

## ACCA audit monitoring reviews – quarterly update

This quarter we’re focusing on International Standard on Quality Management 1 (ISQM) as we fast approach the first anniversary of its implementation. ISQM 1 applies to firms which perform assurance engagements such as **audits** and **review engagements**.

It requires audit firms to document and implement firm-wide policies and procedures to ensure compliance with ISAs.

ISQM 1 requires firms to design and implement a system of quality management (SoQM) that is tailored to the firm’s circumstances and the engagements it performs.

In order for firms to demonstrate how they have designed and implemented a SoQM that complies with requirements of the standard ISQM 1 requires firms to perform a risk assessment process. This involves:

- Establishing the quality objectives applicable to the firm (as stated in ISQM 1)
- Identifying and assessing the risks to achieving the quality objectives (quality risks)
- Designing and implementing responses to address the quality risks.

The risk assessment process shall use relevant information to identify quality risks:

- Results from previous external inspections from regulators
- Results from the firm’s monitoring and remediation process (hot and cold file reviews)
- Information regarding complaints and allegations about failure to perform work appropriately
- Information from network or service providers, such as monitoring activities undertaken by the network.

The firm’s risk assessment process and its SoQM are required to be documented. Evaluation of the SoQM must be undertaken at least annually and therefore the first year review is approaching. The firm must take further action if the SoQM is not achieving its objectives.

In addition to risk assessment, the SoQM must address the following components. We have also identified some common deficiencies found in recent monitoring reviews that you should consider:

COMPONENT	COMMON DEFICIENCIES
<b>Governance and leadership</b>	<ul style="list-style-type: none"> <li>• System of Quality Management (SoQM) not documented</li> <li>• Policies and procedures per legacy standard ISQC1 still used</li> <li>• Ultimate responsibility and operational responsibility for the SoQM not assigned or person assigned does not have necessary experience</li> <li>• Staff not having confirmed that they have read and understood the firm’s SoQM</li> <li>• Culture does not demonstrate commitment to quality</li> </ul>
<b>Ethical requirements</b>	<ul style="list-style-type: none"> <li>• Annual independence declarations not obtained</li> <li>• Register of independence threats and safeguards not kept</li> <li>• No consideration of ethical risks relevant to the nature of clients (eg, breaches identified at prior monitoring visits)</li> </ul>
<b>Acceptance and continuance of client relationships and engagements</b>	<ul style="list-style-type: none"> <li>• New client/reappointment checklist not always used/completed</li> <li>• Professional clearance not always obtained</li> <li>• Engagement letters issued before above procedures completed</li> <li>• No consideration as to whether appropriate resources are available to perform the engagement</li> </ul>
<b>Engagement performance</b>	<ul style="list-style-type: none"> <li>• Audit methodology non-existent, out-dated or ineffective (audit programmes)</li> <li>• Partner involvement in planning, supervision, control and review inadequate</li> <li>• No policy on engagement quality review or documented policy not implemented</li> <li>• No formal consultation procedures</li> <li>• No procedure on file assembly, archiving and accessibility or file assembly not completed within 60 days of the audit report date</li> <li>• No policy regarding retention of audit documentation</li> <li>• No procedure on file destruction</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• References for new staff not always obtained</li> <li>• Staff appraisals informal or not done</li> <li>• Insufficient training with respect to accounting and auditing standards</li> <li>• Quality risks relating to the use of service providers not considered</li> </ul>
<b>Information and communication</b>	<ul style="list-style-type: none"> <li>• The firm’s information system is not capable of obtaining or generating information regarding the SoQM and communicating information within the firm and to external parties to enable the design, implementation and operation of the SoQM</li> </ul>
<b>Monitoring and remediation</b>	<ul style="list-style-type: none"> <li>• Periodic review of policies and procedures not done</li> <li>• Periodic review of completed engagements not done (“cold review”)</li> <li>• No procedures for evaluating deficiencies and communicating results</li> </ul>

The good news is that the majority of firms monitored by us since the implementation of ISQM have documented their policies and procedures in a manual. However, in many cases where firms have used a proprietary manual, it was noted that these had not been sufficiently tailored to the firm. It is not sufficient to simply purchase a propriety manual. Practitioners must not underestimate the time and resources needed to tailor the ISQM manual to the firm and the type of audits it undertakes.

Whilst this article has focused on ISQM1, firms should not overlook ISQM2 which deals with the appointment and eligibility of the engagement quality reviewer (EQR), and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review. ISQM 2 applies to all engagements for which an engagement quality review is required to be performed in accordance with ISQM 1. Firms need to set out the eligibility criteria of an EQR and evidence that the EQR was involved throughout the audit with sufficient time allotted. Documentation of the engagement quality review should be sufficient to enable an experienced practitioner, having no previous connection to the engagement, to understand the nature, timing and extent of engagement quality review.

ACCA held an 'Understanding the ISQM Updates' webinar in advance of the launch of ISQM which you can still access [here](#).