

## ACCA audit monitoring reviews – International System of Quality Management 1

### Monitoring and remediation and the annual evaluation

This quarter we are building on our previous [International Standard on Quality Management 1 \(ISQM\)](#) article, to focus specifically on the requirements regarding monitoring and remediation, and the firm's annual evaluation. ISQM 1 applies to firms which perform assurance engagements such as audits and review engagements.

#### MONITORING AND REMEDIATION

ISQM 1 requires firms to establish a monitoring and remediation process to allow them to respond to identified deficiencies on a timely basis. (Para. 35.1)

We find that firms often either:

- do not have a system of cold file reviews in place, or
- have not communicated the results of any such reviews sufficiently to the wider audit team.

ISQM 1 makes it clear that monitoring and remediation is more than just completing cold file reviews and therefore firms need to be aware that all areas of the system of quality management (SOQM) need to be considered.

The expectation set in ISQM 1 is that larger, more complex firms will need more detailed monitoring and remediation processes because the systems and processes will be more complex, involve more people and be more remote from the persons with Ultimate and Operational Responsibilities.

The SOQM is implemented to ensure that the firm consistently conducts audit engagements to high standard, so a review of audit files is required to ensure that these objectives are being met. A poor audit file is an indication that the SOQM is either not designed correctly or is not operating effectively.

ISQM 1 requires that the performance of the statutory auditor(s) shall be reviewed on a cyclical basis. The cycle is to be determined by the firm. The firm's approach should be documented. (Para. 38)

The firm should consider what type of engagements it undertakes (listed, complex etc), the experience of the statutory auditor(s), results of previous reviews, any complaints about audit quality and the firm's own assessment of the statutory auditor's performance. ISQM 1 indicates that listed, complex and entities outside of the norm for a firm will be subject to more regular reviews than other engagements.

Review cycles should be reviewed regularly to ensure that they consider any new information, such as new, more complex, engagements, results of previous reviews, and any complaints against a statutory auditor. Therefore, it may be that statutory auditors in a firm are not reviewed on the same cycle basis as each other.

ISQM 1 outlines who can complete these reviews (Para 39). The firm should identify suitable persons to complete the file reviews, who have sufficient capability and competence to complete them objectively. The persons completing the review cannot have been part of the engagement team, therefore for smaller firms this may need to be outsourced.

In addition to the file reviews outlined above the firm may implement monitoring activities to determine whether engagements have followed specific policies and procedures. These reviews are less judgemental and more factual, they can be used to determine the effectiveness of training of the firm's audit methodology and any updates issued in the year. These reviews are not an alternative to the cold file reviews, rather they complement them.

External regulator reviews, such as an ACCA audit monitoring review of the firm, cannot be used as a cyclical review, however the results can be used to inform the timing of the next review. For example, accelerating their next cyclical review where deficiencies have been raised. ISQM 1 also allows cyclical reviews to be deferred one year where results from other monitoring activities and reviews provide sufficient information about the performance of a RI's engagements.

The results of monitoring activities need to be assessed to consider if deficiencies exist in the SOQM. If deficiencies exist, a root cause analysis must be conducted to identify the cause of the deficiency and implement action to remediate these matters.

Communication during monitoring and remediation is key. The person conducting this should report the monitoring activities undertaken, the identified deficiencies, including the severity and pervasiveness, and the remedial action taken to the person with Ultimate Responsibility. (Para 46)

Overall monitoring and remediation activities will vary from firm to firm, depending on the firm size, number and type of engagements and results from other reviews and activities. The firm's approach may need to change from year to year. All results and remediating actions need to be fully communicated to those working within the SOQM to allow them to take prompt and appropriate action in line with their responsibilities. (Para 47)

Evidence of the reviews, root cause analysis, remediating actions and communication should be documented to allow for the effectiveness of the monitoring and remediation process to be reviewed.

### ANNUAL EVALUATION

The annual evaluation should be completed at a point in time. The person with Ultimate Responsibility must conduct this assessment and reach a conclusion to confirm the system is:

- (a) achieving the quality objectives,
- (b) achieving the quality objectives with some deficiencies that are not severe or pervasive,
- (c) not achieving the quality objectives. (Para. 55)

Should the conclusion be either (b) or (c) then the firm must take prompt and effective action.

**The annual evaluation should be documented and cover all aspects of the SOQM.** The results should be communicated to others with responsibility for the SOQM and the wider audit team.

During our reviews we have identified firms:

- have asserted that they have conducted an annual evaluation, but not documented the process,
- firms have not reached a conclusion having completed the review, or
- have not completed an annual evaluation.

A consistent finding from our reviews has been that firms do not have an appraisal system for those persons with responsibility for the SOQM (Ultimate and Operational). Firms should implement a periodic appraisal which considers the results of any monitoring activities and the conclusion of the annual evaluation. (Para. 56)

### ISQM 1 AND THE ACCA AUDIT MONITORING PROCESS

As part of the monitoring process, each firm will need to demonstrate it is compliant with the requirements of ISQM 1. As part of the initial information request, the firm will be asked:

- to confirm that there are written procedures in place that comply with ISQM 1;
- explain how each of the component areas set out in ISQM 1 have been dealt with by the firm;
- describe the firm's process of monitoring and remediation to identify deficiencies on a timely basis; and
- to show how the annual evaluation has been documented to support the conclusions reached on whether or not the SOQM's objective have been achieved.

Following the closing meeting of an audit monitoring review, the SCO will issue a report which includes the Appendix of Detailed Findings. This forms the basis of the firm's action plan where the firm is required to identify and document the root causes of the deficiencies identified at the monitoring review. This also requires firms to record enhancements required to their ISQM procedures as a result of the audit monitoring review findings.

The ACCA Regulation team are delighted to announce the launch of a series of quarterly webinars designed to support practitioners in the UK and Ireland. The core focus of these sessions will be an overview by the audit compliance team of the most recent [quarterly article](#). In addition, we will be inviting speakers from other teams to share their current activities. For example, the authorisation team will join our November session to provide an overview of the practising certificate renewal process. Please register for the **13 November 2024 12pm – 1pm** webinar and we'll look forward to speaking with you then.