

Quality Control System in Financial Audit and Quality Assurance in the Turkish Court of Accounts

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The purpose of financial audit is to obtain reasonable assurance on whether financial reports and statements and their underlying transactions as a whole contain “material” mistakes. It is important to implement quality control procedures, which are determined by the SAI and comply with professional standards in all audit stages, and revise and improve them according to the changing conditions to minimize audit risk. Thus, as the quality of the reports of SAIs and their associated reputations increase, assurance will be provided to the SAI senior management that the reporting task given by relevant laws is fulfilled in the best manner.

This study first explains why SAIs need quality control, and then explains the regulations in professional pronouncements for quality control. The last section addresses the quality control policies implemented in the Turkish Court of Accounts (TCA) in the scope of financial audit, and focuses on its quality assurance works.

Why do SAIs need to Assess Quality

Quality control consists of all measures taken and procedures carried out within the audit process seeking to guarantee the quality of audit work and of the resulting report.

Among the main strategic goals of SAIs, contributing effectively to the transparency and accountability of the management of public funds is the most important one, and this is achieved by carrying out high quality audits resulting in clear, reliable and useful reports.

²There might be quite a few factors effecting the

issuing of precious reports, of which quality control is an important one. Carrying out audits without compromising quality is one of the most important ways to ensure that audit work is conducted at a consistently high level and one of the leading factors in achieving the goals of a SAI.

The reputation of a SAI may change depending on the accuracy and consistency of audit results. A high-quality job greatly increases the probability that audit results will be relied on, and the recommended improvements made by SAI to audited entity will be seriously and willingly considered and implemented³.

Recommendations made by the quality assessment of the work carried out by SAIs help mitigate the gap between “what has been done so far” and “what should have been done”. With the help of these recommendations, decision-makers take necessary steps more correctly and diligently.

¹Financial and Compliance Audit Manual, European Court of Auditors, September 2017

²Achieving Audit Quality: Good Practices in Managing Quality within SAIs, EUROSAI, p.8

³An Audit Quality Control System: Essential Elements, United States General Accounting Office, p.6

reporting the progress achieved. In this respect, INTOSAI conducted capacity-building works with the contributions of the INTOSAI Development Initiative (IDI) and SAIs of certain countries, and as a result, developed methodologies and manuals for the conduct of audits on SDGs. INTOSAI recommends that SAIs first audit the preparation processes for the realisation of SDGs in their respective countries and then conduct audits with respect to implementation. In this context, INTOSAI organisations conducted guiding works for the determination of methodology to be used in the audit of the preparation processes for the realisation of SDGs. There are still ongoing capacity building works in relation to the audit of the realisation of SDGs within the body of INTOSAI, ASOSAI (Asian Organisation of Supreme Audit Institutions) and the other umbrella organisations.

TCAAudit

Turkey accepted the 2030 Agenda, which includes the sustainable development goals of the UN, and put it on its national agenda. The Department of Strategy and Budget of the Presidency of the Republic of Turkey (former Ministry of Development) has been assigned for the coordination of the process. Also, the Turkish Statistical Institute (TÜİK) assumed the task of coordinating the monitoring mechanism. The first study conducted has shown that, of 169 global targets, 155 concern our country, as well, and thus, a total of 218 global indicators related to these targets have been included in the Official Statistics Program.

After INTOSAI has come up with the idea that SAIs should conduct audits to assess the preparations works of their respective countries in relation to the 2030 Agenda, the Turkish Court of Accounts (TCA) launched the audit work in this field in 2019. The process was completed after audit and consultation works were carried out with numerous public institutions including the Department of Strategy and Budget of the Presidency of the Republic of Turkey and TÜİK, in particular, and some NGOs considered as stakeholders in this field. The audit conducted was not only consistent with international standards on auditing but also followed the 7-Step Model developed by INTOSAI.

Within the scope of the audit, preparation process for the implementation of SDGs was assessed. In this

respect, the objectives of the audit included reviewing the preparation and infrastructure works conducted by Turkey in relation to the implementation of SDGs from 2015 to the present day and the present situation in a systematic manner; assessing the effectiveness of the processes related to implementation; informing the necessary stakeholders including the parliament, in particular, for taking the necessary measures for a successful implementation; and increasing the awareness levels of stakeholders about the importance of SDGs.

The audit work focused on the system and infrastructure mechanisms created or to be created for the implementation of SDGs in Turkey. In this scope, national policies and strategies for the implementation of SDGs; current situation of the preparations and plans made for the realisation of SDGs and targets at the national level; and effectiveness of the available processes for the monitoring, analysis and reporting of indicators were assessed, and audit results were reached. Actions taken for the realisation of SDGs were not covered by the audit.

Another audit planned with respect to the SDGs will be related to the implementation of SDGs. To this end, for the planned audit, SDG no. 7.2 “Increase substantially the share of renewable energy in the global energy mix by 2030” was chosen as theme. Works for planning and determination of methodology for the audit are ongoing.

As the TCA, we continue our audit activities to ensure the successful implementation of the 2030 agenda. Findings and opinions of these audits are shared with the relevant public entities at every stage. Our efforts and works with respect to the sustainable development goals and targets will continue in the future, as well.

On the other hand, the TCA plans to inform the public – depending on the legal framework – about the results of the completed audits. It is thought that such information might contribute to awareness raising in the society about the sustainable development goals and achievement of goals. Also, the TCA plans to share the translated versions of its reports with the international community and to exchange knowledge with the other SAIs and stakeholders.

According to ISA 220, which forms the basis for ISSAI 1220: Quality Control for an Audit of Financial Statements, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that: (a) the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and (b) the reports issued by the firm or engagement partners are appropriate in the circumstances.

Quality Control in Professional Pronouncements⁴

Quality controls horizontally cut the planning, execution and reporting processes of audit. I.e. they should exist in all stages to increase the value of work. In this respect, similar to the total quality management in business administration literature, quality control, which is an indispensable part of whole audit process, is addressed in a wide perspective in auditing standards. Due to its characteristic that should exist in all audit types and every step of planning, execution and reporting stages, many standards contain information on quality control. The below section focuses on the standards that has special parts on quality control.

Audit quality is the prerequisite for SAIs to make a difference to the lives of citizens. ISSAI 12: Value and Benefits of SAIs (INTOSAI-P 12) states that “SAIs should establish a monitoring process that ensures that the SAI’s system of quality control, including its quality assurance process, is relevant, adequate and operating effectively”. ISSAI 20: Principles of transparency and accountability (INTOSAI-P 20) states that SAIs should implement an appropriate system of quality assurance over their audit activities and reporting and subject such system to periodic independent assessment.

According to ISSAI 100: Fundamental Principles of Public-Sector Auditing, each SAI should establish and maintain procedures for ethics and quality control on an organisational level that will provide it with reasonable assurance that the SAI and its personnel are complying with professional standards and the applicable ethical, legal and regulatory requirements. An SAI’s quality control policies and procedures should comply with professional

standards to ensure that audits are conducted at a consistently high level.

ISSAI 140: Quality Control for SAIs is the professional standard for the quality control and quality assurance of public sector audits. ISSAI 140 uses the elements in International Standard on Quality Control (ISQC 1)⁵ published by IFAC and dealing with a firm’s responsibilities to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements including those related to independence. These elements are as follows:

1. Leadership responsibilities for quality within the SAI
2. Relevant ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance and
6. Monitoring

Since these elements require some interpretation to enable their application by SAIs, ISSAI 140 includes the key principle adapted for SAIs and application guidance for SAIs.

These elements are addressed and detailed as “requirements” in ISSAI 1220: Quality Control for an Audit of Financial Statements while “documentation” is examined as a separate requirement in addition to these elements.

⁴The replacement process for existing ISSAI framework is still going on. All the number and the name of the pronouncements mentioned here, except ISSAI 1220, are based on updated version.

⁵<https://www.ifac.org/system/files/downloads/a007-2010-iaasb-handbook-isqc-1.pdf>

Quality Control Practices of the TCA

The TCA has a quality control system consisting of quality control procedures and quality assurance assessments to ensure audit quality. The first stage of this system is the quality control works performed as the audit continues before finalizing the audit report. Team leader, group leader, Report Evaluation Commission, judicial chambers and Board of Report Evaluation are in charge respectively in these quality control works. The controls by Report Evaluation Commission, judicial chambers and Board of Report Evaluation, which are not a part of the engagement team, are carried out before the date of the auditor's report, and these are a part of the engagement's quality control review in this aspect. This review is applied in all audits. The second stage of quality control system is the quality assurance works executed after the audits are finalized.

The purpose of quality assurance works in the TCA is to assess the effectiveness of quality control processes in audits and compliance of audits to the Manual and auditing standards when applicable. The work also increases the awareness level in audit teams to ensure quality and develop policies by identifying the strengths and weaknesses of the TCA.

In accordance with the "Key Principle Adapted For SAIs" of 6th Element (Monitoring) of the ISSAI 140, quality assurance work is performed independently under the leadership of an evaluation coordinator by a quality assurance team consisting of six professional staff members who have sufficient and appropriate experience and authority over a sample selected from completed audits.

First, an evaluation framework was established to carry out quality assurance evaluations. In the scope of framework, comprehensive criteria were identified for ethical requirements, monitoring, quality control and documentation, which should be evaluated separately as it is considered important and related to each stage, which horizontally cuts all stages of planning, execution and reporting. It is by all means within the realm of possibility that criteria may change depending on needs.

While forming the framework, the criteria was based on the TCA's Audit By-Law, Regularity Audit Manual and international auditing standards. After the team prepared it, the framework was subjected to necessary quality control processes. After the evaluation coordinator approved it, the implementation stage started.

After the preparation of the evaluation framework, the audit files that would be subjected to evaluation were determined via sampling method by the Presidency. The evaluation work covered 21 audit files from 2018, with one file from each audit group.

Quality assurance work is executed based on evidence. While replying the criteria included in the evaluation framework, the audit files are examined on SayCAP, which is the audit management system. Then, discussions are made to reach an agreement with the audit teams. Evaluation results are documented in tables, and quality assurance team prepares the Quality Assurance Work Result Report based on this information. The penning of the Result Report focuses on the principles of understanding the requirements that the audit teams did not/could not fulfil, reflecting the results of audit files to the whole TCA and forming suggestions for improvements in problematic areas.