (TQM) is a total, organization wide effort - through full involvement of the entire workforce and a focus on continuous improvement - that organizations use to achieve clients' satisfaction. TQM is both a comprehensive managerial philosophy and a collection of tools and approaches for its implementation. Total Quality is the unyielding and continually improving effort by everyone in an organization to understand, meet and exceed the expectations of clients at continually lower cost. The concept of Total Quality stresses learning and adaptation to continual change as keys to organizational success.

Quality Management in Public Sector Auditing

Public Sector Auditing should provide assurance to the stakeholders that public programs and public investments are being administered economically, efficiently and effectively and thereby significantly contribute to the improvement of public policy, delivery of public services and quality of governance for the benefit of the people. The assurance should extend to expressing an opinion on the fairness with which the government financial statements are prepared and presented. Therefore, it is essential to have in place quality management, assurance and control policies and procedures in an Audit organization. Supreme Audit Institutions (SAIs) need to foster quality attitude, supported by systematic quality systems and adequate policies, procedures, records, technologies, financial and human resources, and structures.[xii]

In Public Sector Auditing, Quality Management involves a system composed of

an organization, the Supreme Audit Institution (SAI), its people - the Auditors - and the Audit process, all working together to produce outputs that fulfill the requirements of its stakeholders and the general public. Each component of the 'Audit Quality Management System' (AQMS) - structure, people and process aims towards customer satisfaction (in the context of the SAI, its clients and stakeholders), which is always the bottom line of any organization. Customer satisfaction is always identified with Quality and hence Quality is expected of everyone in the organization and of every output generated. The SAI is no different from any other institution in its mission to satisfy clients' and stakeholders' needs and expectations. Improvement in Quality of Audit can reduce time and cost of audit and increase productivity and efficiency of auditors, thus raising the level of performance.

SAI's 'Quality Management System' should be designed to provide 'reasonable assurance' in the light of the likelihood and magnitude of potential risks, that it conducts the Audits, both Financial and Performance, in accordance with the applicable legislative requirements, rules and regulations, audit standards, policy manuals, guidelines and procedures. Reasonable assurance recognizes that the cost of managing risks should not exceed the benefits likely to be derived. Reasonable assurance should not be construed to mean absolute assurance of all aspects of Quality for each individual Audit and for the Audit process.[xiv]

OAGP's Audit Quality Management Framework

Historical Evolution

The Code of Ethics provides the very basis of effective Quality Management in Audit process. SAI Pakistan also started by adopting INTOSAI's (International Organization of Supreme Audit Institutions) Code of Ethics and then adopted INTOSAI's Auditing Standards. A significant step in this direction was taken through development of a comprehensive Financial Audit Manual (FAM) and Sectoral Guidelines (to address various sector specific issues, given the vast functional mandate of OAGP) to improve the Quality of Audit work. Subsequently, a Performance Audit Manual has also been developed. However, the actual corrective measure introduced to exercise Quality Control checks on the Audit Report was a central Quality Control Committee of the OAGP. The committee used to review Audit Reports from various Field Audit Offices (FAOs).

Several years' experience of this mechanism revealed that Quality Control checks on the product, i.e. the Audit Report, could not prevent repetition of the same deficiencies in the Reports of the subsequent years. This implied that the mechanism did not contribute towards improving Audit processes. Consequently, it was realized that real improvement in the Quality of Audit work required something more than testing and correcting only the Audit Reports. A need was felt to formalize the Quality

Management arrangements by developing a comprehensive, yet focused Quality Management Framework in consonance with international best practices and standards followed by other SAIs.

Basis and Scope of the Framework

The AQMF draws on ISSAI-40, which is an adaptation of the International Standard on Quality Control (ISQC-1). The principles and methods of Quality Management highlighted in the ASOSAI "Guidelines on Audit Quality Management System" and the EUROSAI "Audit Quality Guidelines" have been consulted for developing AQMF.[xviii]

The AQMF applies to the entire Audit Cycle of all Audit assignments conducted by the Office of the Auditor-General of Pakistan (OAGP). The Audit cycle starts from understanding the Audit entity, which is followed by Audit Planning, Execution, Evaluation of Results, Reporting and Follow up phases.[xix]

It is pertinent to mention that the AQMF has not tried to re-invent the wheel. In fact, the framework addresses Quality Management requirements at each phase of Audit by making efficient use of already existing aids for implementing robust Quality Assurance at the FAO level. These aids include:

a. Quality Assurance measures for each phase of the Audit cycle as embedded in the OAGP's Financial Audit Manual (FAM).
b. Tools for implementing these Quality Assurance measures provided in Working Paper Kit of FAM.
c. Guidance on the usage of these tools as provided in relevant Sectoral Guidelines.

The AQMF has been developed after reviewing the international best practices as reflected in the INTOSAI, EUROSAI and ASOSAI standards and guidelines. The literature survey on Quality Management established that the Quality of an end-product cannot be ensured unless Quality Assurance procedures are diligently followed at all stages during a process.

Accordingly, the AQMF comprises the following three interventions:

1) Quality Assurance Mechanism
2) Quality Control Mechanism
3) Quality Improvement Mechanism

The following sections describe these three mechanisms in some detail.

Quality Assurance Mechanism

This mechanism is to be implemented through the officers having the responsibility to carry out Audits, in an FAO (Field Audit Office). It ensures observance of Quality, from the start of planning an Audit through execution of Audit to producing an Audit Report. The framework stipulates that the Directors General (DGs) of the FAOs, as heads of offices, are primarily responsible for implementing the quality assurance regime in their offices. Their Directors supported by Audit Managers and staff affect Quality Assurance through implementation of the Sectoral Guidelines prepared under the FAM. The FAM methodology prescribes compliance of OAGP's Auditing Standards throughout the Audit cycle. It envisages

ensuring Quality in Audit work through:

1) Following logical framework comprising planning, executing, reporting and follow-up phases.
2) Documentation and related approvals from appropriate supervisory level, for each of these phases of Audit.
3) Supervision and review. Ongoing involvement by senior Audit officials.
4) Use of Information Technology tools.
5) Quality Assurance reviews.

AQMF seeks to provide a structured way to ensure implementation of Quality Assurance tools by field officers responsible for carrying out the Audit.

Quality Control Mechanism

The Quality Control Mechanism is operated through the OAGP's centralized Audit Quality Management Wing (AQMW) by conducting Quality Control Reviews external to the FAOs. The objectives of Quality Controls are to ensure:

a. The effectiveness of the Quality Assurance Mechanism of the FAOs.
b. The Quality of the final Audit Reports in accordance with OAGP's Quality standards.

This mechanism is based on Quality Control checks externally applied to an FAO (Field Audit Office) at two stages[xxi]:-

1). The first stage involves testing the effectiveness of the Quality Assurance Mechanism described above. This will be managed by the centralized AQMW through sample testing the Audit assignments previously Quality Assured in an FAO. The primary purpose of the Quality Control Review of the Audit Cycle is to confirm that the Quality Assurance Mechanism (QAM) is operating efficiently and effectively in accordance with the prescribed standards as provided in the FAM, the Sectoral Guidelines and the Audit Report Template. This will ensure that the end product coming out of this process is consistently of high quality.

The review is conducted in accordance with the prescribed 'Quality Control Review Checklists'. The aim is to check compliance with the Quality Controls pertaining to the various stages of the audit cycle (i.e. Updation/ preparation of Permanent, Planning and Execution files, Report finalization and Audit follow up) as laid down in the Sectoral Guidelines and ensure their effectiveness by reconciling the checklists/forms with the concerned working papers.

2). The second stage focuses on the Quality of all the final Audit Reports produced by the FAOs. The final product, i.e., the Audit Report is to be signed by the Head of the SAI. Therefore, there is a need to conduct a Quality Control Review of the end product to give assurance regarding its Quality to the signing authority. For this purpose, Quality Control Committees (QCC) have been designed. In fact, the main challenge addressed by this framework is an arrangement for reliable and independent Quality reviews of the Audit process and all Audit Reports. Accordingly, the QCC is an arrangement for an independent review of Audit reports, and is the pivot of the Quality Control because under the AQMF it has been

charged to grade all the Audit Reports under its jurisdiction after a hundred percent review of each report.

Quality Improvement Mechanism

This arrangement envisages designing and implementing corrective actions based on the outcomes of the Quality Assurance and Quality Control reviews described above. Respective Deputy Auditor-General (DAG) will be receiving periodic reports from two channels viz. Quality Assurance reports through DGs of the FAOs and the Quality Control reports on the Audit process of the FAO through OAGP's Audit Quality Management Wing (AQMW). On the basis of these reports, the DAGs will steer the designing and implementation of corrective measures.This exercise shall ensure that lessons learnt with respect to Quality Management during an Audit cycle become a basis for improvement of the next Audit cycle from the very start of the Audit process. This methodology is also in line with the internationally recognized iterative quality improvement best practice of PDCA (Plan, Do, Check, Act).

Audit Impact Analysis

Quality Management does not end with the finalization and printing of the Audit Reports. To continue the chain of Quality improvement the process also involves evaluating the responses of the end-users of the Audit Report like the management of the Audited organization or the Public Accounts Committee (PAC) of the Parliament. Consequently, overall impact of Audit is assessed after Audit Reports have been discussed with the management or in the PAC on following parameters:

1) Percentage of proposed number of Audit recommendations that have been accepted by the management or the PAC.
2) Recoveries ordered on the instance of Audit.
3) Changes made in Internal Controls (i.e. Rules, Regulations, Policies or Procedures etc.) of the Audit entity on the basis of Audit recommendations.
4) Improvement in Public Financial Management of the Audit entity. One indicator of this improvement is falling trend of amounts under Audit observations in subsequent years.

OAGP's policies for Audit Quality Management for subsequent years are also guided by the results of this Audit Impact Analysis[xxiii].

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