



Quality Management Series: Small Firm Implementation



INSTALLMENT THREE: Monitoring and Remediation

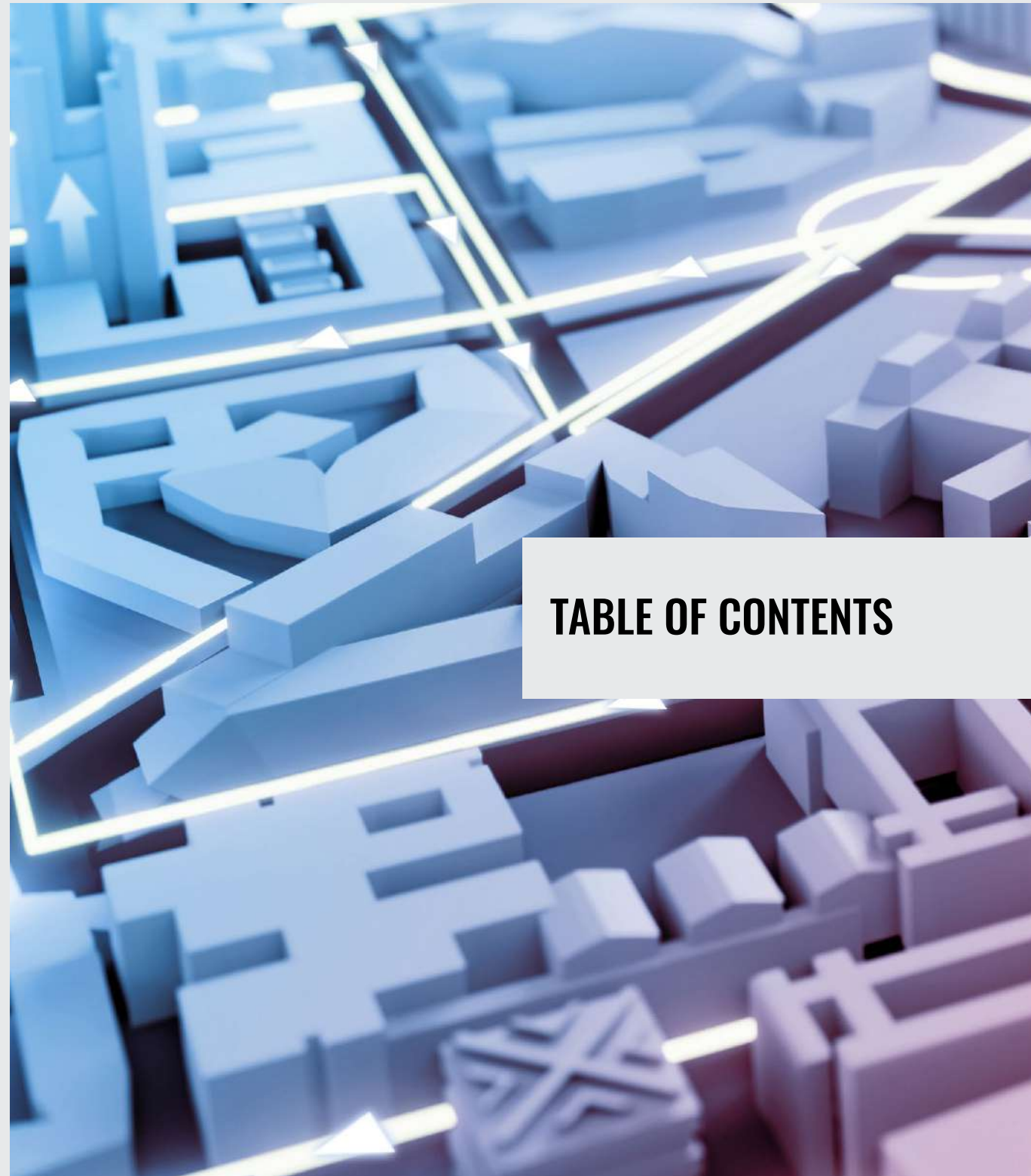


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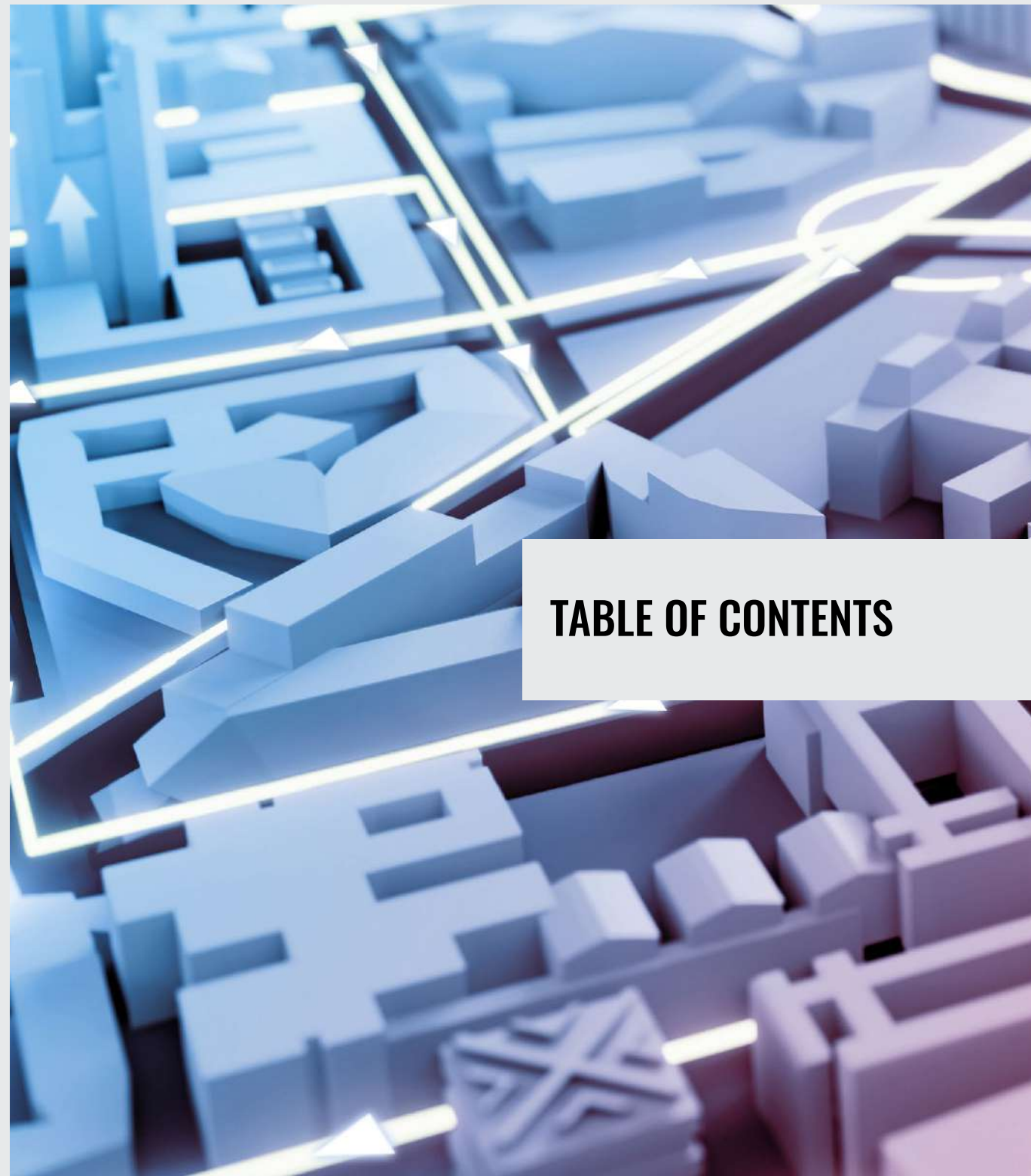


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INTRODUCTION

BACKGROUND

In December 2020, the International Auditing and Assurance Standards Board (IAASB) released [three new and revised quality management standards](#) that strengthen and modernize the firm’s approach to quality management:

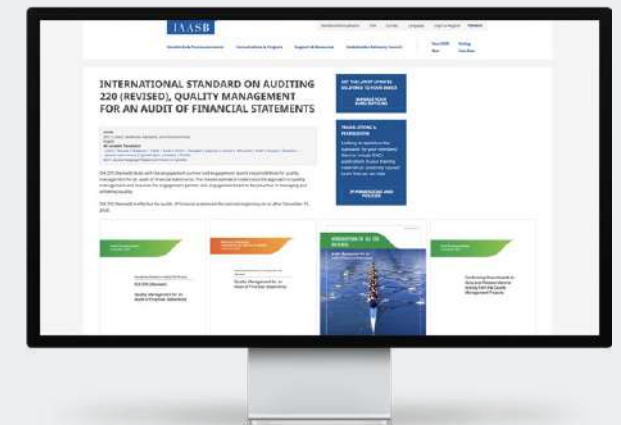
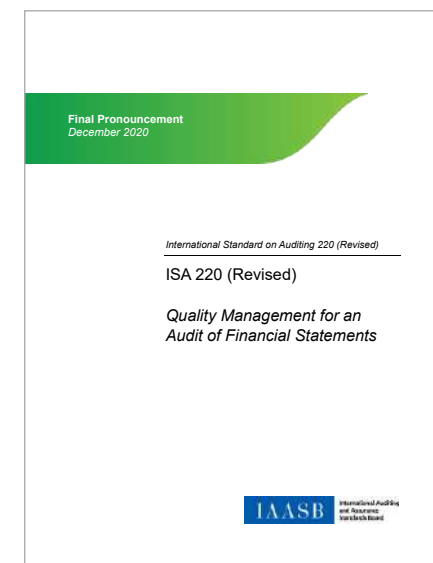
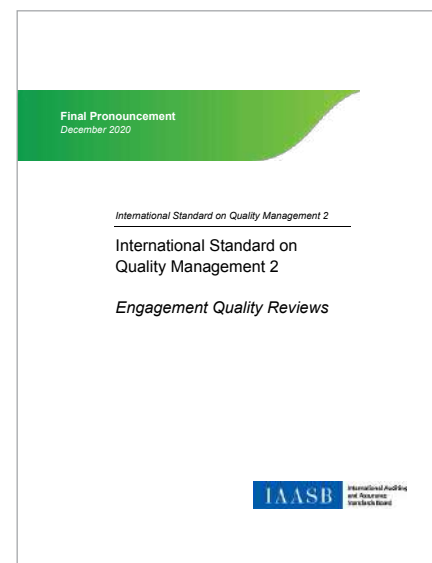
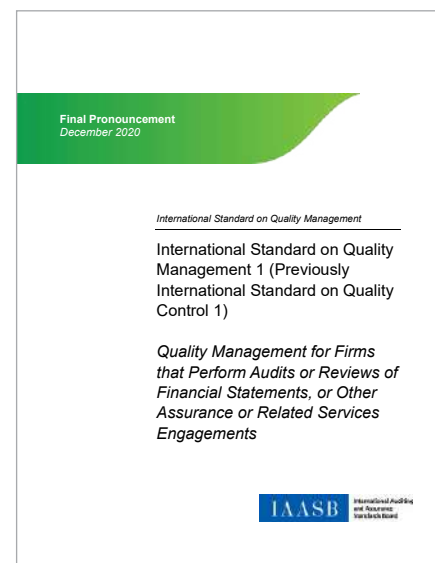
- International Standard on Quality Management (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (previously International Standard on Quality Control 1),
- ISQM 2, *Engagement Quality Reviews*, and
- International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*.

To meet the requirements of the new and revised quality management standards, the customized system of quality management (SOQM) for your firm was to be in place by December 15, 2022 and developed based on your firm’s nature and circumstances.

The monitoring and remediation process is essential for your SOQM to evolve and remain appropriate over time and will help to ensure a commitment to continuous improvement.

Use of Professional Judgment

The design, implementation, and operation of your firm’s SOQM requires the use of professional judgment and some aspects are focused on the firm, while others are at the engagement level. For example, some of the policies and procedures may be implemented directly at the engagement level (see ISA 220 (Revised), [Quality Management for an Audit of Financial Statements](#)).



OVERVIEW OF THE SERIES AND THIS INSTALLMENT

ISQM 1 is a standard that deals with a firm's responsibilities to design, implement and operate a SOQM for the firm and its engagements, including audits or reviews of financial statements, or other assurance or related services engagements.

Objective of this Series: The Quality Management Series is designed to provide practical support for small firms on the implementation of ISQM 1, and related standards and amendments.



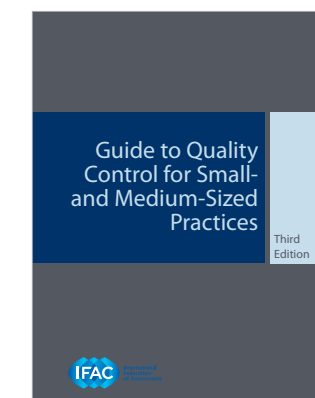
This publication is the third in a series of three installments designed to provide tips and guidance for a practical implementation and addresses the **monitoring** and **remediation** of your SOQM.

The Series includes discussions and illustrative examples for what is called “small firms”. Recall that the term “firm” is defined to also include a sole practitioner. Small firms come in different sizes and operate under many different structures. It would not be possible to address all of the different possibilities, but the Series considers the following possible scenarios:

- Sole practitioner with no staff
- Sole practitioner with staff, and
- Firm with 2-5 partners with staff

In all discussions and illustrations in this Series, it is presumed that the firm will complete audits, reviews and related services. If your firm does not perform audits, for example, you will be able to streamline the quality objectives and risks included in ISQM 1 to reflect your firm's complement of engagement types in your own SOQM.

The Series does not cover matters related to firms who service listed entities or are a member of a network of firms. The Series focuses on stand-alone firms that serve private entities. However, if your firm is, or may be considered, a part of a network, ISQM 1 does include a definition of a network for purposes of the standard, as well as specific requirements when a firm belongs to a network or provides network services. It is important to recognize that not all networks are the same and if your firm is a member of a network, you may find this Series useful, but you are also directed to ISQM 1 for additional requirements and guidance.



This Installment will follow-up on the Case Study of Marcel Mooney from the IFAC [Guide to Quality Control for Small- and Medium-Sized Practices](#) (Third Edition) to illustrate a transition from ISQC 1 to a SOQM.

As mentioned in Installment 2 of this Series, if your firm has multiple partners, it is important to consider how the evaluation of the SOQM will impact the performance evaluations for those individuals who are assigned leading roles and responsibilities within the firm's SOQM. The evaluation of the SOQM is discussed in this Installment, and the initial identification of roles and responsibilities assigned to the partners becomes important in this evaluation stage.

This Series is designed to support the implementation of the new quality management standards but is not a substitute for reading the standards. Practitioners should utilize the Series in light of their professional judgment and the facts and circumstances of their firm. The examples provided are not exhaustive and are included for illustrative purposes. IFAC disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this Series.

SCALABILITY



ISQM 1 requires your firm to tailor the design, implementation, and operation of its SOQM based on the nature and circumstances of your firm and the engagements it performs. Professional judgment is to be applied in designing, implementing, and operating the SOQM, and these judgments should be documented.

Scalability and tailoring guidance are embedded in the requirements of ISQM 1 in a number of ways that were outlined in Installment 2. The requirements for the monitoring and remediation process set out what your firm is expected to have in place to address monitoring and remediation and how your firm implements that process is tailored to your firm's circumstances.

ISQM 1, para. A144 provides the following scalability comment regarding monitoring activities:

In a less complex firm, the monitoring activities may be simple, since information about the monitoring and remediation process may be readily available in the form of leadership's knowledge, based on their frequent interaction with the system of quality management, of the nature, timing and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results.

The monitoring and remediation process should not be overbuilt but scaled to meet the needs of the firm, while meeting the requirements of ISQM 1. Scalability of the SOQM is most evident in components other than the monitoring and remediation process, for example in the identification of quality risks, as discussed in earlier in this Series. If the other components are successfully scaled to your firm, it will flow to the monitoring and remediation process.

The scalability of the standards is demonstrated in this Series through discussion and examples. For example, in this Installment, examples are provided related to the monitoring and remediation process for less complex firms by recognizing that the policies and procedures may be more informal, as may the process for updating or changing the SOQM. (Discussed later in this Installment)

A SUGGESTED PLAN: A STEP APPROACH

Installment #1 of this Series introduced a suggested plan with steps that were likely to be revised to align with the nature and size of your firm:

Step 1	Assign Project Lead
Step 2	Preparation – Pre-Reading and Preparation
Step 3	Brainstorm on Quality Objectives and Complete Risk Assessment (Suggested as Meeting #1 in Installment #1)
Step 4	Assign Roles and Responsibilities (Suggested as Meeting #2 in Installment #1 and only briefly addressed in this Installment.)
Step 5	Collect Information
Step 6	Develop Responses (Suggested as Meeting #3 in Installment #1)
Step 7	Assess Documentation of SOQM and Communication (Suggested as Meeting #4 in Installment #1)
Step 8	Monitoring and Remediation (Suggested as Meeting #5 in Installment #1)

The suggested steps were introduced in Installment #1. Installment #2 discussed Steps 3 through 7. This Installment will focus on Step 8, based on the assumption that the project lead has been assigned, if deemed necessary, and all the pre-reading and preparation has been completed. (See [Appendix H](#) of this Installment, included for convenience, for the links to important resources introduced in Installments #1 and #2).

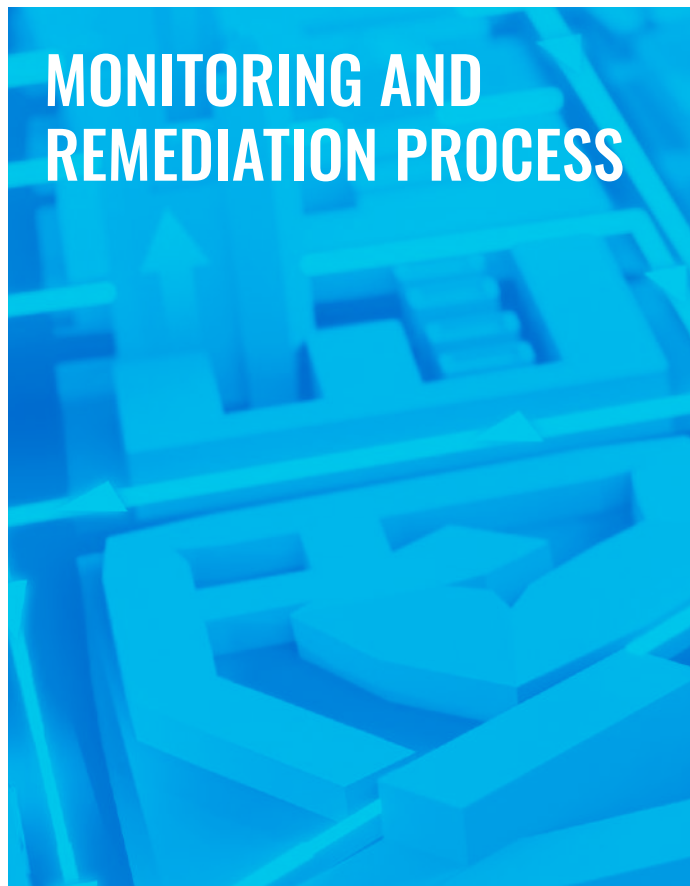


OVERVIEW OF THIS INSTALLMENT

This installment addresses:

- How to design internal monitoring activities for the SOQM as a whole to provide relevant, reliable and timely information about the design, implementation and operation of the SOQM (a shift in focus from primarily engagement-level monitoring). The key to the enhanced monitoring and remediation activities is a proactive and iterative approach.
- The factors driving the nature, timing and extent of the monitoring activities, i.e., the approach to inspection of completed engagements. The monitoring activities can start with inspecting completed engagements on a regular cyclical basis, but other reasons such as risk assessments as well as specific considerations for in-process engagements, can be considered.
- The scope of monitoring activities to be performed, the technology/platform, if any, used to support these activities and the significance of monitoring activity outcomes to the feedback loop of continuous improvement.
- Establishing a framework for evaluating findings, identifying deficiencies, and evaluating the severity and pervasiveness of deficiencies, which includes investigating the root cause(s) of identified deficiencies.
- How to respond to identified deficiencies, including:
 - Designing and implementing remedial actions to address identified deficiencies that are responsive to the root cause(s).
 - Evaluating whether remedial actions are appropriately designed, and if not, taking appropriate action.
 - Evaluating whether remedial actions that were implemented to address previous deficiencies were effective, and if not, taking appropriate action.
- Communication around the monitoring and remediation process, including with whom communication is required, and what may need to be communicated.
- Ongoing evaluation of the SOQM, at least annually, including the first evaluation following implementation of ISQM 1.





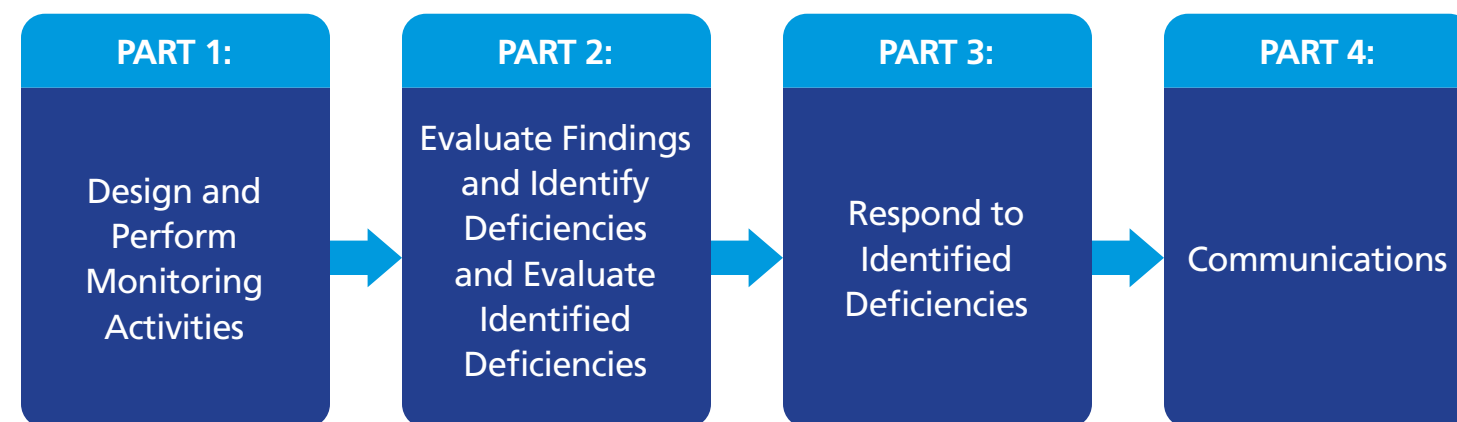
WHAT IS THE MONITORING AND REMEDIATION PROCESS?

The monitoring and remediation process is established by the firm as part of the SOQM such that it:

- Provides the firm with relevant, reliable and timely information about the design, implementation and operation of the SOQM;
- Evaluates findings and identifies deficiencies;
- Responds to deficiencies, such that deficiencies are remediated on a timely basis; and
- Communicates the results of the monitoring and remediation process to the relevant individuals.

The quality risks and the responses related to monitoring and remediation would have been identified and agreed upon during the first stage of implementing your SOQM (i.e., in Meeting #4 as introduced in earlier installments of this Series).

The monitoring and remediation process, though dynamic and iterative, can be seen to have four parts:



This Installment will revisit each of the parts of the of the monitoring and remediation process.

The IAASB's [ISQM 1 First-time Implementation Guide](#), included the following commentary on the changes which can be useful when you are designing your monitoring and remediation process:



The monitoring and remediation process has been extensively enhanced from extant ISQC 1, including:

- A new focus on monitoring the SOQM as a whole;
- A new framework for evaluating findings and identifying deficiencies, and evaluating identified deficiencies; **and**
- More robust remediation.

The requirements addressing communication of matters related to monitoring and remediation are similar to extant ISQC 1.

As indicated above, ISQM 1 includes robust requirements for monitoring and remediation as part of a continual improvement objective, and has a focus on both:

- the SOQM itself, **and**
- the engagements, with a focus on the inspection of completed engagements.

The monitoring and remediation process also includes developing recommendations to improve the SOQM, especially if deficiencies are detected or if professional standards and practices have changed.

HOW IS THE MONITORING AND REMEDIATION PROCESS COMPLETED?

The monitoring activities are undertaken to identify potential deficiencies in the SOQM, which will be evaluated and responded to through designing and implementing appropriate remedial actions. The monitoring activities may include:

- interviews,
- walkthrough tests, and
- inspections of engagement files and other documentation relevant to the operation of the SOQM. (Examples of other documentation may include training and continuing professional development records and independence confirmations).

Examples of monitoring activities may include the review of compliance with policies as follows:

- A review of compliance with policies regarding the completion of relevant internal and external education and training programs;
- A review of the partners and staff knowledge, understanding, and enforcement of the firm's policies and procedures for engagement quality reviews (EQRs); and
- A review that partners and staff have not released any engagement information unless all necessary approvals are signed off.

USING TECHNOLOGY IN YOUR SOQM

Using the appropriate technology to facilitate all aspects of your SOQM from collecting data to generating reports, should be part of the initial planning. It can be simple technology such as the workbooks suggested in this Series or more complex and integrated platforms.

Reminder: Scale the use of technology to your firm! Your SOQM can be executed and documented using the same technology you use in your practice. For a sole practitioner, it is not normally considered necessary to use a specific software application. However, you need to identify the source of information/data. How you incorporate methodologies or systems to capture and utilize data you already have can be done manually in a less complex practice, but automation or use of applications may improve efficiency for larger firms. For example, data on time and billings, types of engagements, etc. may be available electronically from your internal systems. The monitoring activities can benefit from the efficiencies of sharing information. For example, the employee records system may track professional education courses taken by employees and can provide relevant data for assessing compliance with a requirement to maintain technical competence of staff. If deficiencies are tracked and evaluated, they can be populated into relevant communications with staff.



WHEN SHOULD THE MONITORING AND REMEDIATION ACTIVITIES TAKE PLACE?

The monitoring and remediation process must be developed based on the design and implementation of the monitoring activities before the date the evaluation is required to be performed. The first evaluation should have occurred within one year of December 15, 2022 (i.e., before 15 Dec 2023) and subsequently evaluation should occur at least annually.

TIP: Schedule the monitoring and remediation process activities for an appropriate time of year that includes estimation of the timing of any 'busy season'. This will help to enable sufficient time and resources to be allocated to the process.

Monitoring activities	
ANNUAL MONITORING OF SOQM	CYCLICAL INSPECTION OF COMPLETED ENGAGEMENTS
<p>The first evaluation of the SOQM was required to be performed within one year of December 15, 2022. Selecting a date within the year was acceptable, but the evaluation should not have exceeded one year from implementation. Subsequently, evaluation should occur at least annually. There may be times when changes, deficiencies or other circumstances dictate that evaluation should occur earlier than annually.</p>	<p>You may choose to complete the cyclical monitoring of completed engagements to meet the requirements of preceding quality control policies or start the first review of completed files to coincide with your first annual monitoring.</p> <p>Note: The cyclical monitoring of completed engagements may not be a new concept for you but you must review the process and update, if needed to meet the requirements of ISQM 1.</p>

FAQ

How do I apply a cyclical basis for the inspection of completed engagements?

The application of a cyclical basis for the inspection of completed engagements may be achieved by establishing policies or procedures that:

- Set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner at least once every three to five years.
- Set out the criteria for selecting completed engagements.
- Select completed engagement files in a manner that is unpredictable.
- Address when the standard period may be revised. For example, you may select engagement partners more frequently than the standard period set out in the policy when:
 - Multiple deficiencies have been identified that have been evaluated as severe, and you determine that a more frequent cyclical inspection is needed across all engagement partners.
 - The engagement partner performs engagements for entities operating in a certain industry where there are high levels of complexity or judgment.
 - An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of these other monitoring activities were unsatisfactory.
 - The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.
 - The engagement partner is a newly appointed engagement partner or has recently joined your firm from another firm or another jurisdiction.

PART 1: DESIGN AND PERFORM MONITORING ACTIVITIES

(ISQM 1 Paras. 36, 37 and A139-A150)

The objective of the design and performance of monitoring activities is to provide a basis for the identification of deficiencies. The design must address **when** the monitoring activities takes place and **who** should complete the monitoring activities.

The nature, timing and extent of the monitoring activities will take into account the following factors:

The reasons for the assessments given to the quality risks;

The design of the responses;

The design of the firm's risk assessment process and monitoring and remediation process;

Changes in the SOQM;

The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's SOQM, whether remedial actions to address previously identified deficiencies were effective; and

Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures, information from external inspections and information from service providers.



The IAASB's ISQM 1 [First-time Implementation Guide](#), included the following commentary related to the ongoing versus periodic monitoring activities which may be useful when you are designing your monitoring process:

Ongoing and Periodic Monitoring Activities

Ongoing monitoring activities may be more suitable in some circumstances, while periodic monitoring activities are more suitable in others. The combination of ongoing and periodic monitoring activities may enable effective monitoring as a whole.

Ongoing monitoring activities

Routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions

Example

Various reports are generated from the firm's IT application for independence on a monthly basis, and reviewed by the individual assigned operational responsibility for compliance with independence requirements. The individual uses the report to identify anomalies and non-compliance with the firm's policies or procedures related to independence.

Periodic monitoring activities

Activities conducted at certain intervals

Example

Inspection of completed engagements or inspection of training records to determine that personnel have completed required training.

HELPFUL HINTS It is proposed that the firm develops monitoring policies and procedures that include objective consideration and evaluation of:

- The degree of compliance with quality management policies and procedures, and adherence to professional standards and regulatory and legal requirements;
- The relevance and adequacy of the quality management policies and procedures;
- Whether policies and procedures are current, consistent and in line with developments in the profession;
- The firm's quality and ethics culture (including evidence that there is written confirmation of compliance with policies and procedures as they relate to independence);
- The effectiveness of professional education and development activities;
- The appropriateness of the guidance materials and technical resources provided;
- The firm's internal inspection processes;
- The content, timing, and effectiveness of communications to firm members concerning quality management issues (including information on weaknesses within the system which have been identified and any corrective actions to be taken, as well as suggested improvements to the SOQM as a result of any evaluations); and
- Determination of the effectiveness of the follow-up once the process has been completed (for example, are the necessary modifications undertaken on a timely basis).

WHO SHOULD PERFORM THE MONITORING ACTIVITIES?

Your firm will rely on every partner and staff member at all levels to informally monitor and enforce quality, ethics, professional standards and internal standards. Monitoring is inherent in every aspect of professional work. Partners and staff who are in a position to make decisions or oversee the work of others have a greater level of responsibility.

The firm should also consider any feedback received from the relevant professional body's or regulator's practice inspection and licensing regime (if applicable). This is not a substitute for the firm's own internal monitoring program.

The firm must establish policies or procedures that:

- Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
- Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. (See ISQM 1, paras. 39 and A155–A156)

The decision either to contract with an independent party or set up an internal monitoring system, and its terms of reference, will vary from firm to firm. It will also depend upon the firm's resource levels at the time of the inspection and its ability to conduct the program effectively.

This determination would ordinarily be made at each monitoring cycle by the individual within the firm who has been designated this authority, through consultation with all partners.

In the case of smaller firms, external professionals, (i.e., a service provider) may deliver various monitoring and evaluation components, provided they are suitably qualified. Since ISQM 1 requires a performance evaluation, it may be a key area where it would be appropriate to engage a service provider to provide an objective evaluation of the performance of the individual(s) involved in the SOQM.



FAQ

Does a firm need to have an external professional involved in the monitoring and remediation component of the SOQM?

Using an external professional is not mandatory, however if you do not have personnel with the competence, capabilities, time or objectivity to perform the monitoring activities (for example, in the case of a small less complex firm), the firm may use an external monitor (i.e., a service provider) to perform the monitoring activities.

Using external individuals to perform monitoring activities could be advantageous, as it may provide more objective information about your SOQM, and help you identify areas for improvement. For a firm that has sufficient resources to allocate the various roles, the monitoring and remediation can be completed with internal resources. However, a sole practitioner may not be able to meet the objectivity requirement for all functions.

(See ISQM 1 Para. A156)

SELECTION OF ENGAGEMENTS:

In determining which engagements and engagement partners to select, the firm will:

- Take into account the considerations applied in the determination of the nature, timing and extent of the monitoring activities;
- Consider the nature, timing and extent of other monitoring activities undertaken by the firm, and the engagements and engagement partners subject to such monitoring activities; and
- Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm. (See ISQM Para. A141, A151–A154)

In addition to the results of previous inspections of completed engagements, the following factors can be considered in the selection process of completed engagements for inspection:

Conditions, events, circumstances, actions or inactions that may create quality risks	Other relevant information
<ul style="list-style-type: none"> • The types of engagements performed by the firm, and the extent of the firm’s experience in performing the type of engagement. • The types of entities for which engagements are undertaken, for example: <ul style="list-style-type: none"> – Entities operating in emerging industries. – Entities operating in industries associated with a high level of complexity or judgment. – Entities operating in an industry that is new to the firm. – Entities operating in regulated sectors. • The tenure and experience of engagement partners. 	<ul style="list-style-type: none"> • Complaints or allegations about an engagement partner. • The results of external inspections, including for each engagement partner. • The results of the firm’s evaluation of each engagement partner’s commitment to quality. • Known claims or allegations against an engagement’s subject matter entity or related parties

PART 2: EVALUATE FINDINGS AND IDENTIFY DEFICIENCIES AND EVALUATE IDENTIFIED DEFICIENCIES

EVALUATE FINDINGS AND IDENTIFY DEFICIENCIES

Findings

Findings, in relation to a SOQM, are defined as follows: Information about the design, implementation and operation of the SOQM management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist.

Deficiencies

A deficiency in the firm's SOQM exists when:

- A quality objective required to achieve the objective of the SOQM is not established;
- A quality risk, or combination of quality risks, is not identified or properly assessed;
- A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or
- An other aspect of the SOQM is absent, or not properly designed, implemented or operating effectively, such that a requirement of ISQM 1 has not been addressed.

All findings would be assessed to determine whether they result in a deficiency. Many factors can be used to help determine the conclusion on whether a finding results in a deficiency, as is discussed below.

IMPORTANT: Not all findings are deficiencies!

The firm must evaluate the findings to determine whether deficiencies exist.

Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency:

Qualitative factors:

If the findings relate to a response:

How the response is designed, for example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risk(s) and achieving the quality objective(s) to which it relates.

The nature of the quality risk to which the response relates, and the extent to which the findings indicate that the quality risk has not been addressed.

Whether there are other responses that address the same quality risk and whether there are findings for those responses.

Nature of the findings and their pervasiveness:

For example, findings related to leadership actions and behaviors may be qualitatively significant, given the pervasive effect this could have on the SOQM as a whole.

Whether the findings, in combination with other findings, indicate a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue.

Quantitative factors or extent of monitoring activity and extent of findings:

The extent of the monitoring activity from which the findings arose, including the number or size of the selections.

The extent of the findings in relation to the selection covered by the monitoring activity, and in relation to the expected deviation rate. For example, in the case of inspection of engagements, the number of engagements selected where the findings were identified, relative to the total number of engagements selected, and the expected deviation rate set by the firm. This kind of quantitative analysis will not be as relevant to a sole practitioner when the number of files selected is low, and therefore, professional judgment and qualitative factors become much more relevant.

EVALUATE IDENTIFIED DEFICIENCIES

The firm must evaluate the severity and pervasiveness of identified deficiencies by:

- Investigating the root cause(s) of the identified deficiencies. The nature, timing and extent of the procedures to investigate the root cause(s) will take into account the nature of the identified deficiencies and their possible severity.
- Evaluating the effect of the identified deficiencies, individually and in aggregate, on the SOQM.

Root Cause Analysis

ISQM 1 is not prescriptive about the types of procedures that need to be undertaken or who undertakes them, and not all root cause(s) investigations need to be an intense or rigorous process – in some cases, the procedures may be very simple. As a result, the individuals performing the investigation of the root cause(s) exercise professional judgment in determining the nature, timing and extent of procedures needed to properly understand the underlying circumstances that caused the deficiency.

In investigating the root cause(s) of deficiencies, you may identify:

- A deficiency with multiple root causes, which may exist across multiple components or aspects of the SOQM, and
- Multiple deficiencies affected by the same root cause.

Therefore, there are multiple ways to approach and document root cause analysis. It is important not look for immediate answers or to seek to validate your own thinking, but rather to ask “why did it happen” maybe several times to ensure the underlying causes are identified. Exhibit 1 is one suggestion. Examples of root causes could include actions and behavior of leadership at the firm, poor project management, inappropriate policies and procedures and inadequate supervision of staff.

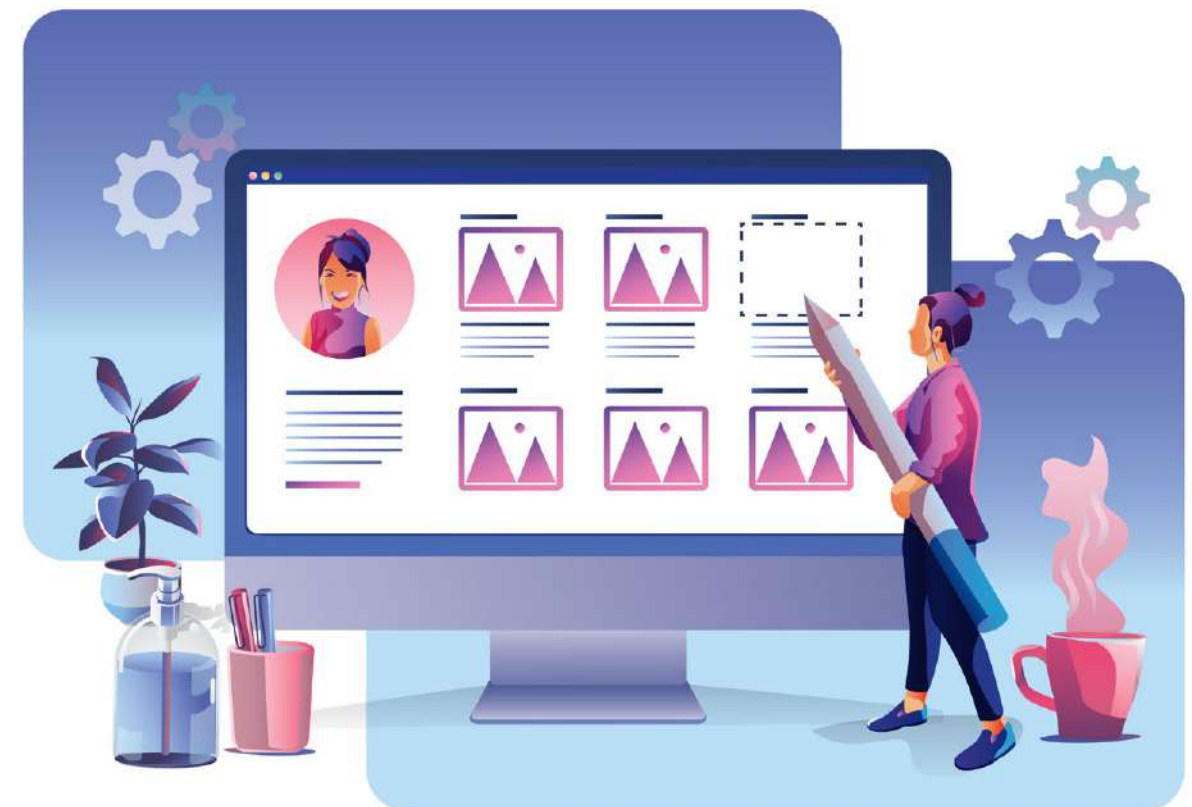


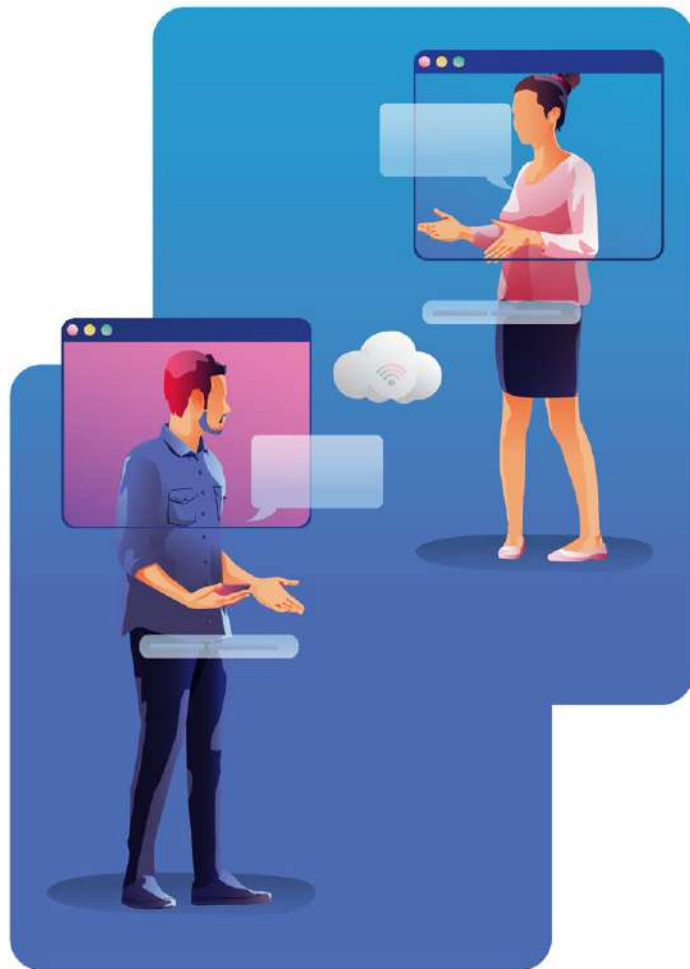
Exhibit 1 - Documentation of Root Cause Analysis

Describe the deficiency	Identify WHY the deficiency occurred (Try to identify 5 "whys" through inquiry/ discussions/reflection)
	Why #1 <hr/> Why #2 <hr/> Why #3 <hr/> Why #4 <hr/> Why #5 <hr/>
Identify a remedial action(s) that could have prevented or improved the situation <hr/> <hr/> <hr/>	
Document inquiries of the individual(s) involved in the SOQM or engagement where the deficiency was identified (the engagement team, the EQ reviewer and other contributors, such as specialists if applicable) (include name, date, and summary) and any relevant documentation: <hr/> <hr/> <hr/>	
Conclusion:	Completed by: _____ Date: _____

Ongoing Records/Documentation of SOQM

In the first year of implementation the documentation of the SOQM is current and effective. As time passes, policies and procedures will change and a record should be kept of these changes. The documentation of the SOQM and the monitoring will occur at specific points in time. To track changes, you could keep a constant register of deficiencies over the years. If original documentation is deleted or replaced, it will be difficult to make links between identified deficiencies and the policies and procedures at the time of the monitoring. Taking a 'snapshot' of the documents is important and should be archived by year.





CHANGES TO THE SOQM

Changes to the SOQM may result because of the monitoring and remediation process. As such, before addressing how to respond to identified deficiencies, consideration of the impact on your firm's SOQM is warranted. ISQM 1 does not prescribe how frequently a firm should re-evaluate its quality objectives, quality risks, and policies/procedures because they are proactively modified when changes affecting the SOQM occur, or when deficiencies are identified. The establishing of quality objectives, quality risks and the appropriate policies/procedures is an iterative process. Therefore, the quality objectives, quality risks or policies/procedures may need to change as a result of:

- Changes in the nature and circumstances of your firm or its engagements
- Remedial actions to address deficiencies in your firm's SOQM
- Changes in relevant professional standards or applicable laws and regulation

Any changes required to your firm's SOQM that are the result of remedial actions will become evident from your monitoring and remediation process. Any required changes as a result of changes in relevant professional standards or applicable laws and regulations must be gathered by a regular review of the updates to the external sources of these changes, such as the professional or regulatory bodies. However, you must gather information on changes in circumstances or engagements that may require a change in quality objectives/risks/policies by creating a policy of review or a process and this can be scalable based on the size and complexity of your firm:

Sole practitioner	2-5 Partner firm
<p>As a sole practitioner, you may have informal policies or procedures to identify information about changes in the nature and circumstances of your firm or its engagements, particularly when the individual(s) responsible for establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses is able to identify such information in the normal course of their activities.</p>	<p>In a 2-5 partner firm it may be necessary to document a process to gather information from all partners to identify information about changes in the nature and circumstances of your firm or its engagements. A simple approach would be to add an agenda item to each regularly planned partner's meeting to discuss any changes. Alternately, a questionnaire could be circulated monthly asking for information on changes that could be collected centrally. The important point to remember is that a regular process needs to be in place, and action should not wait until the annual review of the SOQM.</p>

PART 3: RESPOND TO IDENTIFIED DEFICIENCIES

The next step is to design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. Then the individual(s) assigned operational responsibility for the monitoring and remediation process must evaluate whether the remedial actions are:

- (a) Appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and
- (b) Implemented effectively to address previously identified deficiencies.

If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.



FINDINGS ABOUT A PARTICULAR ENGAGEMENT

If there is a circumstance when a finding indicates that there is an engagement(s) for which required procedures were omitted during the performance of the engagement(s) or the report issued is inappropriate, the firm's response may include:

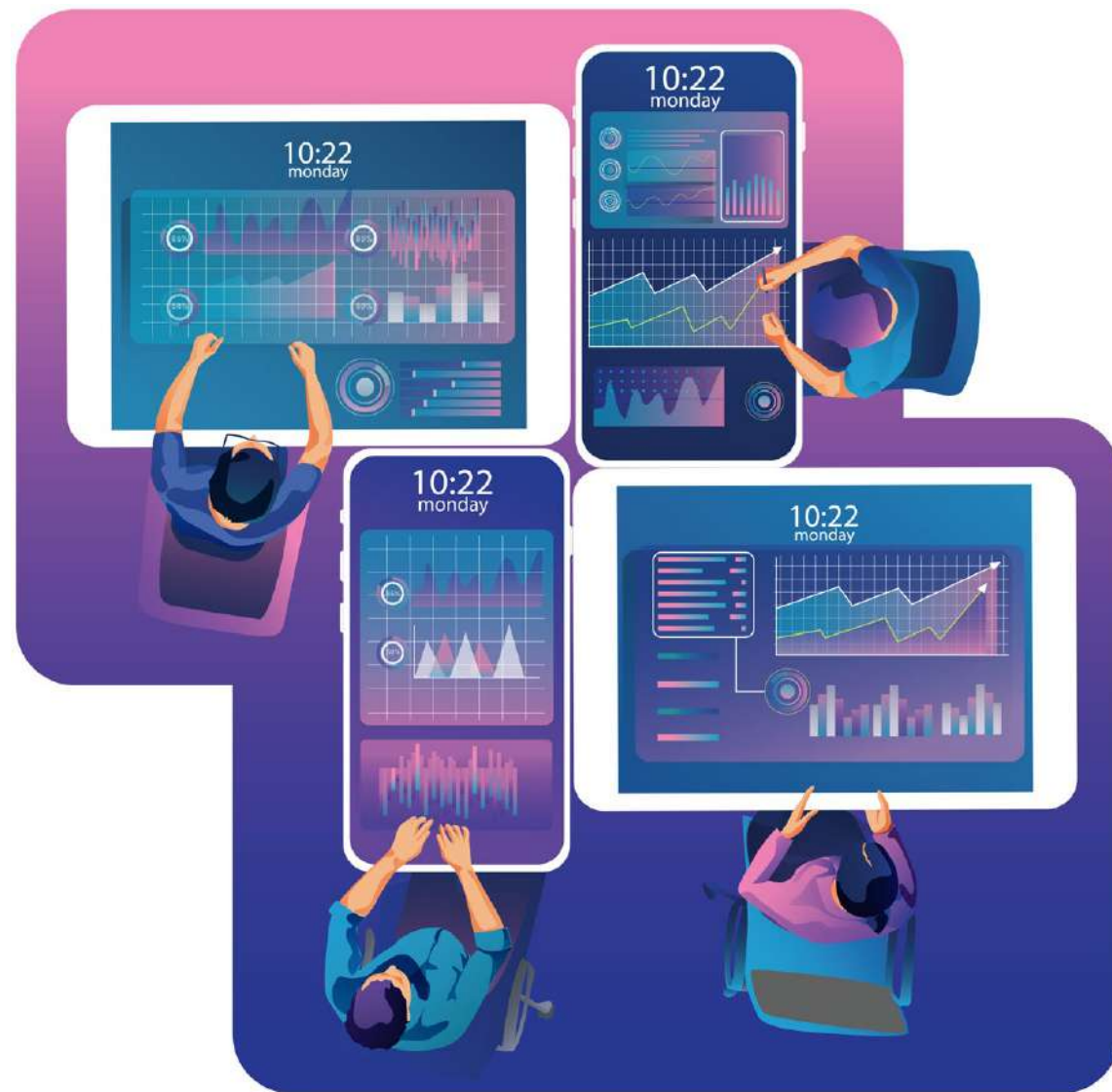
- Consulting with appropriate individuals regarding the appropriate action.
- Discussing the matter with management of the entity or those charged with governance.
- Performing the omitted procedures.
- When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.



PART 4: COMMUNICATION

ONGOING COMMUNICATION RELATED TO MONITORING AND REMEDIATION

ISQM 1 includes minimum requirements of what needs to be communicated related to monitoring and remediation. These requirements would be different based on the nature of the firm and the individuals involved:



Sole practitioner	2-5 Partner firm
<p>A sole practitioner (with no staff or service providers) has the ultimate responsibility and accountability for the SOQM. This includes operational responsibility for the SOQM and the monitoring and remediation. In such circumstances there would be no need for ongoing communication related to monitoring and remediation.</p>	<p>For a 2-5 partner firm, the individual(s) assigned operational responsibility for the monitoring and remediation process must communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the SOQM (and the individual(s) assigned operational responsibility for the SOQM), the following matters:</p> <ul style="list-style-type: none"> • A description of the monitoring activities performed • Identified deficiencies, including the severity and pervasiveness of such deficiencies • Remedial actions <p>Matters communicated to engagement teams and personnel, which are to enable them to take prompt and appropriate action in accordance with their responsibilities, may differ. For example:</p> <ol style="list-style-type: none"> a) Engagement teams – the information communicated may be focused on deficiencies that have been identified at engagement level, and the remedial actions. b) Personnel – information communicated to all personnel may relate to deficiencies related to independence, and the remedial actions.



CONCLUDING ON THE SYSTEM OF QUALITY MANAGEMENT

Reasonable assurance – In the context of the ISQM 1 – reasonable assurance is a high, but not absolute, level of assurance.



Reasonable assurance is obtained when the SOQM reduces to an acceptably low level the risk that the quality objectives are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations in a SOQM. Such limitations include that human judgment in decision making can be faulty and that breakdowns in a firm’s SOQM may occur, for example, due to human error or behavior or failures in information technology (IT) applications.

ISQM 1 allows for three possible conclusions on the evaluation of the SOQM:

REMINDER: The requirement to evaluate the SOQM and conclude on its effectiveness in achieving the objectives of the SOQM is new to ISQM 1. The evaluation is internal to the firm; the firm is not required to obtain independent assurance about the effectiveness of its SOQM. In essence, the individual(s) assigned ultimate responsibility and accountability for the SOQM must evaluate, on behalf of the firm, the SOQM. This evaluation is to be undertaken as of a point in time and performed at least annually.

A deficiency may arise when the evaluation has not been performed, or has not been properly designed, implemented or operated.

For smaller firms, the individual(s) assigned ultimate responsibility **and** accountability for the SOQM may be directly involved in the monitoring and remediation. That individual may therefore be aware of the information that supports the evaluation of the SOQM. As a result, fewer policies and procedures may be required related to the evaluation of the SOQM.

At least annually, you must evaluate the SOQM, and the possible conclusions are:		
“ACHIEVED”	“EXCEPT FOR”	“NOT ACHIEVED”
<p>The SOQM provides your firm with reasonable assurance that the objectives of the SOQM are being achieved.</p> <p>(Relevant Application Material: Para. A191)</p>	<p>Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the SOQM, the SOQM provides your firm with reasonable assurance that the objectives of the SOQM are being achieved</p> <p>(Relevant Application Material Para. A192)</p>	<p>The SOQM does not provide your firm with reasonable assurance that the objectives of the SOQM are being achieved.</p> <p>(Relevant Application Material Paras. A192-A194)</p>
		
<p>No further action other than communication is required.</p>	<p>Take prompt and appropriate action and communicate to:</p> <ul style="list-style-type: none"> • Engagement teams and other individuals assigned activities within the SOQM to the extent that it is relevant to their responsibilities; and • External parties in accordance with the firm’s policies or procedures. 	

The IAASB's [ISQM 1 First-time Implementation Guide](#), included the following which can be useful in applying professional judgement in reaching the conclusion:

The table (right) is illustrative since professional judgment is needed in reaching the appropriate conclusion. For example:

- Professional judgment is needed in evaluating the severity and pervasiveness of the deficiencies.
- Professional judgment is needed in evaluating whether remedial actions have been designed and implemented by the firm, and whether the remedial actions taken up to the time of the evaluation are effective (refer to the explanation in the block above about how this may be considered and the professional judgment involved).
- Professional judgment is needed in evaluating whether the effect of identified deficiencies on the SOQM have been appropriately corrected. For example, there may be circumstances when the effect of deficiencies may be partially corrected (e.g., only some engagements have been corrected and the correction of other engagements is in progress). In such cases, professional judgment is needed in considering the degree to which the effect of the identified deficiency(ies) has been corrected, and how this impacts the conclusion on the effectiveness of the SOQM, for example by taking into account the nature and effect of the deficiency, and the nature and timing of the action(s) taken by the firm to correct the effect of the deficiency.

#	Deficiencies (Note 1)		Remedial actions designed and implemented, and those taken up to time of evaluation are effective	The effect of deficiencies have been appropriately corrected (Note 2)	Note	Conclusion	Further action required under paragraph 55 of ISQM 1?
	Severe	Pervasive					
1	No	No	May not be relevant in concluding on the SOQM			The SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved (paragraph 54(a) of ISQM 1)	No
2	Yes	No	Yes	Yes			
3	No	Yes	May not be relevant in concluding on the SOQM		Note 3		
4	Yes	Yes	Yes	Yes			
5	Yes	No	No	No		Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the SOQM, the SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved (paragraph 54(b) of ISQM 1)	Yes
6	Yes	No	No	Yes			
7	Yes	No	Yes	No	Note 4		
8	Yes	Yes	No	No	Note 5	The SOQM does not provide the firm with reasonable assurance that the objectives of the SOQM are being achieved (paragraph 54(c) of ISQM 1)	Yes
9	Yes	Yes	Yes	No	Note 4 Note 5		
10	Yes	Yes	No	Yes	Note 5		

NOTE 1: Paragraph 41 of ISQM 1 requires the firm to evaluate the severity and pervasiveness of identified deficiencies by investigating the root cause(s) of the identified deficiencies and evaluating their effect, individually and in aggregate, on the SOQM. After considering the effect of each identified deficiency individually, the firm is also required to evaluate the severity and pervasiveness of deficiencies in aggregate. The table illustrates possible outcomes after the firm has performed the evaluation as contemplated in paragraph 41 of ISQM 1. For example:

- Lines 5, 6 and 7 may be relevant when the evaluation indicates an identified deficiency that individually is severe but not pervasive or identified deficiencies that in aggregate are severe but not pervasive.
- Lines 8, 9 and 10 may be relevant when the evaluation indicates an identified deficiency that individually is severe and pervasive or identified deficiencies that in aggregate are severe and pervasive.

NOTE 2: This includes addressing paragraph 45 of ISQM 1, which requires the firm to respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. As highlighted in the paragraphs preceding the table, professional judgment is needed in considering the degree to which the effect of identified deficiencies has been corrected, and how this impacts the conclusion on the effectiveness of the SOQM.

NOTE 3: Line 3 may relate to an identified deficiency that individually is pervasive but not severe, or multiple deficiencies that in aggregate are pervasive but not severe (also see Note 1). The remaining columns may not be relevant factors in drawing a conclusion on the SOQM because the effect of the deficiency(ies) is not severe (i.e., a conclusion in accordance with paragraph 54(a) of ISQM 1). However, there may be circumstances when there are multiple deficiencies that the firm evaluates as individually pervasive but not severe, but in aggregate are severe and pervasive. If the deficiencies are in aggregate severe and pervasive, then lines 4, 8, 9 or 10 may be applicable (i.e., a conclusion in accordance with paragraphs 54(a) or 54(c) of ISQM 1).

NOTE 4: Professional judgment is needed in considering the appropriate conclusion, based on the facts and circumstances. The appropriate conclusion in this case is highly dependent on the degree to which the effect of deficiencies have been appropriately corrected (see the explanation preceding the table which explains the professional judgment involved in considering the degree to which the effect of deficiencies have been appropriately corrected and factors that may affect that judgment). When the remedial actions designed and implemented and taken up to the time of the evaluation are effective, and the firm is still in the process of correcting the effect of the deficiencies, there may be circumstances when the firm may determine that the SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved (i.e., line 2 or line 4 of the table may apply instead).

NOTE 5: Paragraph A194 of ISQM 1 indicates that it may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished and it may be determined that the identified deficiencies are still severe, but no longer severe and pervasive. In such cases, the individual(s) assigned ultimate responsibility and accountability for the SOQM may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the SOQM, the SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved (i.e., lines 5, 6 or 7 of the table may apply in a subsequent evaluation of the SOQM).

PERIODIC PERFORMANCE EVALUATIONS

As discussed above, ISQM 1 requires the firm to complete an evaluation of the SOQM and periodic performance evaluations of the individual(s) assigned:

- Ultimate responsibility and accountability for the SOQM, and
- Operational responsibility for the SOQM.

The annual evaluation of the SOQM would be taken into account in completing the performance evaluation of these individuals. If there is a limited number of people involved in the SOQM in your firm, or you are a sole practitioner, this will be more a matter of reflection and documentation.

Sole practitioner	2-5 Partner firm
<p>For a sole practitioner, with no staff or service providers, there is no scope for a “performance evaluation” of different individuals within the firm and this will be more a matter of reflection and documentation of such reflection.</p> <p>If your firm has staff, or uses service providers, who are involved in the SOQM components, then the reflection should be expanded.</p> <p>As discussed earlier, having someone outside the firm would be more objective, and this is one area where a service provider could be used to complete the performance evaluation, or perhaps review the reflection prepared by the sole practitioner.</p>	<p>For a 2-5 partner firm, the assigned responsibilities within the components of the SOQM are likely divided. As such, the design and implementation of the performance evaluation should be agreed with and communicated to relevant individuals early in the design of the SOQM. This will ensure clarity of expectations at the performance evaluation stage. For example, any sanctions for a partner where deficiencies are identified should be defined early.</p>





DOCUMENTATION OF MONITORING AND REMEDIATION PROCESS

It is appropriate, and recommended, to use the terminology of the standards in all documentation. [Appendix G](#) is included in this Installment as a reference tool and can be used along with the definitions section of ISQM 1 as you document the Monitoring and Remediation component of your SOQM. The definitions related to the Monitoring and Remediation Process have been separately identified in this Installment.

This Installment also includes documentation aids that can facilitate meeting the requirements of ISQM 1. The goal of the monitoring and remediation process is to:

- Provide relevant, reliable and timely information about the design, implementation and operation of the SOQM, and
- Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

The following table summarizes the documentation requirements in ISQM 1 related to the monitoring and remediation process and the documentation aids included in this Installment:

Documentation related to the monitoring and remediation process must include:	Summary of documentation aids
<ul style="list-style-type: none"> • Evidence of the monitoring activities performed • The evaluation of findings, and identified deficiencies and their related root cause(s) • Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions • Communications about monitoring and remediation • Conclusion on the evaluation of the SOQM 	<p>The documentation requirements for the monitoring and remediation process are discussed in this Installment and five Documentation Aids are included:</p> <ul style="list-style-type: none"> • Appendix B can be used to aid in the documentation of the annual monitoring and remediation process for the SOQM and the evaluation of the SOQM. • Appendix C can be used to aid in the documentation of the cyclical inspection of completed engagements as part of the monitoring and remediation process. • Appendix D can be used to aid in the documentation of the inspection of completed audit engagements as part of the monitoring and remediation process. • Appendix E can be used to aid in the documentation of the inspection of completed compilation engagements as part of the monitoring and remediation process. • Appendix F can be used to facilitate the communication and documentation of the monitoring and remediation process by including help prepare components of the monitor's report.

For further information on documentation, Appendix I of this Installment revisits the documentation requirements of ISQM 1 as a summary from all of the Installments in this Series.

APPENDIX A: A CASE STUDY

CONTINUATION OF THE CASE STUDY

A case study was originally introduced in the original Guide to Quality Control for Small- and Medium-Sized Practices. (included in the IFAC [Guide to Quality Control for Small- and Medium-Sized Practices](#) (Third Edition)). This case study has been revisited in this Series to illustrate how the transition from ISQC 1 to ISQM 1 can be addressed. Some facts have been changed and some assumptions have been made as the case study was originally introduced to illustrate the implementation of ISQC 1. It is not necessary for the reader to refer to the original case, but it can be assumed that the firm did implement ISQC 1 and is now looking to implement ISQM 1. In this installment, it is assumed the SOQM has been implemented and the fictional sole practitioner of the case, Marcel, is now completing the monitoring and remediation component of the SOQM.

Readers are cautioned that this case study is purely illustrative. The data, analysis, and commentary do not represent all of the circumstances and considerations that the firm will need to address in a particular circumstance. As always, you must exercise professional judgment in using this case study to help you.

The following description provides background information about the fictional sole practitioner, Marcel Mooney practicing as M.M. and Associates.

M.M. and Associates

General

Marcel Mooney is a sole practitioner, practicing as M.M. and Associates and employing four staff:

- Deborah D'Alessandro - who has three years of experience with the firm and hopes to qualify as a professional accountant.
- Bob Morton - an accounting technician who has one year of experience and started with the firm four months ago.
- Two students recently enrolled in a program of professional accounting studies, who are new to the firm.

The practice performs a large number of review engagements (some of which are on behalf of family members or close personal friends), several small audits, and three medium-sized audits. The more substantial audit clients include a retirement home, a local government agency, and the largest motorcycle dealership in town.

The local government agency has had a lot of negative publicity lately with allegations of corruption against senior managers. Marcel has known the managers for many years and feels these charges are unfounded. The retirement home is almost a year behind in payment of its fees for last year's audit, and the firm needs to begin scheduling the field work soon.

Marcel, 48, started his practice 15 years ago with no staff. The firm's client base, revenue, and staff have grown gradually over the years. Marcel is a dynamic individual and keeps life around the office interesting. He is an excellent marketer and promotes the firm wherever he goes. Marcel earns a good living and has no plans to retire in the near future. Marcel is committed to quality and thinks the implementation of the SOQM will help him structure and document the informal practice risk assessment he has completed in the past.

Upon the adoption of ISQC 1, Marcel put a QC Manual in place, based on the Sample QC Manual: Sole Practitioner (included in the IFAC [Guide to Quality Control for Small- and Medium-Sized Practices](#) (Third Edition)). The QC Manual adopted by Marcel has had little modification or updates, or use, and the QC Manual tended to "sit on the shelf".

Marcel understands that he has a responsibility to promote a quality management culture within the firm. However, he has not documented a formal development plan. For example, Marcel and his staff have not participated in regular professional development activities, other than the updates on taxation matters. There is no indication of whether the staff are familiar with the IESBA Code, and there is little explicit discussion of ethical matters. Marcel feels he should develop a mission statement for the firm and would like to seek input from the staff, as well as discuss their goals.

Marcel does have some fear that the continuity of the firm would be in jeopardy if something were to happen to him, as there is presently no one in a position to assume responsibility for the management of the firm in his absence.

Marcel often looks for opportunities to improve the efficiency and effectiveness of the firm and believes that the SOQM can improve the reputation of the firm for providing high-quality services and be a marketing factor for a professional accounting firm.

Firm Planning Process

Marcel usually sets aside one day per year for annual planning but historically has focused on managing operational and financial factors rather than on a strategic plan on where he would like to take the firm. Though Marcel does consider the risks associated with the types of clients the firm is attracting, the risk assessment has not been documented in the past other than by using a standard acceptance/continuance checklist.

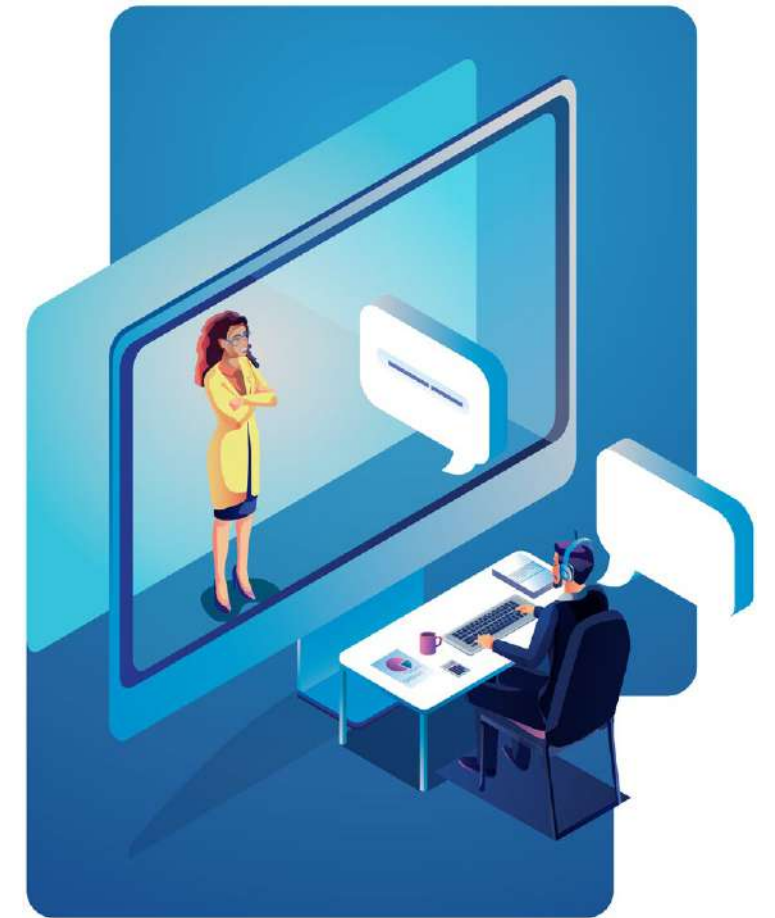
As indicated, the planning process consists of a day spent by Marcel reflecting on the past year and the preparation of a simple budget. The budget is usually last year's numbers adjusted for known client gains and losses. It also addresses capital requirements, staffing costs, and office expenses. Since the competitors in town seem to be performing fewer audit and review engagements, Marcel sees this as an opportunity to increase his share of the assurance market. Marcel has begun to discuss his firm's revenue plan with Deborah, as she is getting more experience, and together they plan staffing and other resources, such as identifying equipment, technology, and furniture requirements for the next year.

Human Resources

The hiring process is informal. When one of the staff members announces that he or she is leaving the firm, Marcel may advertise or review the resumes recently received from people looking for positions. When a candidate is found, Marcel interviews this individual and then makes a hiring decision. Marcel tries to check out the references or qualifications of candidates, but sometimes he does not complete the process due to the competing pressures of client meetings and engagements. Deborah assists Marcel with staff scheduling when a time conflict arises and finds work for staff that are not busy.

The firm has a subscription to certain resource library materials, including an audit and review manual which includes examples of standardized templates.

The firm has no history of complaints or allegations, and a majority of the clients would report they are satisfied with the firm's service.



TRANSITION TO SOQM - CONTINUED

Marcel has completed a formal risk assessment process as part of the SOQM implementation to ensure continued quality happens confidently and in response to the risks in his firm.

Marcel assessed the firm's strategy, using a Strengths/Weaknesses/Opportunities/Threats or "SWOT" analysis. Deborah, his most experienced staff member, was involved in the implementation plan for the development of the firm's SOQM and has been assigned operational responsibility for the SOQM.

After Marcel and Deborah had completed a quality risk assessment, they documented the responses to the quality risks identified, and communicated the details of the implementation of the SOQM to all staff.

Applying Step 8 - This installment will discuss one possible approach Marcel could apply in the design and implementation of the monitoring and remediation process. (This would be applying Step 8, using the steps introduced in this Series. Steps 1 through 7 were discussed in Installment 2).

The following discussion is based on Sample QC Manual: Sole Practitioner (issued by IFAC [Guide to Quality Control for Small- and Medium-Sized Practices](#) (Third Edition)) and Marcel may find some parts of the QC Manual useful. Monitoring is addressed in Section 6 of the Sample QC Manual, and some of the policies/ procedures related to monitoring could be modified/repurposed.

The following policies/procedures were included in the QC Manual:

*The SP and the monitor will also consider any feedback received from the **[insert name of relevant professional association or institute]'s** practice inspection and licensing regime. However, this is not a substitute for the SP's own monitoring program.*

The SP and staff must co-operate with the monitor, recognizing that this individual is an essential part of the quality control system. Disagreement, non-compliance with, or disregard for the monitor's findings shall be resolved through the SP's dispute resolution process.

*The suitably qualified external person(s) who conduct the review will follow the SP's established procedures for monitoring.
(SP = Sole Practitioner)*

In discussion with Deborah, Marcel looked at the existing policy and made minor revisions as he started the documentation of the policy for the new SOQM:

*Marcel Mooney will also consider any feedback received from the **[insert name of relevant professional association or institute]'s** practice inspection and licensing regime. However, this is not a substitute for the firm's own completed engagement monitoring program.*

Marcel Mooney and all staff must co-operate with the Completed Engagement Monitor, recognizing that this individual is an essential part of the SOQM. Disagreement, non-compliance with, or disregard for the Completed Engagement Monitor's findings shall be resolved through a dispute resolution process.

The suitably qualified external person(s) who conducts the Completed Engagement Monitoring will follow the established procedures for monitoring.

This is an important illustration of how some efficiencies can be obtained by utilizing the current QC Manual. However, Marcel and Deborah noted that this was only the start of the process and this policy would not be sufficient to meet the more robust requirements of ISQM 1 related to the monitoring and remediation process. It would be important to design the monitoring and remediation component using the resources mentioned in this Series. (See Appendix H). The monitoring and remediation component in the new SOQM needed to recognize that without a monitoring of the SOQM itself, a plan for remediation of deficiencies, and communication, the benefits of an enhanced SOQM would not be met. Ultimately, managing quality would not be possible without this.

One of the early decisions Marcel made was to identify an individual who could act as the Completed Engagement Monitor in the new SOQM. Marcel met with Harper Sitson, CPA, who Marcel had worked with many years ago and they discussed the implementation of ISQM 1. Harper was providing such services to other sole practitioners and had been involved with the implementation of the standards.

MONITORING AND REMEDIATION

Part 1: Design and Perform Monitoring Activities

Marcel is to design and perform the monitoring activities that will facilitate the identification of deficiencies. The monitoring activities will include the following:

- **Ongoing monitoring** and communication by Marcel and Deborah and all staff built into the firm’s process and performed on a real-time basis. This will allow Marcel and Deborah to adjust policies/procedures as well as address performance matters on a timely basis and reflect changing conditions, if any. This can include observation and documentation of compliance with policies and procedures. Marcel shall have discussions and share the findings on an ongoing basis with staff.
- **Periodic monitoring** by Marcel and Deborah completed by observation, meetings, and review of reports. Examples include:
 - An annual (or quarterly/monthly) review of compliance with independence matters to be reviewed by Deborah.
 - An annual inspection of training records to determine if all personnel, including Marcel, have completed the appropriate training related to such matters as accounting and assurance standards, Code of Conduct, etc.
- Inspection of completed engagements – the agreement with Mr. Sitson to perform inspections of completed engagements, such that a completed engagement will be reviewed at least once every 3 years.
- **Annual evaluation**, based on ongoing and periodic monitoring, of the SOQM would be completed by Marcel as he is assigned ultimate responsibility and accountability for the SOQM. This annual evaluation will review all deficiencies identified from the ongoing (and period monitoring), and consider the remedial actions implemented. Marcel would evaluate Deborah’s performance, who was assigned operational responsibility and accountability for the SOQM. Mr. Sitson would evaluate the performance of Marcel. The documentation of the annual evaluation could take the form of a memo, or could be documented by completing Appendix B and signing the evaluation in Part E of this Documentation Aid.

A summary of roles related to monitoring and remediation within the SOQM is summarized below:

M.M. and Associates: Responsibility within SOQM	Name of individual(s), if applicable
Individual(s) assigned ultimate responsibility and accountability for the SOQM	<i>Marcel Mooney</i>
Individual(s) assigned operational responsibility and accountability for the SOQM	<i>Deborah D’Alessandro</i>
Individual(s) assigned operational responsibility and accountability for monitoring and remediation process	<i>Marcel Mooney</i>
Individual(s) assigned monitoring responsibility – Annual monitoring of SOQM “Annual/Ongoing Monitor”	<i>Marcel Mooney with Harper Sitson</i>
Individual(s) assigned monitoring responsibility – Cyclical Completed Engagement monitoring/inspections “Completed Engagement Monitor”	<i>Harper Sitson</i>
Individual assigned to complete Annual Performance Evaluation	<i>Marcel Mooney with Harper Sitson</i>

(format follows the first part of Appendix B, Documentation Aid.)

Part 2: Evaluate Findings and Identify Deficiencies and Evaluate Identified Deficiencies

Assuming that this is the first year following the implementation of the SOQM the above responsibilities were assigned, Harper Sitson did not inspect any files this year, based on the firm’s cyclical monitoring policy. However, Harper contributed to the annual monitoring and the performance evaluation alongside Marcel.

Harper completed a review of the documentation of the SOQM and found adequate documentation of the quality risk assessment, responses and design of the monitoring activities. There were no changes to the SOQM during the year.

Excerpts from Harper’s report including the following:

	Finding	Evaluation and communication to Marcel
1	No documentation of how Marcel and Deborah had reviewed the changes in professional guidance that may indicate a need to revise or update the SOQM.	Documentation of the consideration of external factors such as changes in professional standards is important and should be documented. Through discussion, it was noted that Deborah does inform Marcel of all updates on a regular basis, and implications on the SOQM are discussed. Additionally, since this is the first year of implementation, the chance of missing a major update to the SOQM due to changes in professional standards, is low. Assessment: The finding is not considered a deficiency.
2	The firm has a quality risk related to Marcel not always providing sufficient direction, supervision and review. The response to this quality risk was to create a guideline that Marcel’s time should average 15% - 20%, of total hours, for most engagements, based on past experience. An internal report that provides a summary of time spent per engagement, by employee, indicated that there were two instances where the supervision time was below this threshold and the discrepancy was not investigated.	The direction and supervision by Marcel is important to manage the quality risk identified. Based on professional judgment, no explanation or documentation to support otherwise, and analysis below, and the fact that the variance from policy was not investigated, this finding is a deficiency. Therefore, a remediation action plan is requested from Marcel.
3	The firm performs review engagements for family members and close personal friends of Marcel which is in breach of the IESBA Code independence requirements.	The breach is considered a deficiency as a reasonable and informed third party would likely conclude that Marcel’s integrity, objectivity or professional skepticism has been compromised by undertaking review engagements for family members and close personal friends. As a sole practitioner there are no potential safeguard that might appropriately address such threats and therefore as a remedial action Marcel must resign from those current review engagements and establish new policies and procedures to address the acceptance and continuance of client relationships and specific engagements.

....continued (Other findings would be summarized)

Part 3: Respond to Identified Deficiencies

The Monitor to add deficiencies as identified and then evaluate. In the year of cyclical monitoring of engagement files, reference to documentation, (such as [Appendix C](#) in this *Installation*), or summarize the deficiencies here.



Description of deficiency	Root Cause Analysis completed (See Part C below) (Y/N)	Severe? (Y/N)	Pervasive? (Y/N)	Description of remedial actions, commentary on effectiveness in meeting root cause, and effective date of the remedial action.	Describe any further action required
Engagement partner's time below the policy on engagements was not investigated, or documented.	Y	N	N	Deborah to review the report on time spent by Marcel on a monthly basis and have a discussion with Marcel on a regular basis.	Complete documentation and follow up on compliance within 3 months.
<i>(Other deficiencies would be added as appropriate)</i>					

(Based on [Part B of Appendix B](#), Practice Aid)

Part 4: Communications

Marcel (Individual assigned ultimate responsibility and accountability for the SOQM) and Deborah (Individual assigned operational responsibility for the SOQM) review the Monitor Report prepared by Mr. Sitson on a timely basis to implement and subsequently monitor the remediation actions.

Any relevant points related to remediation are communicated to all staff as necessary through reporting at the end of the monitoring and remediation process.

(For communication, see example of Monitor Report in [Appendix F](#))

APPENDIX B: DOCUMENTATION AID – ANNUAL MONITORING AND REMEDIATION PROCESS AND EVALUATION OF SOQM

Objective: The objective of this documentation aid is to facilitate documentation of:

- (a) the performance of monitoring and remediation activities, and
- (b) the evaluation of the SOQM.

Listing of Individual(s) Involved:

In the monitoring and remediation process the requirements of ISQM 1 are sometimes directed to the individual or the “firm”. A “firm” cannot complete activities, individuals do, but when standards want to specify “who” should do a certain activity it will specify the individual’s responsibility. If ISQM 1 is not trying to specify an individual the standard uses the term “firm”.

Reminder: “firm” includes a sole practitioner:

ISQM 1, paragraph 16(i) includes the following definition:

- (i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.

Therefore, it is important to keep the roles and responsibilities of the individuals clear, if separated/ delegated and the following listing will help:

	Name of individual(s), if applicable
Individual(s) assigned ultimate responsibility and accountability for the SOQM	
Individual(s) assigned operational responsibility and accountability for the SOQM	
Individual(s) assigned operational responsibility and accountability for monitoring and remediation process	
Individual(s) assigned monitoring responsibility – Annual monitoring of SOQM “Annual/Ongoing Monitor”	
Individual(s) assigned monitoring responsibility – Cyclical Completed Engagement monitoring/inspections “Completed Engagement Monitor”	
Individual assigned to complete Annual Performance Evaluation	

To meet the objectives this Documentation Aid is divided into seven (7) parts:

-
- PART A** Annual Monitoring of SOQM (Completed by Annual/Ongoing Monitor)
-
- PART B** Summary of Deficiencies (Completed by Annual/Ongoing Monitor and Completed Engagement Monitor(s) in year of cyclical monitoring)
-
- PART C** Root Cause Analysis
-
- PART D** Response to Deficiencies (Completed by Annual/Ongoing Monitor and Completed Engagement Monitor(s) in year of cyclical monitoring) along with Individual(s) responsible for SOQM and/or Individual(s) responsible for operation of SOQM)
-
- PART E** Evaluation of SOQM (Completed by individual(s) assigned ultimate responsibility and accountability for the SOQM)
-
- PART F** Performance Evaluation (Completed by an objective individual which may be the Completed Engagement Monitor or other individual).
-
- PART G** Communication
-

PART A – ANNUAL MONITORING OF SOQM

To be completed by the **Annual/Ongoing Monitor** (internal or service provider).

Monitoring can include ongoing or periodic monitoring.

Is there any part of the annual or ongoing monitoring completed by a party external to the firm?	Yes <input type="checkbox"/> No <input type="checkbox"/>
If yes, reference to engagement letter.	

Date(s) Monitoring completed: _____

Name of Monitor: _____

Briefly describe the qualifications of the monitor:
<i>[The description should ensure that the individual has the competence and capabilities, including sufficient time, to perform the monitoring activities effectively.]</i>

ANNUAL MONITORING OF SOQM AS A WHOLE

The questions below will facilitate the documentation of the monitoring activities, but you may find it useful to supplement this documentation aid with a memo that addresses or cross references to the activities or specific policies and procedures that are reviewed. You can use the “Comments/Documentation” column to meet this objective. For example, as part of your annual monitoring you may select a sample of human resource records to assess compliance on whether the required professional development has been completed. This detailed description could be documented in a memo or for less complex firms, a comment added.

	Yes	No	NA	Comments/Documentation
1. Has evidence been obtained and documented that as the monitor you have: <ul style="list-style-type: none"> • no conflicts of interest that are relevant to the monitoring role, • no scope limitations imposed on your monitoring activities, • appropriate authority and access to communication within the firm. 				
2. Have changes in the profession and in authoritative professional guidance been considered that may indicate a need to revise or update the SOQM?				
3. Have relevant quality objectives been established, quality risks identified and assessed, and responses designed and implemented in accordance with ISQM 1? Have these been reviewed and revised (if appropriate) for the current year?				
4. Does review of the quality objectives or risks suggest that any quality objectives or risks that are relevant appear to be missing with respect to the nature and circumstances of the firm and of the engagements performed?				
5. Is there sufficient documentation of the SOQM for you to review the SOQM to ensure that your knowledge and understanding of the SOQM is complete? Including documentation of: <ul style="list-style-type: none"> • The individual assigned ultimate responsibility, accountability and operational responsibility for the SOQM. • Quality objectives and quality risks for each component. • Responses (policies/procedures) to address the quality risks identified. • The monitoring and remediation process, including evidence of monitoring activities performed, the evaluation of findings, identified deficiencies and their root cause(s), as well as remedial actions and communication about monitoring and remediation. • The period of time for the retention of documentation for the SOQM. 				



	Yes	No	NA	Comments/Documentation
<p>6. Does the nature, timing and extent of your monitoring activities take into account the following:</p> <p>(a) The reasons for the assessments given to the quality risks;</p> <p>(b) The design of the responses;</p> <p>(c) The design of the firm’s risk assessment process and monitoring and remediation process;</p> <p>(d) Changes in the SOQM;</p> <p>(e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm’s SOQM and whether remedial actions to address previously identified deficiencies were effective; and</p> <p>(f) Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm’s policies or procedures established in accordance with ISQM 1, information from external inspections and information from service providers.</p>				
<p>7. Does the SOQM involve appropriate consideration of availability and competence of staff and partners, for example policies or procedures on:</p> <ul style="list-style-type: none"> • Inspecting time records for the number of hours spent by engagement partners and other senior staff and assessing sufficiency of such hours. • Compliance with CPD requirements. • Checking records of attendance at mandatory training. • Outputs of appraisals. • Use of external resources or contractors as part of teams. 				
<p>8. Does the SOQM include steps to ensure:</p> <ul style="list-style-type: none"> • The confirmation of compliance with independence requirements from all personnel required to be independent at least annually? • The declaration of information about any relevant interests and relationships? • If any independence issues have been identified, has appropriate action been taken to mitigate any risks arising? 				

	Yes	No	NA	Comments/Documentation
<p>9. Does the SOQM include a process to investigate and resolve any disciplinary issues relating to staff and any complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements (including those from clients)?</p> <p>If any issues have been identified has action been taken to follow these up and manage similar future risks?</p>				
<p>10. Does the SOQM include a policy related to cyclical inspection of completed engagements?</p> <p>Cross-reference to policy documentation or summarize the policy here: _____</p> <p>_____</p> <p>_____</p> <p>_____</p>				
<p>11. Describe the cyclical monitoring schedule (or refer to policy documentation).</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>If cyclical monitoring is completed this year, plan to complete Appendix C.</p>				
<p>12. Have any monitoring activities been delegated? If so, have the delegated activities been assigned to individuals with the appropriate competence and capabilities?</p> <p><i>[The competence of the individual (s) assigned the annual and the inspection of completed files may differ, and will be documented in more detail, as appropriate and cross-referenced here.]</i></p>				
<p>13. Are all of the individual(s) assigned the monitoring activities objective?</p>				
<p>14. Do the individual(s) assigned the monitoring activities have sufficient time allocated to perform the monitoring activities assigned?</p> <p>Reminder: the policy must prohibit engagement team members or the engagement quality reviewer, if applicable, from performing an inspection of their own completed engagements.</p>				

	Yes	No	NA	Comments/Documentation
<p>15. For firms with multiple partners, have interviews with the partners responsible for various aspects of the SOQM been conducted?</p> <p>Examples of questions that may be used in the interviews:</p> <p>a) Were there any changes to your component(s)/area(s) of responsibility that will necessitate a change to the SOQM or related documentation?</p> <p>b) Are you aware of any changes that will occur within the next year that should be addressed immediately?</p> <p>c) Are you aware of any significant violations or other events occurring in your component(s)/area(s) of responsibility that indicate a deficiency in the SOQM?</p> <p>d) Are you aware if any partner or staff displayed a reluctance to comply with firm's policies/procedures?</p> <p>Note: this question is NA for sole practitioner.</p>				
<p>16. Do your monitoring activities consider the design, implementation and operations of the firm's policies/procedures and the overall effectiveness of the SOQM?</p> <p>Consideration should include (but not be limited to) policies and procedures related to factors such as:</p> <ul style="list-style-type: none"> • Identifying, evaluating and addressing threats to compliance with relevant ethical requirements • Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of these in a timely manner • Acceptance and continuation of client engagements • Subsequent information that would impact ability to engage with client • Communication with TCWG and others • The need to have an EQR on certain engagements (e.g. where required by law or regulation) 				
<p>17. Has the firm evaluated findings to determine whether deficiencies exist and if so, evaluated the severity and pervasiveness of deficiencies by investigating the root cause (s) and effect individually and in aggregate on the SOQM? [Part B below]</p>				
<p>18. Has the firm designed and implemented effective remedial actions (including taking into account the root cause of identified deficiencies) to address identified deficiencies? [Part D below]</p>				

PART B – SUMMARY AND EVALUATION OF DEFICIENCIES

The Monitor to add deficiencies as identified and then evaluate. In the year of cyclical monitoring of engagement files, reference to Appendix C, or bring in deficiencies here.



Description of deficiency	Root Cause Analysis completed (See Part C below) (Y/N)	Severe? (Y/N)	Pervasive? (Y/N)	Description of remedial actions, commentary on effectiveness in meeting root cause, and effective date of the remedial action.	Describe any further action required
#1					
#2					

(Add additional document if needed)

PART C - ROOT CAUSE ANALYSIS



	Yes	No	NA	Comments/Documentation
1. Have the underlying reasons for all significant deficiencies been established?				

Monitor to evaluate the deficiency by completing a root cause analysis. Document the root cause analysis below, or reference other documentation, if appropriate.

Root Cause Analysis: for each significant deficiency identified above, complete and document:

Describe the deficiency	Identify WHY the deficiency occurred (Try to identify 5 "whys" through inquiry/discussions/reflection) and final assessment regarding severity and pervasiveness
Deficiency #1:	Analysis: Conclusion:

PART D – RESPONSE TO IDENTIFIED DEFICIENCIES



	Yes	No	NA	Comments/Documentation
<p>1. Have remedial actions been designed and implemented that respond to the root cause of the deficiencies identified?</p> <p>Note: Remedial actions should be documented in Part B above and/or referenced to separate document if needed.</p>				
<i>The evaluation in the next question is to be completed by the individual(s) assigned operational responsibility for the monitoring and remediation process</i>				
<p>2. Are the remedial actions:</p> <ul style="list-style-type: none"> • appropriately designed to address the identified deficiencies and their related root cause(s) • been implemented? 				
<p>3. Are the remedial actions to address previously identified deficiencies effective?</p>				
<p>4. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, have appropriate action(s) been taken to determine that the remedial actions are appropriately modified so that they will be effective?</p>				
<p>5. Have matters been communicated on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the SOQM and the individual(s) assigned operational responsibility for the SOQM, if different?</p> <p>This may be accomplished by including the details included in this Documentation Aid along with a description of the monitoring activities performed.</p>				
<p>6. If the finding indicates that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate, did the response(s) include:</p> <ul style="list-style-type: none"> • Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements? • In those situations when the report is considered to be inappropriate, was the appropriate action taken, including considering whether to obtain legal advice? 				

PART E - EVALUATION OF SOQM

To be completed by individual(s) assigned ultimate responsibility and accountability for the SOQM.

This evaluation must be undertaken as of a point in time, and performed at least annually.

	Yes	No	NA	Comments/Documentation
1. Deficiencies Identified Have you completed a review of the deficiencies listed in Part B from the annual monitoring of the SOQM (and the cyclical monitoring, if appropriate) and evaluated, individually and in aggregate, the effect of these deficiencies on the SOQM?				
2. Remedial Actions Have you reviewed the remedial actions that have been implemented and considered if a temporary action is required for any deficiencies where remedial action has not been taken?				
3. Performance Evaluation Has an appropriate individual completed the performance evaluation of the individual(s) with ultimate responsibility and accountability and the individual(s) with operational responsibility (where separate individuals) on the performance of their roles?				

CONCLUSION

Note: In the year where a cyclical monitoring of engagement files is completed, include the results of file inspections/monitoring of completed engagements (Complete Appendix C, for example) before reaching this overall conclusion:

Based on the evaluation of the SOQM:

- The SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved.
- Or
- Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the SOQM, the SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved.
- Or
- The SOQM does not provide the firm with reasonable assurance that the objectives of the SOQM are being achieved.

Signed by the individual(s) assigned ultimate responsibility and accountability for the SOQM

 (Signature and Position/Responsibility)

Period covered by the evaluation: _____

Date of evaluation: _____

PART F - COMMUNICATION



	Yes	No	NA	Comments/Documentation
1. Is there evidence that the partner(s) responsible for the SOQM has/have communicated at least annually to appropriate partners and others regarding: <ul style="list-style-type: none"> • the monitoring procedures performed over the past year, • conclusions drawn from such procedures, and • a description of any systemic, repetitive or other significant deficiencies found and action taken to resolve such deficiencies? 				
2. If in Part E above, the conclusion is that the SOQM does not provide the firm with reasonable assurance that the objectives of the SOQM are being achieved, has prompt and appropriate action been taken to resolve the deficiencies?				
3. If in Part E above, the conclusion is that the SOQM does not provide the firm with reasonable assurance that the objectives of the SOQM are being achieved has appropriate communication taken place, as needed, to: <ul style="list-style-type: none"> • All relevant individuals participating in engagements and other individuals assigned activities within the SOQM to the extent that it is relevant to their responsibilities, and • External parties in accordance with the firm's policies/procedures? 				
4. If in Part E above, the conclusion is that the SOQM provides reasonable assurance that the objectives of the SOQM are being achieved, has an assessment of what could be communicated to relevant individuals in the spirit continual improvement taken place?				

PART G - PERFORMANCE EVALUATION OF INDIVIDUAL(S) RESPONSIBLE FOR SOQM



The firm must undertake periodic performance evaluations of:

1. the individual(s) assigned ultimate responsibility and accountability for the SOQM
2. the individual(s) assigned operational responsibility for the SOQM.

Name of individual completing the performance evaluation: _____

(Individual assigned this evaluation should be objective and not be one of the individuals identified above. For a sole practitioner, a service provider is recommended.)

(In completing this performance evaluation the evaluation of the SOQM (Part E above) should be considered.)

Individual(s)	Name(s) of individual	Documentation of performance evaluation and conclusion
Individual(s) assigned ultimate responsibility and accountability for the SOQM		
Individual(s) assigned operational responsibility for the SOQM		

This evaluation must be undertaken as of a point in time, and performed at least annually, and any deficiencies list below:

Deficiencies identified	Yes	No	NA	Comments/Documentation

APPENDIX C: DOCUMENTATION AID – CYCLICAL INSPECTION OF COMPLETED ENGAGEMENTS

Objective: The objective of this Documentation Aid is to facilitate documentation of the performance of cyclical monitoring of completed engagements by the Completed Engagement Monitor.

This Documentation Aid will be referenced to Appendix B when cyclical monitoring is completed. The deficiencies identified from the monitoring of completed engagements will be summarized and included in Appendix B and be considered in the evaluation of the SOQM.

This Documentation Aid is divided into six (6) parts:

PART A Overall Considerations

PART B Selection of Completed Engagements

PART C Audit Engagements – Historical Financial Statements

PART D Review Engagements – Historical Financial Statements

PART E Other Assurance Engagements

PART F Related Services

PART A OVERALL CONSIDERATIONS

Overall considerations	Yes	No	NA	Comments/Documentation
1. Do you (as Completed Engagement Monitor) have the competence and capabilities related to the files assigned?				
2. For engagements reviewed, do you (as Completed Engagement Monitor) confirm that you were neither a member of the engagement team, nor an Engagement Quality Reviewer on the engagement?				
3. Do you (as Completed Engagement Monitor completing the inspection of the completed files) have sufficient time to perform the inspection?				
4. If you (as the Completed Engagement Monitor) are external to the firm have you signed an engagement letter?				

PART B SELECTION OF COMPLETED ENGAGEMENTS



	Yes	No	NA	Comments/Documentation
<p>Does the Completed Engagement Monitor select the engagements?</p> <p>If yes, proceed to questions, if no, document the name of the individual(s) who will make the selection of the engagements and identify the Completed Engagement Monitor assigned to the engagements by engagement type below.</p> <p>Reminder: The selection of completed engagements must be completed by an objective individual.</p>				

Name of individual(s)	Position/Responsibility	Date selection was completed

PART B SELECTION OF COMPLETED ENGAGEMENTS (cont'd)

(This part of the Documentation Aid will be completed by the individual responsible for the selection of completed engagements.)

Overall considerations	Yes	No	NA	Comments/Documentation
1. Have you obtained a list of types of engagements during the period being reviewed with the name of engagement partner provided?				
2. In the determination of which engagements and engagement partners to select for the cyclical inspection of completed files have you taken into account the following: <ul style="list-style-type: none"> • The reasons for the assessments given to the quality risks. • The design of the responses. • The design of the firm's risk assessment process and monitoring and remediation process. • Changes in the SOQM. • The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's SOQM and whether remedial actions to address previously identified deficiencies were effective. • Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures established in accordance with ISQM 1, information from external inspections and information from service providers. • The nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities (See Appendix B). 				
3. Have you documented the size and selection process of the sample of completed files for inspection? <i>[The sample size is a matter of professional judgment, but the factors considered in the determination of the sample sized should be documented.]</i>				
4. Does the sample of completed files include at least one completed engagement for each engagement partner?				

PART C AUDIT ENGAGEMENTS – HISTORICAL FINANCIAL STATEMENTS

List the audit engagements, by partner for which an inspection of a completed engagement has been selected and completed:

Engagement partner	Client name	Year-end	Name of completed engagement monitor	Reference to completed file inspection checklist
				<i>[An example of this checklist is included as Appendix D in this Series]</i>

PART D REVIEW ENGAGEMENTS – HISTORICAL FINANCIAL STATEMENTS

List the review engagements, by partner, for which an inspection of a completed engagement has been selected and completed:

Engagement partner	Client name	Year-end	Name of completed engagement monitor	Reference to completed file inspection checklist
				<i>[An example of this checklist is not included in this Series]</i>

PART E OTHER ASSURANCE ENGAGEMENTS

List the other engagements, by partner, for which an inspection of a completed engagement has been selected and completed:



Engagement partner	Client name	Year-end	Name of completed engagement monitor	Reference to completed file inspection checklist
				<i>[An example of this checklist is not included in this Series]</i>

*Examples include engagements such as those engagements completed under the following standards:

ISAE 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information

ISAE 3400 The Examination of Prospective Financial Information

ISAE 3402 Assurance Reports on Controls at a Service Organization

ISAE 3410 Assurance Engagements on Greenhouse Gas Statements

ISAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

The area of other assurance standards will evolve over time, including current developments for sustainability assurance. This list should be checked to the current relevant standards each time the documentation aid is used.

PART F RELATED SERVICES

List the related service engagements, by partner, for which an inspection of a completed engagement has been selected and completed:

Engagement partner	Client name	Year-end	Name of completed engagement monitor	Reference to completed file inspection checklist
				<i>[Examples of these checklists for all related services are not included in this Series, except for Compilation Engagements – See Appendix E]]</i>

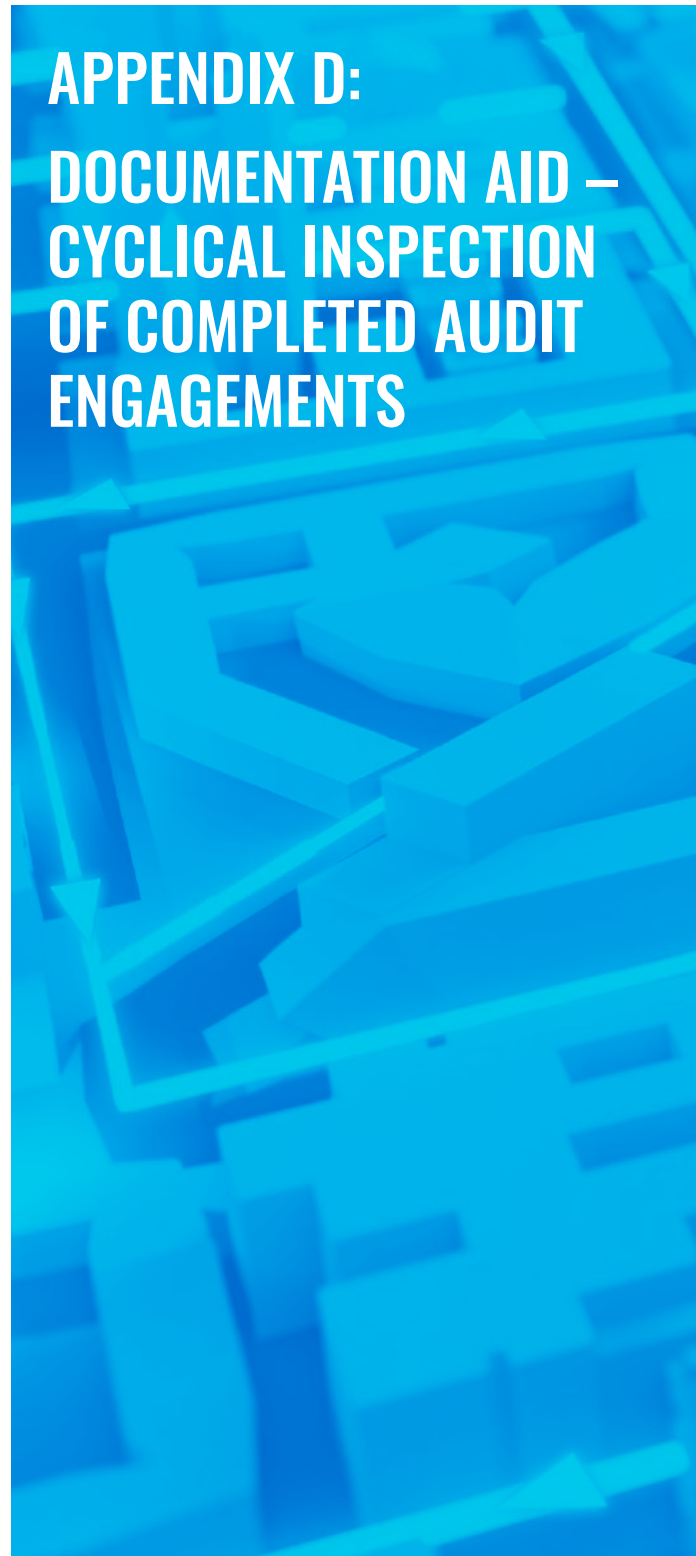
*Examples include engagements such as those engagements completed under the following standards:

ISRS 4410 (Revised) Compilation Engagements

ISAE 3400 The Examination of Prospective Financial Information

PART G SUMMARY OF RESULTS

	Yes	No	NA	Comments/Documentation
1. Were any deficiencies found that appeared to be systematic, repetitive or otherwise significant and requiring prompt corrective action?				
2. Is there evidence that a report issued by the firm may have been inappropriate?				
3. Was there evidence of required engagement procedures not performed?				
4. Have all deficiencies been reported in writing to the partner(s) responsible as well as the individual responsible for the SOQM? <i>(The deficiencies are to be considered in the evaluation of the SOQM and to ensure remedial action is taken.)</i>				



PART A – ANNUAL MONITORING OF SOQM

Name of Completed Engagement Monitor: _____

Briefly describe how the qualifications of the Completed Engagement Monitor are relevant to this engagement:
<i>[The description should ensure that the individual has the competence and capabilities, including sufficient time, to perform the monitoring activities effectively.]</i>

Applicable Standards and Requirements: All relevant ISAs (including ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*), relevant ethical requirements, and firm’s policies and procedures as embedded in the SOQM (SOQM complies with ISQM 1, *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and ISQM 2, *Engagement Quality Reviews*)

Client Name	
Engagement Partner*	
Engagement Team members, other than Engagement Partner, if applicable	
Year- end of file inspected:	
Date of Audit Report	
Date of Completion of Inspection	
Date of Discussion of Findings	

NOTE: This documentation aid is intended to be used by an appropriately experienced and competent individual who is performing the role of the monitor. It does not address or identify all of the applicable standards and requirements but rather acts a reminder of some key requirements for the monitor who has the competences and capabilities to be aware of all requirements in completing an audit engagement. The last question in this documentation aid requires considerations of all relevant requirements, even if not addressed specifically in this documentation aid.

APPENDIX D: DOCUMENTATION AID – CYCLICAL INSPECTION OF COMPLETED AUDIT ENGAGEMENTS

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
1. Overall File Preparation Does the approach taken (checklists used) support that the current requirements of all relevant ISAs, will be met by using an appropriate methodology to complete the engagement?					
2. Ethical Requirements Does the file document compliance with relevant ethical requirements?					
3. Engagement Level Quality Does the file documentation demonstrate that the engagement partner has taken responsibility for the quality of the engagement and that the engagement was performed in accordance with the firm's policies/procedures in the SOQM?					
4. Engagement Acceptance and Continuance Does the file include a signed engagement letter that sets out the requirements in ISA 210, <i>Agreeing the Terms of Audit Engagements</i> , and was signed/obtained before commencement of the engagement? If it is a recurring engagement, is there documentation of the evaluation of whether there are any changes in the circumstances, and whether management needs to be reminded about existing terms of engagement?					
5. Communication with Management and Those Charged with Governance (TCWG) Does the file document any communications with management and/or TCWG matters, if any, deemed to relevant, including the planning of the engagement? (See ISA 260 (Revised), <i>Communication with Those Charged with Governance</i> and ISA 265, <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i>)					
6. Has there been a documented assessment of whether an engagement quality review is appropriate based on the policies in the SOQM? (See ISQM 2, <i>Engagement Quality Reviews</i>)					

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
<p>7. Performance of Engagement – Understanding the Entity and its Environment</p> <p>Does the file document that risk assessment procedures were completed to support that sufficient understanding of the entity was obtained to enable performance of the audit, including:</p> <ul style="list-style-type: none"> • Understanding the applicable financial reporting framework, and the entity’s accounting policies, and any changes thereto in the current year. • The entity’s organizational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT. • Industry, regulatory or other external factors. • The measures used, internally and externally, to assess the entity’s financial performance. • Objectives, strategies and business risks. • Financial performance measurement and review. • How inherent risk factors affect susceptibility of assertions to misstatement. <p>Considerations:</p> <ul style="list-style-type: none"> • Estimates • Going concern <p>(See ISA 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i> and ISA 250 (Revised), <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>)</p>					
<p>8. Performance of Engagement – Materiality</p> <p>Does the file document the amounts and factors (e.g., users of the financial statements, qualitative factors, and appropriate quantitative benchmarks) considered in the determination of the level of materiality (including materiality for the financial statements as a whole, performance materiality, and if applicable the materiality level for particular classes of transactions, account balances or disclosures, along with any revisions to the initial calculations)?</p> <p>(See ISA 320, <i>Materiality in Planning and Performing an Audit</i>)</p>					

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
<p>9. Performance of Engagement – Assessment of Risks of Material Misstatement</p> <p>Does the file document the assessment of inherent risks of misstatement at the financial and assertion level, including the assessment on any risks determined to be significant?</p> <p>Does the assessment of inherent risk at the assertion level address classes of transactions, account balances, and disclosures?</p> <p>(Reminder that some areas such revenue and related party transactions are more likely to be a significant risk and should be addressed specifically.)</p> <p>(See ISA 315 (Revised 2019) <i>Identifying and Assessing the Risks of Material Misstatement</i> and ISA 240, <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i>)</p>					
<p>10. Performance of Engagement – Understanding of System of Internal Control and Design and Implementation of Controls</p> <p>Does the file document an understanding of the components of the entity’s system of internal control including the entity’s:</p> <ul style="list-style-type: none"> • Control environment relevant to the preparation of financial statements. • Risk assessment process. • Information system and communications. • Control activities (policies and procedures responding to risks, “internal controls”). • Monitoring process concerning the system of internal control. <p>Does the file document the assessment of the design and implementation of controls for:</p> <ul style="list-style-type: none"> • Areas of significant risk. • Journal entries. • Controls for which reliance is planned. • Other controls, as appropriate. <p>Does the file document risks related to use of technology, and any risks for which substantive procedures alone would not provide sufficient appropriate audit evidence, were addressed?</p> <p>Does the file document any control deficiencies that would affect the audit and communication to management and those charged with governance, as appropriate?</p> <p>(See ISA 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>)</p>					

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
<p>11. Performance of Engagement – Tests of Controls If reliance on controls is planned, does the file document the control risk assessment, and the results of the control testing?</p> <p>Considerations:</p> <ul style="list-style-type: none"> • If testing is completed on a rotational basis, it cannot exceed 3 years, and only if there have been no significant changes, or do not address significant risk. • Testing must address operational effectiveness during the reporting period being audited <p>(See ISA 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>)</p>					
<p>12. Performance of Engagement – Audit Team Discussion Does the file document that a team discussion (or reflection, if sole practitioner) take place?</p> <p>Did brainstorming of potential fraud risk factors take place?</p> <p>Did the application of the applicable financial reporting framework get discussed?</p> <p>(See ISA 315 (Revised 2019) <i>Identifying and Assessing the Risks of Material Misstatement</i> and ISA 240, <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i>)</p>					
<p>13. Performance of Engagement – Stand back (Risk) Does the file document that there was an evaluation of whether the initial risk assessment remains appropriate as further evidence is obtained, or need to be revised?</p> <p>(See ISA 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>)</p>					
<p>14. Performance of Engagement – Substantive Procedures Does the file document sufficient information to assess the how the evidence was obtained?</p> <p>Considerations:</p> <ul style="list-style-type: none"> • Appropriate design of procedures to link to the risks identified at the assertion level • Use of a service organization • Sampling methodology and results. Etc. <p>(See various ISAs)</p>					

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
<p>15. Performance of Engagement - Reconciliation to underlying records Does the file document that the financial information been reconciled to the underlying accounting records? (See ISA 330, <i>The Auditor's Responses to Assessed Risks</i>)</p>					
<p>16. Performance of Engagement – Conclusion Does the file document a final stand back assessment and the support for the forming of a conclusion/opinion? Considerations:</p> <ul style="list-style-type: none"> • Final analytical procedures completed on final financial statements. • Subsequent events review. • Summary of unadjusted errors completed and included in file. • Materiality reconsidered. • Summary of matters to be communicated to management/those charged with governance summarized. • Management representation letter obtained. Etc. <p>(See various ISAs, examples include, ISA 450 <i>Evaluation of Misstatements Identified during the Audit</i>, and ISA 580, <i>Written Representations</i>)</p>					
<p>17. Audit Report Does the final version of the financial statements include an audit report that is accordance with the relevant ISAs? (See ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i>, ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>, ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i>, ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>, as applicable)</p>					

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
<p>18. Audit Report – Date Identify the date of the Audit Report _____</p> <p>Is there documentation that the date of audit report is appropriate? That is, does the file document approval for release of the financial statements and was this documented before (or at) the report date? (See ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i>)</p>					
<p>19. Overall Documentation Does the file documentation support that the current requirements of all standards and requirements were met? Considerations can include documentation of:</p> <ul style="list-style-type: none"> • Planning and execution of audit. • Supervision of staff/others. • Completion of review of work by staff/others. • Professional skepticism. • Some unpredictable element or procedure (fraud). • Journal entry testing. • Use of specialist, lawyer, engineer, actuary, valuator, etc., • Use of automated audit techniques. • Group audit considerations, if applicable. • Use of internal audit, if applicable. • Special considerations if an initial engagement. Etc. <p>(See ISA 230, <i>Audit Documentation</i> and various ISAs)</p>					

SUMMARY OF FINDINGS

Finding (from above)	Communicated to partner/practitioner	Communicated to Individual with operational responsibility of SOQM Y/N	Transferred to Appendix B Y/N

APPENDIX E: DOCUMENTATION AID – CYCLICAL INSPECTION OF COMPLETED COMPILATION ENGAGEMENTS

(The format of this documentation aid could be modified to address other related services)

Name of Completed Engagement Monitor: _____

Briefly describe how the qualifications of the Completed Engagement Monitor are relevant to this engagement:
<i>[The description should ensure that the individual has the competence and capabilities, including sufficient time, to perform the monitoring activities effectively.]</i>

Applicable Standard: ISRS 4410 (Revised), Compilation Engagements

Client Name	
Engagement Partner*	
Engagement Team members, other than Engagement Partner, if applicable	
Year- end of file inspected:	
Date of Compilation Engagement Report	
Date of completion of inspection	
Date of discussion of findings	



Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
<p>1. Overall File Preparation Does the approach taken (checklists used) support that the current requirements of ISRS 4410 (Revised), <i>Compilation Engagements</i>, will be met by using an appropriate methodology to complete the engagement?</p>					
<p>2. Ethical Requirements Does the file document compliance with relevant ethical requirements? (See ISRS 4410.21)</p>					
<p>3. Engagement Level Quality Does the file documentation demonstrate that the <i>engagement partner*</i> has taken responsibility for the quality of the engagement and that the engagement was performed in accordance with the firm's policies/procedures in the SOQM? (See ISRS 4410.23)</p>					
<p>4. Engagement Acceptance and Continuance Does the file include a signed engagement letter that sets out the requirements in ISRS 4410 (Revised) and was signed/obtained before commencement of the engagement? If it is a recurring engagement, is there documentation of the evaluation of whether there are any changes in the circumstances, and whether management needs to be reminded about existing terms of engagement? (See ISRS 4410.24-26)</p>					
<p>5. Communication with Management and Those Charged with Governance (TCWG) Does the file document communications with management and/or TCWG on any matters that have deemed to be important? (See ISRS 4410.27)</p>					
<p>6. Performance of Engagement – Understanding Does the file document that sufficient understanding of the entity was obtained to be able to perform the engagement, including:</p> <ul style="list-style-type: none"> • The entity's business and operations? • The entity's accounting system and accounting records? • The applicable financial reporting framework, including any industry specific applications? <p>(See ISRS 4410.28)</p>					

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
<p>7. Performance of Engagement – Discussions with management/TCWG If assistance was provided by the practitioner in making significant judgments, does the file include documentation of the required discussions with management/TCWG? (See ISRS 4410.30)</p>					
<p>8. Performance of Engagement – Stand back Does the file document that the practitioner read the compiled financial information in light of the practitioner’s understanding of the entity’s business and operations, and of the applicable financial reporting framework before completion of the engagement to assess compliance with ethical obligations? (See ISRS 4410.31)</p>					
<p>9. Performance of Engagement – Misleading (i.e., incomplete/inaccurate or otherwise unsatisfactory) information Does the file document if there was an assessment by the practitioner if any information appeared misleading, considering records, documents explanations? If yes, were the matters brought to the attention of management and was additional or corrected (See ISRS 4410.32)</p>					
<p>10. Performance of Engagement - Reconciliation to underlying records Does the file document that the compiled financial information been reconciled to the underlying accounting records? (See ISRS 4410.38(b))</p>					
<p>11. Final Version of Financial Information Does the file include the final version of the compiled financial information, and does it include a description of the applicable financial reporting framework included? (See ISRS 4410.40)</p>					

Completed engagement inspection (suggested procedures)	Yes	No	NA	Comments/Documentation	Finding Y/N
12. Compilation Engagement Report Does the final version of the financial information include a Compilation Engagement Report that is accordance with ISRE 4410 (Revised) and included in the file? (See ISRS 4410.37)					
13. Compilation Engagement Report – Date Identify the date of the Compilation Engagement Report _____ Is there documentation that the date of compilation engagement report is appropriate? That is, does the file document management’s acknowledgement of their responsibility for the final version of the compiled financial information, and was this acknowledgment obtained before the report was dated? (See ISRS 4410.41)					
14. Overall Documentation Does the documentation support that the current requirements of ISRS 4410 (Revised), <i>Compilation Engagements</i> , were met?					

SUMMARY OF FINDINGS

Finding (from above)	Communicated to partner/practitioner	Communicated to Individual with operational responsibility of SOQM Y/N	Transferred to Appendix B Y/N

APPENDIX F: DOCUMENTATION AID – MONITORING AND REMEDiation REPORT

The preparation of a full Monitoring and Remediation Report will:

- Provide a summary of the monitoring and remediation process;
- Meet the documentation requirements of ISQM 1 for this process; and
- Facilitate communication within in the firm, if needed.

In some firms, it may be suitable to have two versions of the Monitoring and Remediation Report:

- A report prepared for the use of the individual with ultimate responsibility for the SOQM; and
- A second version of the report including relevant matters, with a focus on remediation guidance which would be distributed to staff.

If you are a sole practitioner, and engage an external monitor, the Monitoring and Remediation Report can also document the results of the external monitoring. You should request a report from the external monitor that meets all of your needs. A sample external monitoring report is included in this Appendix, and should be modified as necessary in the circumstances.

Communication	Y/N	Cross-reference to report/memo
<p>Is there evidence that the partner(s) responsible for the SOQM in the firm have communicated at least annually to appropriate partners and others regarding:</p> <ul style="list-style-type: none"> • The monitoring and remediation procedures performed over the past year, • Conclusions drawn from such procedures, and • A description of any systemic, repetitive or other significant deficiencies found and action taken to resolve such deficiencies? 		



SAMPLE QUALITY MONITOR'S REPORT

To: (Partner(s) responsible for the SOQM in the firm)

Review conducted between (beginning date) and (ending date)

Period covered: from (beginning date) to (ending date)

Name (s) of Sole Proprietor/Partner(s) for whom files were reviewed:

I have been assigned/engaged to perform a monitoring inspection for the firm, including a review of the SOQM and Completed Engagement Inspection.

Overall observations and conclusions

1. The management of the SOQM in the firm appears [*to be/not to be*] assigned to a partner or other person with sufficient and appropriate experience and authority.

(Insert explanation if the conclusion is negative.)

2. The firm [*does/does not*] document/s the SOQM including the responses to the quality risks identified and the responses (policies/procedures and all remediation activities).

(Insert explanation offered by partner(s) responsible for the SOQM, if documentation of the SOQM is incomplete.)

3. In my opinion, the documentation of the SOQM [does/does not] conform in all relevant respects with the requirements of ISQM 1 [or other appropriate jurisdiction requirement].

4. I [found/did not find] the following missing or inappropriate processes/policies/procedures, and/or documentation in your SOQM in the following components:

	Component of SOQM	Comment (None, or details to be included)
1.	Firm's risk assessment process	
2.	Governance and leadership;	
3.	Relevant ethical requirements	
4.	Acceptance and continuance of client relationships and specific engagements	
5.	Engagement performance	
6.	Resources: Human Resources Intellectual Resources Technology Resources	
7.	Information and communication	
8.	Monitoring and remediation process	

5. I [*found/did not find*] evidence that the partner(s) responsible for the SOQM in the firm have communicated at least annually to appropriate partners and others regarding the monitoring procedures performed over the past year, conclusions drawn from such procedures, and a description of any systemic, repetitive or other significant deficiencies found and action taken to resolve such deficiencies.

6. I have reviewed at least one engagement for each partner.
For engagements reviewed, I verified that I was neither a member of the engagement team, nor a quality reviewer on the engagement.

Insert details of each engagement selected (including partner name, engagement type, client name, and year-end date)

7. I [*found/did not find*] deficiencies within the file engagements that appeared to be systematic, repetitive or otherwise significant and requiring prompt corrective action.

Insert details of each such deficiency found.

8. I [*found/did not find*] evidence indicating that a report issued by the firm may have been inappropriate. Insert details of evidence indicating the possibility that an issued report may not have been appropriate.

9. I [*found/did not find*] evidence indicating that a report issued by the firm may have been inappropriate. Insert details of evidence indicating the possibility that an issued report may not have been appropriate.

10. I have reported all deficiencies found, together with the underlying reasons (root cause) why they occurred, in the course of my review to the partner(s) responsible for the SOQM.

11. For files reviewed, I have completed the appropriate file inspection checklists. [Attached to this report as appendices].

Name(s) of Quality Monitor(s): _____ Date of Quality Monitor Report;

APPENDIX G: DEFINITIONS

The following chart includes some of the definitions included in ISQM 1, with some commentary. It is important to use the language of the standard in your planning, discussions, execution and documentation.

Excerpt from ISQM 1 Paragraph 16	Comments
(i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A18)	Note the inclusive nature of the term firm, and when reading the standards, if you are a sole practitioner with no staff, read the standard recognizing that it applies to you, but the key will be to identify scalable opportunities.
(j) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.	Not discussed in this Series. When reading the standards, you can ignore any discussion related to listed entities, if you specify the policy is to not accept such clients.
(k) Network firm – A firm or entity that belongs to the firm’s network.	Not discussed in this Series.
(l) Network – A larger structure: (Ref: Para. A19) (i) That is aimed at cooperation; and (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.	Not discussed in this Series. When reading the standards, you can ignore any discussion related to network and network firms, if you are not a member of a network and document this when reviewing/documenting the nature of the firm.
(o) Professional judgment – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.	Professional judgment will be used throughout all parts of the SOQM process. Documentation of such judgments would be included in the general principles of documentation.
(p) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> , and relevant ethical requirements.	When reading the standards, note that includes the engagement standards which are relevant AND the relevant ethical requirements.

Excerpt from ISQM 1 Paragraph 16	Comments
(q) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.	Note the inclusive nature of the term firm, and when reading the standards, if you are a sole practitioner with no staff, read the standard recognizing that it applies to you, but the key will be to identify scalable opportunities.
(r) Quality risk – A risk that has a reasonable possibility of: <ul style="list-style-type: none"> (i) Occurring; and (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives. 	Note that you will identify many risks, but a quality risk is one that has a reasonable “likelihood” of occurring and will have reasonable “likelihood” of an adverse impact on one or more quality objectives.
(v) Service provider (in the context of ISQM 1) – An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm’s network, other network firms or other structures or organizations in the network. (Ref: Para. A28, A105)	Service providers are sometimes used in small firms, such as IT providers, technical support, contractors hired on a temporary basis to assist in performing engagements from an entity unrelated to the firm etc. The important point is to notice the reference to service providers in the standard and be aware that components of your SOQM apply to them. When summarizing/documenting the structure of your firm, include service providers and obtain and review the contracts to see how the agreement fits within the quality objectives, quality risks and response and how you may need to interact with the service provider.
(w) Staff – Professionals, other than partners, including any experts the firm employs	Even though is unlikely that a small firm will employ an expert, it is important to note that the firm’s experts are considered “staff” when applying the standards.
(x) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that: <ul style="list-style-type: none"> (i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and (ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances. 	Commonly referred to as the SOQM.

The following chart includes some of the definitions included in ISQM 1, with some commentary, which are related to the monitoring and remediation process.

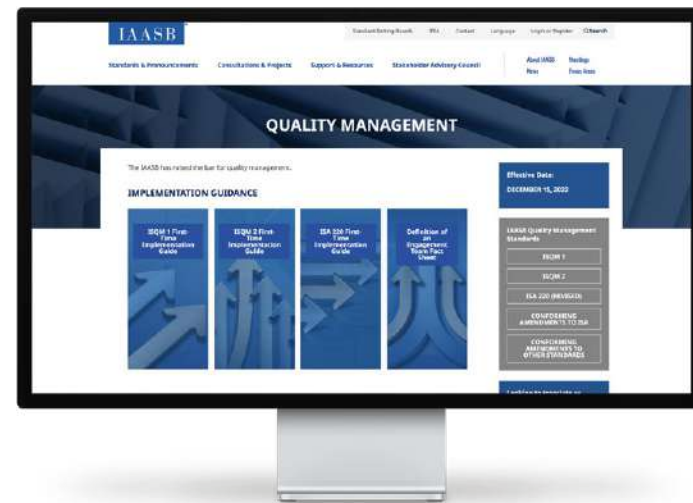
Excerpt from ISQM 1 Paragraph 16	Comments
<p>(a) Deficiency in the firm’s system of quality management (referred to as “deficiency” in ISQM 1) – This exists when: (Ref: Para. A10, A159-A160)</p> <ul style="list-style-type: none"> (i) A quality objective required to achieve the objective of the system of quality management is not established; (ii) A quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: Para. A11) (iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or (iv) A other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this ISQM has not been addressed. (Ref: Para. A12) 	<p>Sometimes, the words “finding” and “deficiency” are not used consistently. It is important to use the language of the standard to avoid confusion. As clarified in ISQM 1, Para. A10, the firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings. It is a matter of professional judgment, applying quantitative and qualitative factors, if a finding, or a combination of findings is a deficiency. The evaluation of a finding(s) and evaluation of the severity and pervasiveness of an identified deficiency, including the root cause analysis, can be complicated, and documentation of this process and the conclusions reached is important.</p>
<p>(b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).</p>	<p>This Series uses the term “working papers”.</p>
<p>(c) Engagement partner – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. (Engagement partner” and “partner” are to be read as referring to their public sector equivalents where relevant.)</p>	<p>The identification of the engagement partner, is not an issue for a sole practitioner, as they are the same individual, but for the 2-5 partner firm, the specific identification of the engagement partner, and the clear identification of the engagement partners responsibilities is important.</p>

Excerpt from ISQM 1 Paragraph 16	Comments
(f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement. (Ref: Para. A13)	Not discussed in this Series. When reading the standards, you can ignore any discussion related to network and network firms, if you are not a member of a network and document this when reviewing/documenting the nature of the firm.
(g) External inspections – Inspections or investigations, undertaken by an external oversight authority, related to the firm's system of quality management or engagements performed by the firm. (Ref: Para. A14)	Note the inclusion of “any other individuals” who perform procedures.
(h) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: Para. A15-A17)	Note that a finding may also be accumulated not just from the monitoring activities directly, but also may arise from external inspections or other relevant sources.

APPENDIX H: RESOURCES

1

Read the standards, which are available on the IAASB's website: iaasb.org/quality-management. The dedicated web page includes the three standards as well as first-time implementation guides and other resources.



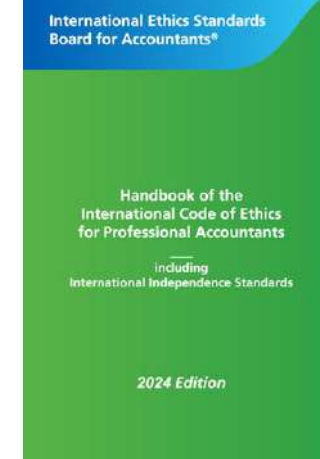
2

Visit the IFAC dedicated web page, ifac.org/qualitymanagement. On this web page you will find various resources to assist in your implementation plan.



3

Visit the International Ethics Standards Board for Accountants (IESBA) web page for the current Code of Ethics at: ethicsboard.org



[2024 Handbook of the International Code of Ethics for Professional Accountants](#)

APPENDIX I: DOCUMENTATION AID – REVISITED

This Appendix revisits the documentation requirements of ISQM 1 along with the documentation aids introduced in all three of the installments of this Series as a reminder of the importance of the documentation requirements.

As introduced in Installment 1 of this Series, one of the key elements on the journey to the implementation of your SOQM is to understand where your firm is coming from and how it can take advantage of what already exists with regards to quality management. This will require reflection and a recognition that a shift in your mindset may be needed. In the past, your focus on the quality control standards may have led your firm through the development and documentation of policies and procedures (outcomes) using a manual.

Therefore, it is not just the outcomes or the policies and procedures that need to be documented. ISQM 1 requires the documentation of the firm's SOQM is sufficient to:

- Support a consistent understanding of the SOQM by personnel, including an understanding of their roles and responsibilities with respect to the SOQM and the performance of engagements;
- Support the consistent implementation and operation of the responses; and
- Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the SOQM by the individual(s) assigned ultimate responsibility and accountability for the SOQM.

Risk Assessment Process

The documentation of the quality risks may include the reasons for the assessment given to the quality risks, i.e., the considered occurrence and effect on achievement of the quality objectives. In Installment 1 of this Series, it was recommended that you document the process and analyses for establishing the quality objectives, identifying and assessing quality risks, and designing responses to such risks. This would provide a history of the basis for decisions made by the firm about the development of its SOQM. This documentation could include the agenda and minutes from meetings and discussion and any workbooks completed, etc.

Engagement Documentation

The component of the SOQM for engagement performance includes the engagement documentation. The engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.

The engagement documentation requirements will be set out in the specific engagement standard that is being followed and will not be discussed in detail in this Series. However, many of the policies and procedures for

These are the principles of the documentation requirements. Professional judgment will be used throughout all parts of the SOQM process. Documentation of such judgments would be included in the general principles of documentation.

the engagement performance will often be captured by the subscription to an audit and review manual (or equivalent) or in the technological and intellectual resources used by firm where such resources are utilized. In these cases, the policy and procedure will be to make sure the documentation of the subscription and any related manuals (including the standardized templates) are updated to reflect the relevant implications of the quality management standards. Installment #2 include some documentation aids that can be useful for the engagement performance component.

The documentation requirements of ISQM 1 are summarized below:

ISQM 1 Documentation Requirement (ISQM 1, Paras. .57-.60)	Commentary and/or Reference within this Series
Documentation requirements must include:	
(a) The identification of the individual(s) assigned ultimate responsibility and accountability for the SOQM and operational responsibility for the SOQM.	See Appendix C of Installment #2 of this Series, for the Case Study, which includes an example to assist with the documentation of the responsibilities for a sole practitioner.
(b) The firm’s quality objectives and quality risks	See Appendix D of Installment #1 of this Series for a discussion on the quality objectives and examples of the questions to facilitate discussion and documentation.
Documentation related to the monitoring and remediation process must include:	
(i) Evidence of the monitoring activities performed (ii) The evaluation of findings, and identified deficiencies and their related root cause(s) (iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions (iv) Communications about monitoring and remediation. (v) Conclusion on the evaluation of the SOQM	The documentation requirements for the monitoring and remediation process are discussed in this Installment and five Documentation Aids are included: <ul style="list-style-type: none"> • Appendix B can be used to aid the documentation of the annual monitoring and remediation process for the SOQM and the evaluation of the SOQM. • Appendix C can be used to aid the documentation of the cyclical monitoring and remediation process for specific engagements. • Appendix D can be used to aid the documentation of the inspection of completed audit engagements as part of the monitoring and remediation process. • Appendix E can be used to aid the documentation of the inspection of completed compilation engagements as part of the monitoring and remediation process. • Appendix F can be used to help prepare the monitor’s report.
Documentation for SOQM must meet the following requirement:	
The firm shall establish a period of time for the retention of documentation for the SOQM that is sufficient to enable the firm to monitor the design, implementation and operation of the firm’s SOQM, or for a longer period if required by law or regulation.	The documentation of the SOQM must be retained periodically. Since the evaluation of the SOQM will take place annually, it would be practical to retain a version on an annual basis that coincides with the evaluation date. Since the SOQM has many components, it is suggested that an electronic version be archived and stored securely with the evaluation documentation.

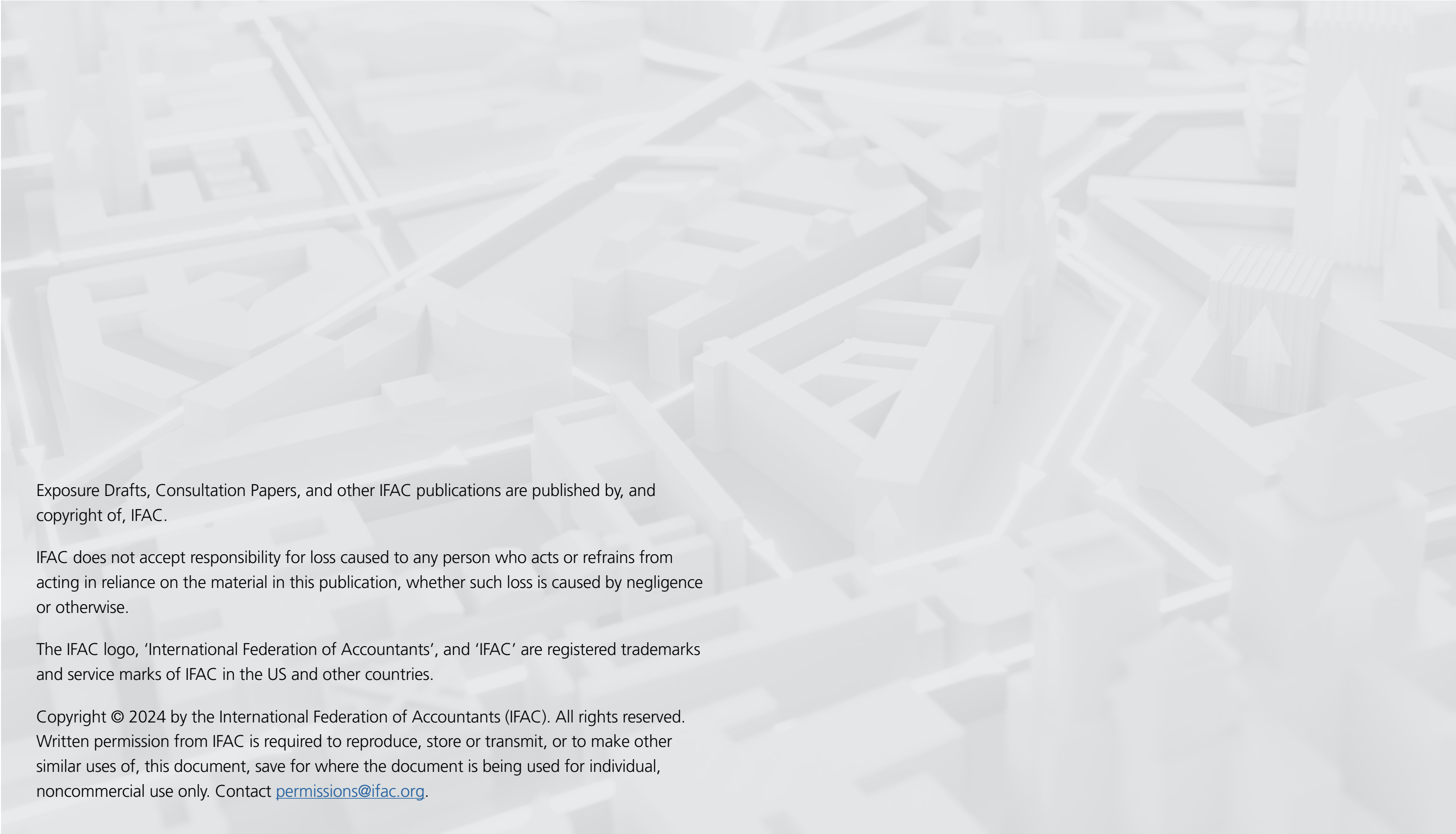
A summary of the Exhibits and Documentation Aids included in Installment #2 of this Series is provided, which can assist in the documentation of your SOQM along with the Documentation Aids included in this Installment:

Summary of Exhibits in include in Installment #2

- Exhibit 1 Sample Risk Assessment Workbook
- Exhibit 2 Possible Format: GAP Analysis
- Exhibit 3 CASE Study: Relevant Ethical Requirements
- Exhibit 4 CASE Study: Acceptance and Continuance
- Exhibit 5 Illustrative Example: GAP Analysis

Summary of Documentation Aids in Installment #2

- Independence Confirmation (Appendix D in Installment #2)
- Acceptance and Continuance of Clients and Engagements (Appendix F in Installment #2)
- Resources and Outside Consultation (Appendix G in Installment #2)
- Engagement Quality Review (Appendix H in Installment #2))



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