

Audit monitoring reviews

ISQM (UK) 1: Thematic findings from recent reviews

Building on the first two years of implementation, this thematic review summarises common findings and recurring issues from recent audit monitoring reviews. It highlights key themes observed in firms' systems of quality management (SoQM) and the extent to which those systems are operating effectively in practice.

Applying and complying with relevant requirements (paras 17 – 18)

While most firms have formally implemented ISQM (UK) 1, a small number continue to operate under legacy ISQC 1 framework. In these cases, policies have not been fully updated to reflect ISQM (UK) 1 terminology or its risk-based approach. Firms must ensure that those with ultimate and operational responsibility understand the revised requirements and that their documentation clearly references the applicable ISQM paragraphs.

System of quality management (paras 19 – 22)

Many firms have adopted proprietary SoQM manuals or templates to support compliance with ISQM (UK) 1. While these resources provide a useful foundation, some firms have yet to adapt them fully to reflect their own structures, sizes, and engagement profiles. In cases examined, documentation remains largely generic and does not clearly demonstrate how quality objectives are achieved in practice. Firms are encouraged to ensure that their SoQM documentation is appropriately tailored, current, and supported by evidence that policies and procedures operate effectively throughout the year rather than solely at the time of annual evaluation.

Firm's risk assessment process (paras 23 – 27)

A recurring issue is the limited identification and assessment of firm-specific quality risks. Risk assessments frequently replicate third-party templates without integrating information from prior monitoring findings, external inspection findings, or resourcing challenges. Under ISQM (UK) 1, the process is expected to be dynamic updated as new information arises and to demonstrate a clear and documented link between quality objectives, identified risks, and the firm's responses designed to address them.

Governance and leadership (para 28)

Governance arrangements have generally improved, yet accountability for audit quality is not always well documented. Appraisals for individuals with ultimate or operational responsibility for the SoQM are often absent or informal. Effective leadership requires clear oversight of audit quality, a demonstrable tone at the top, and periodic evaluation of how leadership responsibilities are discharged in practice.

Relevant ethical requirements (para 29)

Monitoring of ethics-related training and continuing professional development (CPD) remains inconsistent. Some audit principals could not evidence CPD covering professional ethics or independence, and annual IES 8 declarations were incomplete. Firms should embed ethics and independence within CPD frameworks, maintain registers of identified threats and safeguards, and ensure compliance with ISQM (UK) 1 paragraph 29 and International Education Standard 8 (IES 8).

Acceptance and continuance (para 30)

Deficiencies were observed in documentation supporting client acceptance and continuance decisions. In some cases, engagement letters were outdated or incomplete, and professional clearance had not been obtained prior to appointment. Firms must demonstrate that ethical, independence, and resourcing considerations have been evaluated and documented before accepting or continuing an engagement.

Engagement performance (para 31)

Engagement performance continues to present one of the most significant areas of weakness identified during monitoring reviews. Common issues include incomplete or inaccessible audit files, weak supervision and review processes, and delays in finalising documentation.

ISQM (UK) 1 paragraph 31(f) requires that engagement documentation be assembled on a timely basis after the engagement report date and maintained to comply with law, regulation, ethical requirements, and professional standards.

Under ISA (UK) 230 (Revised June 2016, Updated September 2025) paragraph 14, the assembly of the final audit file must be completed no later than 60 days from the auditor's report date. Application material A21 – A23 clarifies that this period represents an administrative process rather than further audit work.

Monitoring reviews also identified cases in which engagement teams had not adequately documented the professional judgements underpinning the form of audit opinion and had not evidenced the required consultation process. These weaknesses together with insufficient supervision and review suggest that professional scepticism and quality control procedures were not consistently applied, particularly when evaluating going-concern conclusions and other significant judgements.

Firms should ensure that audit documentation is properly assembled, safeguarded, and retrievable in accordance with ISQM (UK) 1 para 31(f) and ISA (UK) 230 paras 14 and A21 – A23. Documented consultation protocols, periodic checks, and timely file-closure procedures are essential to demonstrate compliance and preserve the integrity of audit evidence.

Resources (para 32)

Resource management and training documentation remain weak in many firms. Staff appraisals, recruitment, and CPD programmes must link directly to quality objectives, and learning outcomes should correspond to the competencies in IES 8 Table A. Structured training plans and documented evaluations are necessary to demonstrate that personnel maintain the competence and capabilities required for high-quality audit work.

Information and communication (para 33)

Deficiencies in the communication of SoQM responsibilities continue. Firms frequently lack evidence that personnel have received, read, and understood the SoQM. Paragraph 33(c)(i) requires systems that enable clear two-way communication about quality matters. Documented acknowledgements, regular briefings, and firm-wide updates are critical components of an effective communication process.

Monitoring and remediation (paras 35 – 47)

Monitoring and remediation remain the most significant areas of non-compliance. Reviews revealed limited evidence of root-cause analysis, an absence of structured remediation plans, and poor tracking of corrective actions. Firms must treat monitoring as a continuous process, performing both ongoing and periodic reviews, analysing deficiencies, and verifying that remedial actions are implemented effectively and on a timely basis.

Evaluating the system of quality management and documentation (paras 53 – 60)

Annual evaluations are often incomplete or inadequately evidenced. Some firms assert compliance without documenting the procedures performed or the evidence obtained. Under ISQM (UK) 1, the evaluation must be completed by the individual with ultimate responsibility and supported by sufficient documentation showing the basis for the conclusion reached. Evaluations should also include an appraisal of those responsible for the SoQM to reinforce accountability and continuous improvement.

Conclusion

Implementation of systems of quality management is progressing, though their operational effectiveness remains uneven across firms. Key priorities for the coming year include:

- Tailoring SoQM documentation to firm-specific risks and circumstances.
- Embedding root-cause analysis and remediation tracking into daily practice.
- Reinforcing leadership accountability and ethical competence.
- Documenting annual evaluations comprehensively and on time.

Focusing on these areas will assist firms in embedding the principles of ISQM (UK) 1 more effectively, supporting sustained improvements in audit quality and compliance.

Key messages for firms

- Tailor your SoQM manual – proprietary templates must reflect the firm's own risks.
- Refresh risk assessments dynamically using monitoring results and complaints data.
- Record and review CPD to evidence ethical competence.
- Conduct and document root-cause analysis for all significant deficiencies.
- Complete the annual evaluation with sufficient evidence and clear conclusions.