GLOBALLY COORDINATED INTERNAL MONITORING PROGRAMS: PRACTICAL CONSIDERATIONS

Introduction

The public interest objective of the Forum of Firms (Forum, FoF) is the promotion of consistent and high-quality standards of financial reporting and auditing practices worldwide. In support of this objective, members of the Forum, with respect to transnational audits, are required to comply with membership obligations, which include:

- maintaining appropriate quality control standards in accordance with International Standards on Quality Control (ISQC) issued by the International Auditing and Assurance Standards Board (IAASB) in addition to relevant national quality control standards and conduct, to the extent not prohibited by national regulation, regular globally coordinated internal quality assurance reviews; and

- having policies and methodologies for the conduct of such audits that are based, to the extent practicable, on International Standards on Auditing (ISAs).

The two primary and authoritative standards published by the IAASB, relating to quality control for audit engagements, are:

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; and

- ISA 220, *Quality Control for an Audit of Financial Statements*.

These International Standards require a firm[1] to establish and maintain a system of quality control to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and that reports issued by the firm or its engagement partners are appropriate in the circumstances. A system of quality control includes procedures necessary to implement and to monitor compliance with the policies established. This paper is concerned with the element of a system of quality control referred to as "monitoring."

The organization and implementation of the monitoring function is likely to vary from firm to firm depending on, for example, the size and nature of the firm's practice. In addition to complying with relevant professional standards, the monitoring function can provide the firm with an indication of the quality of its audit practices and identify areas where improvements can be made, thereby serving as an essential risk management tool.

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[1] Although a variety of sources have been used to compile this paper, as far as possible, consistent usage of the terms *network*, *member firm,* and *firm* have been used. Where there is inconsistency, the terms should be used in their customary meaning and in the particular context.

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The program established by a firm to fulfill the monitoring requirement can have various titles, including internal inspection, quality *assurance reviews* (as set out in the Forum's obligations), and *internal monitoring*. However, for the purposes of this paper and consistent with the terminology used in ISQC 1, these programs are referred to as *internal monitoring programs*. An internal monitoring program will generally have two main elements: 1) evaluation of the system of quality control; and 2) engagement reviews.

This paper builds on the requirement that individual firms, including firms within a network, need to have an internal monitoring program to consider the additional considerations that arise for a globally coordinated internal monitoring program within a network.

Considerations applying to internal monitoring within a firm are also likely to apply to a global monitoring program. Accordingly, an Appendix sets out these considerations at the end of this paper.

The purpose of this paper is to offer general considerations to describe how networks might conduct their global monitoring programs as well as suggestions and practical examples to consider with respect to implementing such programs.

As with any materials issued by the Forum, this paper does not provide a comprehensive discussion or a complete summary of all facets of an internal monitoring program or related professional standards. Consequently, as not all aspects of the professional standards (for example, ISAs) are discussed, readers should refer to those standards for all the requirements and in considering their own internal monitoring program.

The Transnational Auditors Committee (TAC) of the Forum believes this paper will be a valuable tool for audit firms of all sizes in developing, enhancing, and evolving their internal monitoring program policies and in contributing to their own processes of continuous improvement—thereby, further demonstrating their ongoing commitment to enhancing audit quality.

Developing This Information Paper

The Forum undertakes the following activities to raise awareness of, and keep pace with, developments that are relevant to the audit process and contribute to audit quality:

- Interacting with the international standard-setting community on latest developments—particularly those associated with the standards of the IAASB, International Ethics Standards Board for Accountants (IESBA), and International Accounting Education Standards Board (IAESB);

- Monitoring the published findings of audit regulatory bodies;

- Engaging with external stakeholders for their views and insights related to audit quality matters;

- Monitoring global regulatory developments to the extent they are relevant to audit quality; and

- Providing opportunities for members to engage in dialogue on audit quality matters.

Through these activities, the Forum also notes increased emphasis or interest in topics specific to audit or quality control of engagements and considers the usefulness of providing additional information to members of the Forum and auditors in general.

The objective in developing this paper was not to set an authoritative benchmark, provide specific steps, or set out practices that would lead to compliance with ISQC 1 and ISA 220 across a network, but instead to offer practical insights and examples for networks to consider in the design of their globally coordinated internal monitoring programs. The paper is presented as a contribution to audit quality.

Given that professional accountancy firms operate in different jurisdictions, are of different sizes and construction, and have different specializations and audit client profiles, the context within which they fulfill the ISA and ISQC 1 requirements can differ. As such, some of the considerations noted in this paper may be of greater or lesser relevance or applicability depending on the circumstances affecting any particular network or member firm. In addition, each network follows its own approach to quality control, including the extent to which it specifies standards of quality control within the network and the types of tools and resources it employs.

For all the above reasons, it is important to recognize that the information in this paper is not intended to set out how professional accountancy firms should structure their monitoring policies and practices, as there is no "one-size-fits-all" approach. Readers are encouraged to consider this paper and add their own considerations to accommodate local standards and their own firm's circumstances.

This paper does not explicitly refer to all the individual requirements in the ISAs or ISQC 1, as each of the contributors, given their unique operating contexts, adopts the professional standard's requirements in a manner that best aligns with their own individual circumstances.

CONTENTS

OVERALL CONSIDERATIONS FOR A GLOBALLY COORDINATED INTERNAL MONITORING PROGRAM

1. What Is a Globally Coordinated Internal Monitoring Program?

ISQC 1 requires individual firms to have a program to monitor the effectiveness of their audit quality control policies and procedures. This applies to all firms whether or not the firm is in a network.

A globally coordinated program builds on the ISQC requirement taking it to the level of a network where the network guides the monitoring process across the member firms in the network through common approaches, allowing it to evaluate the effectiveness of common policies and procedures across the network. The extent of the detailed guidance and the extent of the involvement of network personnel in the program will vary from network to network. There is no standard or best practice that determines the approach. Each network will need to design its approach, taking into account its policies and procedures and the make-up of the network. This paper sets out some of the issues that need to be considered and possible approaches that may respond to those issues.

2. Why Global Coordination?

As mentioned above, firms are required to have an internal monitoring program in order to comply with ISQC 1. While, at the time of writing, there is no requirement in ISQC 1, or in any other International Standards, that these programs be globally coordinated within a network, the Forum's obligations require globally coordinated programs as part of the response to the external expectations placed on accounting firm networks.

Some ideas to consider in support of a globally coordinated internal monitoring program are set out below.

Ideas for Consideration

Some reasons to consider implementing a globally coordinated internal monitoring program include, for example, such programs:

- support and reinforce a network's global audit methodology as well as other global policies and procedures;

- encourage increased objectivity, consistency of approach, and overall rigor of the internal monitoring process in each member firm;

- support risk management processes through identification and feedback of issues or matters requiring the attention of the network's global management;

- facilitate network-wide root cause analysis;

- provide a basis for continuous improvement of the policies and procedures of the network and of the individual members within the network; and

- may provide, in some circumstances, the potential for a degree of reliance by a member firm on the work performed by another member of the network (see also Other Matters).

While it might be difficult to <u>quantify</u> the direct benefits of a globally coordinated internal monitoring program, appropriate application and participation in such a program does offer a strong opportunity to deliver consistency across a network and contribute to the provision of high-quality global audit services. These programs provide network leadership with a view of the performance of member firms and are an important tool in educating and reinforcing global policies, and emphasizing the need for continuous improvement.

The execution of a global monitoring program within a network is likely to be easier with the presence of a global audit methodology and other promulgated global policies and procedures. Some networks, however, may choose not to have such global methodologies and policies and, instead, permit each member firm to maintain its own methodologies and policies that each comply with International Standards. A network without global methodologies or policies can still execute an effective global monitoring program by, for example:

- issuing appropriately tailored instructions for the operation of the program, such as establishing the global network benchmark for the program;

- using suggested monitoring materials provided by the global program (for example, materials based on ISA and ISQC requirements); and

- requiring reporting of results back to the global management of the network.

3. The Overall Approach to Monitoring Programs

A globally coordinated monitoring program is likely, in any one year, to combine monitoring reviews performed by member firms using their own resources and monitoring reviews of member firms led by—and performed in full or in part by—centrally identified resources from outside the member firm (see Resources and Costs for further discussion regarding "central" resources).

For the purposes of this paper:

- international monitoring reviews are internal reviews that are performed on a member firm within the network by one or more reviewers from outside the country of the reviewed member firm selected by the central support team; and

- national monitoring reviews are those performed by a member firm in the network using personnel from within that member firm but normally using the guidance provided centrally.

Considerations for the Overall Approach to Monitoring Programs

There are a variety of approaches that could be considered when determining how to conduct monitoring throughout a network. From the network's perspective, large member firms or groups of member firms, where there is more than one member in a country, might be organized to conduct their own program according to the instructions and guidance issued by the network. This could work as there may be sufficient resources to permit an adequate level of reviewer objectivity. This would not eliminate the requirement, but would likely reduce the extent, of central support team involvement.

Medium and smaller member firms might require a different approach with the review team being identified from outside the firm by the central support team in some years, with other reviews in other years being performed by teams from within the firm.

Some networks might conduct high-level monitoring of some of their member firms. For example, a member firm may be instructed to carry out its own internal monitoring review. The network, through the central support team, may then require one or more international reviewers to either participate as part of the internal review or perform an "oversight" monitoring after the completion of the monitoring review. This approach may be particularly useful for medium or larger member firms of sufficient size to have the resources to implement a national program.

The individual circumstances of a network and its member firms may dictate one of the above approaches, or possibly another approach, as being most suited to an effective program. Whichever way is chosen, it can be useful to include a centrally identified observer as part of the monitoring team. The reasons for including an international observer include obtaining a more consistent and objective assessment of the:

- quality of the planning and execution of the program;

- quality of the monitoring of the elements of the system of quality control;

- quality of the monitoring of the engagements; and

- results of the monitoring and the effectiveness of the resulting action plan.

In addition, the firm being reviewed should be able to benefit from suggestions for improvement and other recommendations from the international reviewer.

A further suggestion that might be helpful in considering the approach to monitoring is applying a minimum international reviewer participation in each member firm review. The level of participation could vary depending on a pre-selected factor or factors, such as the size and risk profile of the practice or its number of transnational audits. Using this approach, although the network's larger member firms may not necessarily need this participation to achieve an acceptable level of objectivity, could have the potential benefit of exposing international reviewers to the monitoring program and processes in the larger member firms, as well as contributing to enhanced global consistency.

4.   Governance Arrangements

Appropriate governance arrangements are a fundamental element of an effective global monitoring program.

Ideas for Consideration

An effective global monitoring program requires leadership from the top of the network's organization. It requires leadership of substance and effectiveness with access to the highest levels of management in the network. It also requires the allocation of appropriate resources both in experience and quantity.

To strengthen the effectiveness of the program to drive improvement, it is important to have those responsible for the global monitoring program reporting the results of the program to the network's global leadership team and/or those responsible for global audit and assurance services.

This arrangement is helpful as a means to, for example:

- communicate the network's commitment to quality, such as tone at the top;

- establish credibility and authority for the program;

- provide leverage on member firms to take necessary corrective actions; and

- deliver appropriate corrective action (for example, sanctions or expulsions).

It further strengthens program effectiveness to have the results also reported to the most senior management board or committee within the network (that is, those charged with overall global management of the network).

While the reporting could take numerous forms, it may take the format of an annual report on the results of the global monitoring program, including analysis of matters identified, recommended corrective actions, follow-up reports on corrective actions identified in prior monitoring, and emerging trends.

Further, reports about the program may also be included within publicly accessible material such as a firm's Transparency Report. However, the nature and degree of detail included within such material would typically be at a higher level (for example, providing an elevated explanation of the program without discussing detailed findings or corrective actions).

Another consideration to entrench the significance of the global monitoring program might be to include it as part of the Risk Management function.

Finally, it is worthwhile to note that ISQC 1 does contain specific provisions related to communicating the results of the monitoring program to senior management at least annually.

5.   Tone at the Top—Management Support

Management support at the international and national levels for the global monitoring program is critical for an effective program. Ideas for how management support might be emphasized are discussed below.

Ideas for Consideration

Management support might be emphasized in numerous ways, including:

- allocating experienced and sufficient resources to support the program;

- mandatory reporting of program results (for both internal and external monitoring review inspections) to management and senior executives;

- initiating and supporting follow-up on agreed actions, which would encompass root cause analysis; and

- supporting the program with messages from firm and audit leadership about quality in general, as well as stressing the importance of the program.

Setting the appropriate tone at the top contributes to setting "tone in the middle" with those who are responsible and important drivers of audit quality on a day-to-day basis with the audit process (for example, audit managers).

6.   Resources and Costs

The resource needs to support a global monitoring program are considered below under central resources, regional resources, and costs. Central resources are those reporting directly to the leadership of the

network; they may be full time in a large network or on part-time assignment from an office in a smaller network. Regional resources are those reporting to regional management in a network; again, they can be full time or on part-time assignment at the regional level.

It is important to keep in mind that the design and scope of the program will directly influence resource needs—in the context of "resources" there is no "one size fits all."

Ideas for Consideration—Central Resources

The number of full-time equivalents needed to support the global monitoring program (referred to hereafter as "the central support team") will understandably vary according to the size of each individual network and would be guided by the need to be both efficient and effective.

In addition, the location of the central support team will be influenced by the structure of the monitoring program. Options may include the network's international office or in the national office of a large member firm.

Responsibilities of the central support team may include:

- development and dissemination of policies, procedures, and instructions to member firms with regard to internal monitoring processes;

- devising the annual program for the monitoring, including determining when it should involve reviews of personnel from outside the firm;

- development and delivery of review team training;

- organization of resources, including assignment of reviewers to monitoring visits;

- development of root cause analysis processes;

- review of the internal member firm results, and globally coordinated monitoring and external inspections and root cause analysis, and the resulting action plans from each member firm;

- follow-up on implementation of action plans;

- preparation of an annual report on results of internal and globally coordinated monitoring and external inspections for reporting to the relevant governance group;

- recommendation of corrective actions to the appropriate governance body; and

- any other responsibilities that the network considers helpful in achieving the central support team's mandate.

In order to have an effective global monitoring program, it is important that the central support team have excellent communication capabilities as these programs, in addition to being an important professional function, can be a logistical challenge.

As such, an emphasis on clear instructions, timely and effective monitoring team training, and facilitating prompt communication and logistical planning between monitoring teams and member firms contribute to all participants focusing on important professional aspects of the program.

Clear written policies addressing topics such as the administrative aspects of the program, advance planning requirements, travel policies, accommodation, and cost reimbursement contribute to minimizing potential misunderstandings and assist setting the desired tone for the program. As discussed later, effective communication also extends to ensuring that member firms subject to monitoring fully understand how results of the program will be reported and applied.

It is important that the central (or regional) support team have direct involvement in some or all of the monitoring reviews. The extent of this involvement can vary from performing or leading a review, to involvement as a review team member or to attending the final closing meeting for a review. The extent of this involvement and the locations where this involvement occurs will be a matter of judgment by the central (or regional) support team, and will likely take account of factors such as the size and risk profile of the member being reviewed, the pre-review quality assessment of the controls at the firm, and the review team's experience.

Central or regional involvement is important for several reasons, including enabling the central support team to:

- drive consistency;

- more effectively assess monitoring teams' performance;

- more effectively assess member firms' performance; and

- provide useful input for design of the subsequent year's instructions and tools.

Ideas for Consideration—Regional Resources

The rationale for regionalizing the monitoring processes and adding regional resources will vary and depend upon the individual firm and network. However, reasons may include:

- the availability of the necessary language skills for a particular region;

- permitting smaller individual member firms to exchange reviewers with other countries in the area as opposed to conducting their own program—with some degree of international reviewer oversight— or having international teams conduct the program (these approaches promote greater reviewer objectivity and have the potential benefit of being cost effective); and

- resources located closer to the member firms generally have better knowledge of the member firms' operations, operating environments, and risk profiles. Additionally, regional resources can often more easily monitor action plan implementation.

While regionalizing can offer benefits, it is important to ensure that potential risks are sufficiently mitigated in the regional program's design. For example, a possible familiarity risk could be present where member firms within a network region work so closely with each other that it results in compromised reviewer objectivity.

If regionalizing is considered an effective approach for the review program, then a suggestion is to organize at least one or more physical meetings each year between the central support team, regional resources, and other key individuals or groups involved in the program. These meetings can provide an opportunity to

discuss issues associated with the program, such as potential improvements to the program approach or tools, specific member firm matters, and other related topics.

Ideas for Consideration—Costs

Costs for the central resource and the out-of-pocket expenses for international reviewers could be met via different models influenced by numerous factors such as the program's design and network size. One approach could be for costs to be met from the budget of the international network. Equally, regional resources could be met from either international or regional budgets.

Other possible models include:

- the international network not reimbursing the member firms for the time costs of those member firms when fulfilling the role of international reviewers, with these costs instead being absorbed by the reviewer's firms (this approach is unlikely to be effective as firms will be unwilling to make individuals available to participate);

- calculating the aggregate time and out-of-pocket costs for the program and levying each member firm a proportion of these costs relative to some agreed measure (for example, their revenues), member firms could then contribute either reviewer time and/or a cash contribution equal to the amount of their assessment;

- having the reviewer charge time and expenses centrally and having the coordinating team charge the firm being reviewed at a different amount based on factors such as high travel costs; and

- having regional rates agreed upon and costs to be covered directly by the firms being monitored.

7. Instructions

A well-designed global monitoring program can have many components, the nature of which will be influenced by the environment and individual circumstances of the particular firm. There is no "one-size-fits-all" solution. However, suggested areas to consider are set out below. The end product should be a comprehensive set of instructions to each of the network's member firms. These instructions should have the objectives of:

- setting minimum requirements for monitoring programs for all member firms;

- describing the role of individual firms, and the central and regional teams, in producing a globally coordinated monitoring process;

- establishing responsibilities and providing instructions to all individuals participating in the monitoring process; and

- providing member firms and/or review teams with the tools to run an effective program.

The results of any external inspections (see also External Inspections) should be incorporated into the design and planning of the internal monitoring program. The overall program for a network can benefit from consideration of general points raised in external inspections, while the inspections of individual firms would benefit from consideration of those matters as well as from any matters raised in external inspections of that firm. Awareness of the matters raised in external inspections (and any related discussion about, for

example, national, regional, or global trends, nature of matters, and root cause analysis) can only provide a valuable complement to the planning and executing of the monitoring program. The instructions could usefully require the reviewers to assess the appropriateness of responses to any external inspection recommendations made since the last monitoring visit.

As part of minimum standards for firm monitoring programs across a network, it is important to provide, where relevant, additional instructions to national firms directing them to consider whether any further material (such as additional procedures or questionnaires or extended scopes) needs to be added to the centrally provided material to satisfy national professional standards and related national external monitoring requirements.

The core requirements for instructions for globally coordinated monitoring are similar to those for firm monitoring. These requirements are discussed in the Appendix to this paper (see Ideas for Consideration—Instructions).

8. External Inspections

Ideas for Consideration—Coordination with External Inspection Processes

External inspection refers to inspections that may be performed with respect to a national practice by the relevant regulatory body in that country or by a regulatory body outside of the country but authorized to conduct inspections in the country. Generally, national practices will need to coordinate their internal monitoring program with the external inspection processes.

In some jurisdictions, the external inspection process may rely to some extent on the internal monitoring program of the firm (for example, the external inspection program relies on the results of the internal monitoring by reviewing the firm's processes and controls, observing the internal monitoring as well as some independent testing of engagements and the quality control system).

The external inspection program and resultant reports provide a valuable objective source of information to complement planning and evolving of the internal monitoring process. External inspections offer insights with respect to not only the areas that are seen as causing most concern to regulators, but also those that may get the most attention from regulators in future inspections. The inspection reports, of firms who are subject to a monitoring review, are particularly important in helping guide the emphasis to be given to areas in that review. The actions taken as a result of recommendations from external inspections can also be useful areas for attention in a monitoring review.

As alluded to elsewhere in this paper, it would be very beneficial in most (if not all) cases to require that a firm's national practice report on the results of any national external inspection processes be included as part of their reporting to the network for review and follow-up action(s).

Although the number of countries with external inspection processes has increased substantially in recent years, there are still many countries where there is not yet any external monitoring or where the external inspection processes lack rigor. In cases such as these, the globally coordinated review process is likely to require more, and perhaps more frequent, involvement from personnel from outside that country. It may also require greater attention to action plans as it is possible that the necessary changes to comply with International Standards will be more extensive and more difficult to implement as national standards or practices do not conform to International Standards.

9.   Use of Technology

The use of technology can significantly enhance the effectiveness and efficiency of a global monitoring program.

Ideas for Consideration—Use of Technology

Identifying and implementing appropriate technology to support a global monitoring program can present challenges where member firms use different IT platforms and different audit methodologies. However, technology can provide useful tools to support global monitoring programs. Internet-based tools are one option—for example, enabling reviewers to complete and document their reviews via web interface, which populates a database available to the central support team. This permits immediate aggregation of the detailed results of all engagement reviews performed globally and the subsequent manipulation and analysis of the results of the reviews.

Where a firm has an automated client tracking and risk profile system, there could be opportunity to enable some form of real-time access by the central support team to select specific engagements for review based on prepopulated characteristics assigned to each engagement.

Electronic questionnaires permitting direct input of answers and recommendations that are emailed to the central support team are, in today's environment, a seemingly simple, yet potentially resource-efficient use of technology. This can also provide opportunity for stronger control over information management, for example, the ability to delete redundant data at the central level.

Some further potential benefits from the effective application of technology can include:

- improved consistency of approach and assessment among reviewers (see also Other Matters regarding data-protection issues regarding removal of material from a particular jurisdiction);

- less administrative time and resource at national and international levels to accumulate detailed statistics; and

- ability to electronically tailor questionnaires according to engagement-profile characteristics. For example, if an engagement is indicated as a multinational engagement, related questions can be included regarding instructions to participating offices and reporting received from participating locations. If the engagement is not indicated as such, these questions are automatically excluded.

10.   Evaluation of Results

Ideas for Consideration—Evaluation of Results

At the completion of each review, an evaluation should be made. The overall approach is similar to the approach taken with an evaluation of a firm-level review. The Appendix sets out possible approaches for an engagement review at firm level; this can be adapted to apply to the overall evaluation of a monitoring review of a firm or office.

In a globally coordinated monitoring program, it is important to see that evaluations at firm level are made consistently; assuring this is an important role for the central coordinating team through involvement in individual reviews and reviews of reports.

Although obtaining a satisfactory, or unsatisfactory, overall evaluation is important in assessing the effectiveness of controls in place, the evaluation also leads to the need for action plans and for their monitoring, particularly where a firm or office has been evaluated as unsatisfactory. As indicated elsewhere, the provision of help is an important part of the process of improving the network's overall performance standard. The process whereby this help is provided will vary from network to network.

Where a member firm is evaluated as unsatisfactory and the member is unwilling or, even with help, unable to make the necessary improvements in a reasonable timeframe, disciplinary action may need to be taken. Again, the approach will vary according to the policies of the network but could include dismissing the member from the network.

11. Other Matters

A general listing of several other areas or ideas for consideration for a globally coordinated internal monitoring program follows.

Ideas for Consideration—Privacy, Confidentiality, and Document Retention

In certain jurisdictions, privacy laws may prohibit the sharing of engagement or individual specific inspection results outside the country. Such constraints may have implications on a globally coordinated monitoring program. Each country's concerns need to be considered separately and, in some circumstances, may mean that only summarized and non-client-identified information is supplied from the country to the central coordinating team. There may also be some constraints on the use of personnel from other countries on review teams. These issues will require advance planning to reduce their significance to a minimum.

While this could be influenced by national/local professional requirements, in order to protect client confidentiality, it may be useful to have a policy or instructions regarding document retention of, for example, engagement-review questionnaires. Examples of these requirements include a requirement that:

- all notes, drafts, and other documentation pertaining to the monitoring be destroyed by the review team at the completion of the monitoring and delivery of an approved report.

- only a specified partner, such as the Quality Partner, maintain any documentation related to the monitoring.

- all documentation (paper and automated) of the monitoring, including the overall report, be destroyed no later than the end of the following year (that is, a monitoring program covering audits completed by December 31, 200X, would require destruction of documents related to the program no later than December 31, 200Y).

Ideas for Consideration—Language

Adequacy of language skills can often be a challenge for global monitoring programs. This can be particularly acute for those countries where the relevant language is predominant only in the country subject to monitoring. Oftentimes, the only international reviewers available with requisite language skills are partners or managers who are currently on expatriate assignments outside of the country being reviewed.

Sometimes, the most pragmatic and realistic solution in these cases might be to use local partners and managers to provide translation support to the review team. Where possible, the use of online translation

software might also assist in the right circumstances—typically to understand basic words or phrases. It would not normally be appropriate to apply such software for technical audit/accounting translations. Further, sensitive client-related data would typically not be processed in this way as it could unintentionally result in the transmission of work papers outside of the jurisdiction.

Ideas for Consideration—Coordinated Reviews of Multinational Engagements

Coordinating multinational clients' engagement reviews across several national member firms is possible though potentially challenging. Harmonizing requests to national practices to review specific clients in a particular year with the national practices' general requirements (for example, the requirement to review every partner once every three years or other risk-based selection criteria) is generally difficult.

Ideas for Consideration—Reliance on the Work Performed by Member Firms

A globally coordinated internal monitoring program is a pre-condition for any reliance on the work of another network member when performing a multinational audit. However, it does not remove the need to assess each individual engagement, document that assessment, and to perform review or other work as required by ISA 600 and as appropriate.

Ideas for Consideration—Expansion to Other Disciplines and Functional Areas

The approach and methodologies used for the assurance practice monitoring program could be applied to other disciplines within the network (for example, tax and advisory services) or the development of a specialized review process using the same concepts to perform in-depth reviews of certain functional areas such as Human Resources, and Education and Training.

Overall Considerations for Internal Monitoring Programs

As indicated above, there are many considerations relating to the development of monitoring programs within firms as required by ISQC 1, which apply overall to a globally coordinated monitoring program within a network. The establishment of a global program may lead to changes in the programs within individual member firms as firms conform their approaches to those suggested or required by the network.

This Appendix sets out considerations for internal monitoring at the firm level. The considerations set out below are likely to apply equally to the monitoring reviews at the firm level as to those done as part of a globally coordinated internal monitoring program.

1.   Review Teams

Ideas for Consideration—Identification of Monitoring Leader

Assigning responsibility for the monitoring process to a partner(s) or other person with sufficient and appropriate experience and authority is important. The responsible partner(s) would have numerous responsibilities, including selecting reviewers to perform monitoring procedures and nominating reviewers to participate in any international monitoring organized by the central support team (see also Qualifications).

A useful tool might be a central support team database of international reviewers that includes, among other things, the reviewer's technical skills (for example, industry specialization), language skills, and possibly even the reviewer's availability throughout the monitoring cycle to facilitate the planning and scheduling.

Ideas for Consideration—Qualifications

It is not uncommon that partners (or their equivalents) be both team leaders and team members, while managers or senior managers are generally used as team members—noting that the exact review team composition will be influenced by the specific design of the monitoring program.

Qualifications for reviewers may be influenced by the structure and mandate of the review team. However, qualifications that contribute to the monitoring team's objectives can include prior monitoring program experience or experience in a technical department or similar role. Some further factors that may be considered when assessing the requisite skills of team leaders include:

- current involvement in delivering audit services (including international audit services);

- excellent knowledge of audit methodology and professional standards (national and international GAAS/GAAP);

- appropriate experience;

- language skills;

- industry knowledge;

- communication and coaching skills; and

- satisfactory results on any engagements subject to internal monitoring.

Professionals selected to serve as team leaders need to be of sufficient position/stature and experience in the network to be able to challenge, for example, the engagement partner (and the engagement team's performance) and potentially also local firm management for example, if review findings highlight an issue at the firm level rather than engagement level).

Team leaders and review team members benefit from receiving relevant training with respect to the monitoring program, which can involve a mix of approaches (including classroom instruction or distance learning programs or self-study of instructions and other materials).

Greater investment of time and resources into reviewer training contributes to not only meeting professional standards with respect to training but also assisting firms and networks in achieving greater consistency. This can be particularly important from the perspective of the network in order to achieve an objective view of the quality of audit services delivered by member firms.

Ideas for Consideration—Objectivity

The objectivity of reviewers is integral to the program. Objectivity can be achieved only when team leaders and team members do not have any family or other relationships with partners, directors or managers of the office or national practice being reviewed.

Further, reviewers who have worked at any stage on the same client or group that is being reviewed can impact objectivity due to potential personal familiarity risk. As mentioned earlier, the regional organization of inspections can bring some benefits, such as language;—however, this can also result in an increase in familiarity risk.

Ideas for Consideration—Appraisal of Reviewers

Something that can be a useful performance indicator is creating linkage between the participation by a reviewer in the internal monitoring process and their performance appraisal within the firm. One way to do this can be by requiring a performance appraisal to be completed for the reviewer, reflecting their participation in the monitoring as would be done for a client engagement. This appraisal could be considered along with others in the individual's annual overall performance appraisal.

Such approaches can be beneficial as they recognize the individual's important professional contribution and also demonstrate that the firm rewards efforts to improve audit quality. Such messaging would also be useful as a signal to member firms and would offer the potential to further coach and encourage the development of future reviewers, while helping to maintain a quality pool of reviewers.

As a starting point, reviewers might be appraised in the following areas:

- Technical competence;

- Judgment;

- Written expression;

- Teamwork;

- Dealing with others;

- Character and conduct; and

- Any other areas that are relevant to the design and nature of the firm's program.

2. **The Internal Monitoring Approach**

Ideas for Consideration—Instructions

The format and content of instructions for a firm within a network are likely to vary according to the structure of the network and the manner in which network or firm policies are established. In general, in developing instructions for a program within a network, it may be useful to consider the following:

- Background;

- Governance;

  ○ Objectives of the global program (including statements that the global program is designed based on the requirements of ISQC 1 with respect to the monitoring element of the firm's quality control system and obligations of the Forum);

- Minimum monitoring program requirements, including an indication for each member firm as to the approach to be taken for their internal monitoring:

  ○ National monitoring program (with or without international reviewer participation);

  ○ International monitoring;

- The overall timeline for the global monitoring program;

- Responsibilities and instructions for all individuals participating in the monitoring process;

- Guidance for monitoring planning and logistics;

- Required evaluation of the elements of the system of quality control (including questionnaires for evaluation of the system);

- The approach to analyzing the root causes of any findings;

- Engagement review questionnaires; and

- Templates for:

  ○ Planning meeting agendas;

  ○ Closing meeting agendas; and

  ○ Reports and Action Plans.

Ideas for Consideration—Use of Questionnaires

Two tools that are normally used as part of the monitoring program are a standard questionnaire combined with suggested compliance tests for the system of quality control (see Testing the System of Quality Control) and engagement review questionnaires. These tools can be used for firm reviews and as part of a global monitoring process.

As an example, a participating firm can develop a standard audit engagement review questionnaire based on the firm's audit methodology and related firm policies and procedures. There are a variety of approaches that could be utilized for these questionnaires, which could then be amended in approach from time to time to maximize effectiveness. Further, the tool/template could also be used in the member firm as an element of its ISQC 1 monitoring.

In reviewing an engagement, a reviewer needs to conclude whether the engagement has been performed in accordance with firm and professional standards (for example, the audit has been performed in accordance with ISAs).

The key challenge in designing an effective questionnaire is to create a questionnaire that appropriately covers all significant requirements embodied by the firm's audit methodology and other policies and procedures, and yet is not excessively/unnecessarily complex or lengthy. The effectiveness of a questionnaire can generally be enhanced if it can be designed in a manner to elicit as much constructive feedback from the review team as possible for the benefit of the engagement team and those charged with governing the program.

The growing complexity of the audit environment and requirements of professional standards can understandably result in audit engagement questionnaires being detailed documents, which require the reviewer to consider a large volume of questions in order to be able to conclude on the engagement's compliance with all relevant professional standards.

It can be helpful to include supplemental industry questionnaires (for example, banking, insurance, real estate, extractive industries) or perhaps specialized questionnaires for inbound/outbound referred work.

There are options as to how the questionnaires might be answered by the reviewers, including a "Yes/No/Not Applicable" format. In this approach, the reviewer is required to conclude whether the engagement team complied with the relevant methodology point or professional standard. "No" answers would generally require further commentary, explanation, or recommendation by the reviewer and a response from the engagement team.

An alternative option for answering the questionnaire is use of a graded approach (for example, "Satisfactory," "Needs Improvement," "Unsatisfactory," and "Not Applicable." This approach might be useful as, for example, the "Needs Improvement" category would permit or possibly encourage more constructive criticism from review teams on relatively minor points, and therefore facilitate potentially more useful feedback to engagement teams. In this approach, "Needs Improvement" and Unsatisfactory" responses would typically be aided by requiring commentary, explanation, or recommendation by the reviewer and a response from the engagement team.

With respect to overall conclusions in an audit engagement questionnaire, it is not uncommon to apply a "Yes/No" conclusion on a set of questions that could be phrased, for example:

- Was the engagement performed in accordance with the applicable generally accepted auditing standards and the firm's audit methodology?

- Were the financial statements presented in accordance with the applicable generally accepted accounting standards (for example, the quality of financial statement presentation and disclosure)? and

- Was sufficient audit evidence gathered and documented to support the report issued?

An approach to consider for the questionnaire is employing a comprehensive set of flowcharts of the overall monitoring process as well as testing the system of quality control and engagement reviews. This can provide review teams, as well as the firm being reviewed, with additional clear instructions and guidance on the conduct of the review.

In addition, it can be very useful to consider providing comprehensive grading guidance to review teams as part of the instructions issued by the network. Such guidance can be an invaluable tool, enhancing consistency and clarity. Such guidance could also reveal possible fact patterns for each question in the questionnaire and then describe how a reviewer might assess the particular answer for that question. Some examples of a fact pattern might include:

Question: For a new client, evaluate the client acceptance procedures performed prior to acceptance of the client.

Example reason for a "Needs Improvement" grade:

- There exist minor documentation deficiencies; however, the reviewer can conclude that an appropriate client acceptance evaluation, including consideration of independence, appears to have been made.

Example reasons for an "Unsatisfactory" grade:

- No evidence (written or verbal) that client acceptance procedures were performed indicating that risks were not properly considered or evaluated;

- Lack of consultation with prior auditor;

- Missing approvals for the client procedures performed.

Such guidance could help reviewers by offering suggestions to further support their assessments and possibly assist in discussing matters on reviewed engagements with the engagement teams. Additionally, the guidance could contribute to assisting in providing some consistency in the assessment and grading across the network.

Another potentially useful tool to assist the review process is having some form of database of common findings and recommendations, which can be used by reviewers as a resource when preparing their report to a member firm. One advantage of this type of resource is that it could assist in reducing duplication of effort by capturing the previously effective solutions for the benefit of the organization. A further advantage can exist for those networks trying to accumulate, classify, and report on monitoring findings.

Like many tools, there may need to be some appropriate cautions exercised with their usage. Some might argue, for example, that questionnaires potentially inhibit creative thinking on the part of review teams or encourage the perception that the internal monitoring is simply a "box-ticking" exercise. Similarly, a potential concern with using a database of findings is that it may not encourage recording of unique facts and circumstances that might further enhance understanding for a finding or result in less-impactful/original boilerplate reports.

However, when applied in the manner in which they were designed (for example, as an "aid" to the reviewer) with the understanding **that nothing replaces the reviewer's professional judgment,** tools such as questionnaires and databases can offer the opportunity for a positive contribution to the monitoring process.

A key factor is that reviewers appreciate having the additional guidance and support materials while performing their monitoring and in the preparation of reports and recommendations—with those reports and recommendations being of a higher quality because of, for example, their increased consistency/comparability.

Finally, two further important considerations are:

- International Benchmark: In making an evaluation, it can be argued that it should be done taking account of the normal practices in the country under review. This would be a false basis. The objective of the review is to assess whether the reviewed practice is performing audits in accordance with International Standards. This requires a common benchmark across all countries. Where normal practice has to be taken into account is when considering suggestions for improvement and in constructing an action plan. When a practice falls short of both national and International Standards, and when those standards are substantially the same, it is easy to indicate that it should comply with national standards. Where there are no national standards or they fall short of International Standards, care will need to be taken to suggest how best to change without causing unnecessary marketplace difficulties to the firm.

- Culture: In a globally coordinated monitoring program, it will be necessary to consider differences in culture to minimize the chances of them becoming a major obstacle in the overall program. In certain countries, concerns about "loosing face" can make it difficult to communicate deficiencies in an effective way. This may be expressed as a reluctance to receive criticism in writing. This should be recognized, but it should not allow departure from a realistic evaluation of performance. It may need more care in drafting conclusions and may require putting greater emphasis on suggestions for improvement and the help that can be provided.

Ideas for Consideration—Timing

While the timing for internal monitoring programs can vary, it is not uncommon for programs to run from approximately May until October each year with an aim to produce a global report by December 31. Whatever overall timing is chosen, a useful and practical consideration is the avoidance of an individual firm's busy season recognizing that these busy periods will not be identical across the network.

Additionally, it is important that internal monitoring programs are completed in a timely enough manner so that any corrective actions necessary can be implemented prior to the following year's engagements being conducted to avoid repetition of findings from year to year.

Ideas for Consideration—Scope

It can be useful for all services delivered by the firm's assurance practice (or beyond) to be included within the scope of the monitoring program. Examples include:

- Financial statement audit (ISAs);

- Review Engagements (International Standard on Review Engagements [ISRE] 2400); and

- Agreed-upon procedures regarding financial information (International Standard on Related Services [ISRS] 4400).

It should be noted that ISQC 1 requires that a firm's monitoring process cover audits and reviews of historical financial information, and other assurance and related services engagements.

Ideas for Consideration—The Internal Monitoring Process

Regardless of whether the national or international monitoring approach is used, each can be organized in a similar fashion. This section offers ideas for consideration for the overall process that can be followed for monitoring. Further discussion of some of the detailed aspects of the monitoring process follow in the subsequent sections. As alluded to throughout this paper, there is no "one-size-fits-all" approach, and as such, the considerations offered below, though presented in a more directive tone, comprise but one possible approach.

- Team leaders generally have a planning meeting with members of the team prior to the commencement of the monitoring to review such matters as the program's objectives, the practice background, and team assignments;

- On the first day of the on-site monitoring, the team leader and in some cases, members of the review team, meet with the management and other individuals of the firm to review the objectives and scope of the monitoring (this is also an opportunity for management to update the review team on developments within the firm and/or report on progress against the previous year's action plan);

- The monitoring itself comprises the review team performing a review of the descriptions and documentation of the firm's system of quality control after which, as with any control, they would perform an evaluation of that system's effectiveness. The monitoring team would also perform compliance tests of such controls to obtain evidence that such controls are operating as designed (see also Testing the System of Quality Control).

- The review team will also select a number of engagements and perform a review of the working papers and applicable report. With smaller monitoring reviews, the review of engagements is likely to be performed by the same individual or individuals who perform the review of overall quality control policies and procedures. Specialist reviewers may perform some or all of the review of overall policies and procedures of larger member firms with a separate team handling the engagement reviews.

- Throughout the monitoring, the review team will normally have discussions with firm management and others with responsibility for areas included in the scope of the monitoring. The review team may also interview partners, managers, and staff to evaluate their awareness of firm policy and resources;

- With respect to engagement reviews, the review team will have specific technical discussions with individuals on the engagement team with regard to the work performed on a particular engagement. The reviewer will need to determine the extent of the review of working papers on the selected engagements. In some cases, it will be appropriate to perform a comprehensive review, while in others a review of selected key documents and high-risk elements of the work will be sufficient;

- In addition, it might be useful to also have some form of advance staff survey as a means to confirm a review team's understanding of how processes are working in the firm and to confirm the management's view of the firm; an

- Closing meetings (at the engagement, office, and firm levels) are an important element of an effective monitoring program. This is the opportunity for the review team to communicate its findings and recommendations to the appropriate management of the office or firm.

Depending on the individual firm, some might find it beneficial to specify those individuals who are required to attend the closing meeting. Examples of such individuals for an international review might include:

- national managing partner;

- national head of assurance;

- national risk management partner; and

- national head of technical department.

The closing meeting can be an ideal opportunity where the applicable reporting and action plan (or at least more immediate actions) can be agreed—acknowledging that, for example, subsequent procedures (for example, root cause analysis) may result in further actions to complement those raised at the closing meeting. As such, action plans could possibly be finalized a few weeks after the completion of the monitoring. In these cases, networks could provide instructions for further communication and agreement between the review team and the firm.

It should be clearly understood at the closing meeting that a key component of the subsequent period's review process will be revisiting the agreed actions from the current review to ensure that what was supposed to happen did in fact happen (or identify what new circumstances caused that to not be the case).

3. Testing the System of Internal Control

There are two main elements of the monitoring process: testing the system of internal control and testing the performance on engagements. This section is concerned with testing the system of internal control. The follow section discusses testing performance on engagements.

Ideas for Consideration—Testing the System of Quality Control

The monitoring provisions of ISQC 1 require a firm to review the effectiveness of its quality controls on a regular basis. The globally coordinated monitoring process would build on this requirement. A questionnaire, which can be used for monitoring reviews by teams consisting of reviewers from within the firm as well as those managed by the central review process and led by partners from outside the firm, is one way of supporting these monitoring requirements.

Most networks reflect ISQC 1 by requiring each member to maintain documentation of its policies and procedures with respect to each element of a system of quality control. In support of this, it can be useful to require a member firm to have this documentation available for the review team at the commencement of the monitoring. As noted in the Instructions section above, monitoring instructions include suggested compliance tests of systems of quality control.

An effective approach for testing the elements of the quality control system requires a good understanding of the organization's practice and responsibilities that have been assigned within the firm, including whether any responsibilities have been assigned at a higher level. However, the overall objectives of the review will be the same whatever the size and complexity of the element of the network being reviewed.

In some networks, some policies and activities will have been centralized above the firm level. This will need to be taken into account when determining the approach to the review. Some networks have set policies at the network level, and others have centralized certain activities such as Human Resources, and Ethics and Independence functions.

Where policies have been set above the firm level, the review of those policies can be effectively performed at the higher level, but compliance with the policies will need to be tested at the firm level.

If firms or networks have centralized certain functions, compliance tests in these areas at the office level would be likely to be reduced or even eliminated. Instead, and in this particular context, a more effective approach could be to send specialized teams to a network or firm's national Human Resources office to conduct the monitoring of the controls in this area. Doing so could have numerous benefits, including improved cost effectiveness, permitting the use of specialized teams, and greater focus to the monitoring procedures in this area.

Additionally, it could also benefit the office-level monitoring as it permits more time for engagement reviews and compliance testing of other overall quality controls (for example, client acceptance and retention procedures).

Numerous approaches can be used when performing tests of the system of quality control. Compliance tests, similar to those which would be performed on an audit, would normally be the central element of this work. The tests would be likely to cover all the main elements of audit quality control as set out in ISQC 1.

Compliance tests should cover the elements of quality control set out in ISQC 1, the overall policies and procedures, leadership responsibilities, ethical and independence requirements, acceptance and continuation of clients, human resources including adequacy of personnel, recruiting, personal development and assignment, evaluation of personnel, and the overall policies and procedures for the performance of engagements. Testing of the operation of policies and procedures would normally be done by examination of original documents, examination of control schedules, and discussion with individuals responsible for the procedures in a similar fashion to that used on an audit. The extent of the testing would be a matter of judgment for the reviewing partner, assisted by guidance in the instructions or other guidance material.

Some have found it helpful to support compliance tests with the use of the interviews or focus groups. One option can be for review team members to meet with one or more professional staff members to inquire about a variety of topics, which might include—though not be limited to—the following examples:

- Attitude of firm leadership to quality (as discussed earlier in this paper, tone at the top is critical for an effective review program);
- Knowledge of firm policy and professional standards;
  - Independence; and
  - Client and engagement acceptance procedures; and
- Access to firm and professional resources;
- Consultation and dispute resolution processes;
- Training opportunities and the relevance of those opportunities;

- Work pressures;

- Appraisal processes; and

- Assignments.

Focus groups can be effective as they offer the potential benefits of, for example, providing the review team an additional depth of understanding about the attitude and knowledge of the partners and professional staff regarding firm and professional standards. This process can also benefit by either, for example, corroborating other compliance tests of the system of quality control or identifying certain areas where the review team may want to perform additional procedures.

A further idea for consideration, as part of a firm's global monitoring program instructions, is providing suggested interview questions for specific personnel within the firms. The following are examples of topics that might be raised during interviews:

- Managing Partner:

  ○ Tone at the top;

  ○ Professional Indemnity Insurance (PII)/Litigation;

  ○ Firm structure, growth, new services, client development;

  ○ Partner appraisal and remuneration; and

  ○ Professional matters including, legal and regulatory environment, licensing; and

- Head of Audit and Assurance:

  ○ Tone at the top;

  ○ Quality, risk policies, and procedures;

  ○ Training;

  ○ Partner/Manager appraisal; and

  ○ Independence; and

- Head of Technical Department:

  ○ Tone at the top;

  ○ Consultation system;

  ○ Updates of manuals, technical bulletins, practice aids; and

  ○ Guidance materials and libraries;

- Professional staff:

  ○ Tone at the top;

  ○ Risk management procedures;

  ○ Independence;

- ○ Recruitment and advancement;

- ○ Professional development;

- ○ Assignment to engagements;

- ○ Consultation; and

- ○ Supervision of engagements.

Another idea to aid review teams on the number of professional staff to interview is to offer some indicative guidelines for the number of interviews that could be performed, though the final determination will also require the exercising of professional judgment. An example used by one network looks like this:

Staff size	# of interviews
< 25	4
26-50	5
> 50	6-8

It is normal for the system of quality control to be subject to monitoring procedures at the same frequency as that selected for engagement review procedures as discussed below. However, there may be examples that may require an adjustment to this approach. One example of this would be the need to follow up specific findings from a prior monitoring.

4. **Engagement Reviews**

This section is concerned with the second principal area of a monitoring review—reviewing compliance with policies and procedures on individual engagements.

Ideas for Consideration—Engagement Reviews

A firm can establish the frequency of engagement reviews based on whatever factors it feels most relevant to its circumstances with one approach being the desired coverage of individual partners. It is not uncommon to require each partner to be reviewed at least once every three years (and it is worthwhile noting that ISQC 1 discusses, in the application guidance, that monitoring cycle policies and procedures may, for example, span three years).[2]

The combination of the frequency of partner review and the size of the member firm then typically indicates the frequency of engagement reviews within the member firm itself. For larger member firms, engagement review procedures are performed each year and cover approximately one-third of the partners such that all partners are covered over three years. For medium or small member firms with fewer numbers of partners, the frequency of engagement review procedures could be reduced to once every two or three years while still achieving the requirement to review each partner at least once every three years.

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[2] Further, while not necessarily related directly to engagement selection in the context of this paper, another consideration that could be useful is requiring partner candidates to be reviewed in the year prior to their possible admission to the firm partnership.

For some firms, an additional step that can be considered for review coverage is to establish a minimum number of engagements to be reviewed or a minimum percentage of engagement hours that must be reviewed over a specified period (for example, the program has a goal of reviewing 10% of total engagement hours over three years). While the usefulness of this approach will depend on the individual firm, a thought to consider is that the review of each partner at least once every three years, and selecting a sample of engagements using engagement attributes as discussed below, may obviate the need for these additional review requirements, as the firm may already be obtaining appropriate coverage.

In addition, it can be useful to provide guidance on the average amount of time it should take to review an engagement (noting that this and the amount of follow-up work/discussions flowing from the review findings).

It can also be a very useful practice to establish criteria to guide the selection of engagements from a risk management perspective. Examples of criteria to help achieve a risk-based approach can include:

- new clients or engagements;

- engagements for public interest entities;

- engagements involving cross-border offerings (public or private);

- engagements for other higher-profile entities;

- engagements designated as higher risk by the risk management function;

- engagements not considered typical for the industry expertise of the office or practice being reviewed;

- engagements for companies that are listed in other jurisdictions;

- multinational engagements;

- letterbox audits;

- audit engagements for financial statements prepared using International Financial Reporting Standards (IFRS) where national standards are different;

- a small- or medium-sized member firm conducting or acting as a component auditor on transnational audits where the parent company is not a network member;

- largest clients by audit hours incurred or annual revenues or assets at year-end;

- audits where the firm issued a modified opinion for the most recent financial statements;

- clients that generated fees that are more than a certain percentage of the firm's net revenue; and

- those audits that were subject to an [engagement quality control review](#).

In some cases, it might be useful for the firm to involve specialists in the engagement review process including personnel with specializations such as tax, information technology or actuarial science, as well as those with industry skills relevant to the practice.

There might also be a desire to introduce an "element of surprise" into the engagement review process. By its nature, logistical considerations for the review process will require some advance notification to engagement teams in order that the relevant work papers are available to the monitoring team at the

appropriate time or that appropriate access to electronic files is granted to the monitoring team. An approach which could be helpful in this context might be identifying only a few engagements in advance in order to ensure that the review team can commence their procedures on the first day of the review and then select the remaining engagements once the monitoring has commenced. An alternative is to select more engagements than will actually be reviewed and narrow down the selection when on site.

A further possible feature to consider is incorporating an anonymous reference number or letter for each engagement (for example, "A," "B" and "C"). By not referring to a client by name when reporting the results of a review, leaving the list with names with the firm being reviewed can help to further protect client confidentiality.

To aid an effective review process, it can be useful, as part of the planning, to provide member firms with advance knowledge of review conclusions that could result in corrective actions. Further, it can be useful to provide advance explanation to member firms about what types of corrective action are available to reviewers. (See also Evaluation of Results, Reporting and Corrective Actions).

5.   Evaluation of Results, Reporting, and Corrective Actions

On completion of the main work, it is important to focus on the reporting of the results and on the corrective action that is appropriate. This section considers how to make the summarization of results more effective by the use of root cause analysis and the reporting process, preparation of action plans, and the nature of corrective action that might be appropriate.

Ideas for Consideration—Root Cause Analysis

Although root cause analysis is not required by ISQC 1 or other standards, it is now viewed by many as an essential component in a monitoring program—offering a means to systematically assist identification of the root causes of any findings identified by the review program. The support for this approach is illustrated by the statement in the IAASB's Framework for Audit Quality, which states that:

"in demonstrating a commitment to continuous improvement, audit firms can usefully undertake root cause analysis in response to findings from internal and external inspections in order to identify any systemic issues, and respond accordingly by taking actions to improve their methodologies and processes."

It recognizes that matters identified by a monitoring program may be symptoms of an underlying problem rather than the problem itself. The analysis would give focused attention to identification of the root cause, the addressing of which would remove the problem-fault sequence and therefore stop future recurrence of the triggering finding(s).

The significant potential benefits of being able to better understand review findings by identifying their root cause(s) justifies investment in training for reviewers in this evolving facet of a firm's overall quality control program.

Ideas for Consideration—Reporting and Action Plans

It is important to recognize that in addition to making an assessment of performance against standards, the monitoring process is designed to provide a basis for continuous improvement. Accordingly, a key element of an effective monitoring program is the preparation of the report on the results of the program and the

preparation of an overall action plan (which encompasses root cause analysis) to address any areas for improvement identified during the review. It is important that deadlines be established and enforced with respect to the preparation of these documents.

Where the results of the review indicate a significant shortfall compared to standards, it is beneficial to consider what support the network can provide to help the firm improve its performance. In addition to regular monitoring of the action plan, training on relevant aspects of the action plan and provision of outside resources could be helpful.

The timely communication of results to the partners and professional staff is important to reinforce the firm's commitment to quality, provide feedback on overall firm performance and to highlight those areas that require additional attention by partners and professional staff.

Any action plan prepared by a member firm would be periodically followed up, at minimum, during the next monitoring review. Depending on the nature of the actions to be taken by the firm, it may be appropriate to follow up at a date prior to the next monitoring. A thought in this context is that periodic and systematic follow-up on action plans, outside the normal cycle of monitoring, can potentially be a successful tool to encourage accountability in member firms, as well as demonstrating commitment from the international network on matters of quality.

Ideas for Consideration—Corrective Actions

Some examples of review conclusions that trigger corrective actions may include matters associated with non-completion of an appropriate monitoring, less-than-satisfactory monitoring results, serious findings with respect to the relevant GAAP or GAAS, or the quality or timeliness of action plan performance. The nature of the corrective actions will vary dependent upon the context and nature of the issue. However, some examples could be:

- require communication of the findings to specified risk management or quality partners;

- require written response from the engagement partner including plan for corrective action, if appropriate, on the reviewed engagement and future engagements which must be approved by, for example, the office managing partner, risk manager, or others of appropriate authority;

- for significant GAAP findings, consideration of whether restatement or prospective adjustment is required;

- for significant GAAS findings, consideration of whether additional audit procedures need to be performed;

- for documentation findings, consideration of whether additional documentation needs to be added to the work papers (currently dated);

- requiring the review team to perform one or more additional engagement reviews for the engagement partner to assess whether the finding is an isolated incident;

- requiring that the partner be subject to further international engagement reviews in the following year (for example, acceleration of the review cycle) at the cost of the reviewed firm;

- all (or higher-risk) engagements required to be subject to engagement quality control review from outside the national practice; and

- interim visits by the review team to monitor action plans (for example, prior to the next regularly scheduled review) at the cost of the reviewed firm.

As noted throughout this paper, the tone at the top is critical to an effective review program. Such commitment to quality by management is strongly evidenced by the manner in which review findings are handled.

Ideas for Consideration—Linkage of Results with Performance Appraisals

Benefit can be gained by inputting the results of engagement reviews directly into the performance evaluation process for individuals performing the engagements. In this manner, all engagement results can be considered in the individual's performance appraisal and compensation—potentially offering an effective means to demonstrate to professionals within the firm that the firm is committed to quality.