

Mr. Michael G. Aguinaldo
Chairperson
Commission on Audit of Philippines

Executive Officer: Karma Tenzin
Our date: 2 July 2020
Our reference: 19/413005
File No: 413005
Your date: Your reference:

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Quality Assurance Review Report of IDI-ASEANSAI ISSAI based Cooperative Financial Audit

Dear Mr. Michael G. Aguinaldo,

With a shared purpose of supporting ISSAI implementation, IDI and ASEANSAI had partnered to support member SAIs in ASEANSAI in conducting a cooperative financial audit based on ISSAIs. The objective of this cooperative audit was *SAIs in ASEANSAI conduct ISSAI compliant financial audits*. Eight SAIs from ASEANSAI participated in this cooperative audit.

Based on agreed commitments between the IDI, ASEANSAI and eight participating SAIs, we facilitated Quality Assurance (QA) reviews of audits completed and reports issued. The main objective of the QA review was to assess whether the audit engagement was conducted in compliance with all the relevant financial audit ISSAIs requirements. The quality assurance reviews were conducted from October to December 2019 by independent quality assurance reviewers. The independent reviewer conducted the QA review and prepared a report based on the desk review of audit files maintained on virtual collaborative workspace and further discussion with the audit engagement supervisor and audit team.

Please find attached the QA review report for SAI Philippines. The report identifies both, areas where the audit complied with relevant ISSAIs and areas where more work needs to be done in order to fully comply with ISSAIs. I hope the report will be useful. I encourage you to consider the conclusions of this report for further strengthening SAI Philippines's journey towards ISSAI compliance.

As agreed in the TOR, SAI Philippines owns the QA report. The IDI will not share this report with other stakeholders without the permission of SAI Philippines. The IDI may use aggregated or anonymized information from the report for the purpose of reporting on the cooperative audit results. In the interest of transparency and accountability, we encourage SAI Philippines to make this report publicly available.

We also request you to kindly keep us informed about SAI Philippines planned actions on the recommendations of this report to ensure audit quality and move towards full compliance with FA ISSAIs.



In order to facilitate learning, we will provide the SAI Philippines team access to the QA review working papers (mainly the completed QA tool) on the IDI-ASEANSAI FA Cooperative Audit virtual workspace.

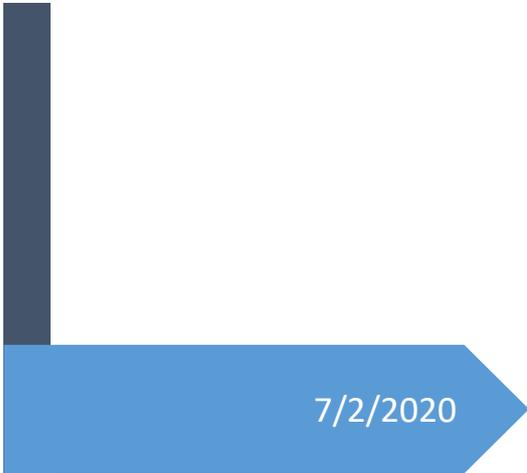
I look forward to our continued good cooperation.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Einar Gørrissen".

Einar Gørrissen
Director General

Encls: Quality Assurance Review Report on IDI-ASEANSAI ISSAI based Cooperative Financial Audit of the City of Marikina, Philippines for the year ended 31 December 2018.



7/2/2020

**Quality Assurance Review Report on
IDI-ASEANSAI ISSAI based Cooperative
Financial Audit of the City of Marikina,
Philippines for the year ended 31
December 2018**



Title Sheet

Audit Engagement Profile			
1	Name of Audit Engagement	Audit of the financial statements of the City of Marikina, Philippines	
2	Audited period	Fiscal year ended 31 December 2018	
3	Audit Engagement Team Commission on Audit of Philippines	Audit Engagement Supervisor:	Adelina Concepcion L. Ancajas
		Team Leader:	Teresita A. Pajara
		Team Members:	1. Charlene E. Penados
			2. Dar Francis P. Lagdaan
QA Review Profile			
1	Duration of QA Review	October – December 2019	
2	QA Reviewer	WAMBANG NYAMALUM Alfred, Ph.D., PMP Permanent Secretary of Budget and Finance Disciplinary Board and President of the Quality Control Committee Cameroon	
3	QA Review Intimation Ref. No. of IDI and ASEANSAI Secretariat	155/ASEANSAI/10/2019 dated 17 Oct. 2019	
4	Date of QA Exit Meeting	19 November 2019	
5	Date of draft QA report shared with SAI for comments	30 January 2020	
6	Independent Reviewer of QA report	Bogna Kuczynska FCCA Principal Manager Directorate of the Audit Quality Control Committee European Court of Auditors	

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1. Executive summary

The audit task has been carried out timely, within the tight deadlines, without compromising the quality of the work. The high-quality audit documentation, as well as active participation of all team members in our discussions, reflect the professionalism of the audit team, their excellent knowledge of the audit standards and understanding of the audit process in general, as well as an in-depth knowledge of the audited entity.

The team have carried out the audit activities appropriately and in line with the relevant ISSAIs. However, the quality of audit can be improved, if auditors are given further training on statistical sampling techniques and if enough resources are put at the disposal of the team to assist at physical inventory count.

The draft QA report was shared with the Commission on Audit (COA) of Philippines on 30 January 2020 for comments. Positive comments were received on the 03 March 2020 indicating that CAO has taken important measures to implement all the recommendations such as the adoption of a Financial Manual (FAM) per COA Resolution No. 2019-004 dated March 22, 2019, and the finalization of guidelines on Audit Sampling. Their responses are incorporated in the report.

2. Objective of QA review

The main objective of the QA review was to assess whether the audit engagement was conducted in compliance with all the relevant ISSAI requirements.

3. Scope of QA Review

QA review covered all stages of the audit process: pre-engagement, planning, conducting, completion & review and reporting. The review in particular examined whether:

- Audit was conducted following the IDI Financial Audit Handbook, in particular using the template audit working papers therein;
- Audit working papers were prepared and maintained consistently throughout the audit process and were of appropriate quality;
- Audit was properly planned and performed by designing and performing appropriate audit procedures that correspond to the assessed risk of material misstatement, and
- Quality control procedures throughout this audit were applied appropriately.

4. QA Review Methodology

The review was performed mainly as a desk review, using the IDI financial audit QA tool and the checklists contained therein. The evidence obtained was documented in this tool. The basis for the review was the audit working papers assembled in the IDI LMS collaborative workspace.

The review analyzed the audit working papers to assess:

- Their compliance with the requirements of ISSAIs;
- Reasons for non compliance with the standards;
- Consistency of overall audit working papers with the audit methodology;
- Consistency in the entire process of audit engagement;
- Adequacy of planning and performing the audit;
- Consistency between work performed by the engagement team and audit opinion expressed on the financial statements; and
- Appropriateness of the supervision and review process.

The QA reviewer further visited the SAI of Philippines which allowed him to discuss with the audit engagement team and obtain additional documents and clarifications where needed.

5. Findings

5.1. The audit task has been carried out timely, within the tight deadlines, without compromising the quality of the work. The high-quality audit documentation, as well as the active participation of all team members in our discussions, reflect the professionalism of the audit team, their excellent knowledge of the audit standards and understanding of the audit process in general, as well as in-depth knowledge of the audited entity.

The team has carried out the following audit activities appropriately and in line with the relevant ISSAIs as documented in the relevant working papers:

5.1.1 Pre-engagement:

- Assessment as to whether pre-conditions for an audit are present;
- Assessment of competencies of the audit team;
- Assessment of auditor's ethical code of conduct and declarations of the absence of conflict of interest;
- Assessment of ethical threats and safeguards; and
- Agreement on terms of the audit engagement with the management and those charged with governance at the audited entity.

5.1.2 Planning:

- Understanding of the audited entity, its environment, and main processes;
- Identification of risks of material misstatements at the financial statement and assertion level;
- Identification of key internal controls;
- Determining the planning and performance materiality; and
- Performing risk assessment and designing appropriate audit procedures as a response to identified risks.

5.1.3 Conducting the audit (including completion & review stage):

- Audit sampling and performing audit procedures;
- Documenting audit procedures performed;
- Reaching conclusions and formulating audit observations and findings (except for the finding identified in point 5.2 below).

5.1.4 Reporting :

- Evaluation of material misstatements and
- Preparation of the audit report.

5.1.5 Supervision and review, as well as communication with the audited entity throughout the audit process.

5.2 One issue of non-compliance has been identified in relation to ISSAI 1250.

The non-disclosure on the management representation letter that “the management had no knowledge of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements”.

Commission on Audit’s comment: *This is already addressed by the Commission on Audit through the adoption of the Financial Manual (FAM) per COA Resolution No. 2019-004 dated March 22, 2019. The Management Representative Letter (MRL) prescribed in the FAM includes the required disclosure. Please refer to item A.d and item C of the attached MRL template.*

5.3. The team needs improvement in the following areas:

- Further training on statistical sampling techniques; and
- Adequate resources for the audit team to assist at physical inventory counts.

Commission on Audit’s comment:

- *The COA is now finalizing the Guidelines on Audit Sampling and in that guidelines COA will adopt non-statistical sampling. As soon as the guidelines are issued for adoption, we commit that the auditors in the Local Government Sector will attend the training.*
- *The recommendation is noted. However, this will only apply if the inventory account is material and significant as determined by the audit team in the risk assessment process.*

6 Overall conclusion of the QA review

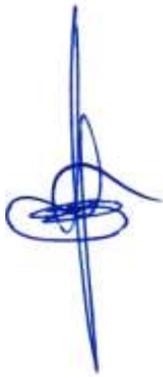
As mentioned in points 5.1 and 5.2 above, the audit activities in pre-engagement, planning, conducting and reporting phases of the audit were appropriately carried out and documented.

Audit activities in the completion and review phase were, in general, carried out and documented appropriately, except for non-disclosure on the management representation letter that “the management had no knowledge of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements”. (see 5.2).

7 Recommendations

7.1 While reviewing the sampling results and upon discussion with the audit team, the selection of samples appeared to be one of the challenges. The auditors should be trained on statistical sampling to enable them for the selection of appropriate sample size and to ensure the sample is representative of the population. This would further enhance the auditor’s skills in selecting samples and contribute to overall efficiency of the audit.

- 7.2 Physical inventory counting should be encouraged. In a case where it is impracticable, the team should ensure that inventory records are well kept such that it is possible to know the opening stock, the purchases and the vouching of inventory.
- 7.3 Discuss and agree with the management of the entity regarding the requirement for disclosure on the management representation letter that “the management had no knowledge of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements”.

A handwritten signature in blue ink, consisting of a vertical line with a circular flourish at the bottom.

WAMBANG NYAMALUM Alfred , Ph.D., PMP
QA Reviewer

Dated: 2 July 2020