

The Monitoring and Remediation Process: Workshop 6



Technical overview: Agenda

- Monitoring
 - What should be monitored
 - How should the SoQM be monitored
 - Nature, timing and extent of the monitoring activities
 - Ongoing monitoring- SoQM level
 - Ongoing monitoring- Engagement level
 - Periodic monitoring- SoQM level
 - Periodic monitoring- Engagement level
- Evaluating findings and identifying deficiencies
- Root cause analysis
- Remediation
- Quality Improvement Plan

Monitoring

- The purpose of monitoring is to provide the firm with **relevant, reliable and timely information** about the design, implementation and operation of the firm's System of Quality Management ("SoQM").
- This information is used to **assess and take appropriate actions** to respond to findings and deficiencies (as part of the remediation and root cause analysis ("RCA") process).
- The results of the monitoring and remediation process input into the firm's overall assessment of whether there is reasonable assurance that the objective is achieved and the SoQM is designed and operating effectively.

What should be monitored

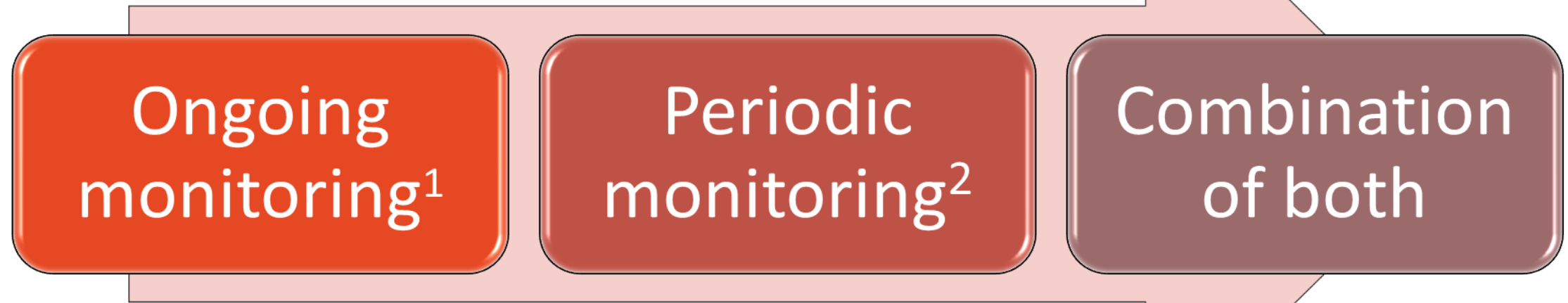
(also see ISQM 1, par 35)

- Monitoring should cover the firm's SoQM as a whole, including:
 - The quality organisation and infrastructure
 - The design and operation of the risk assessment process
 - Design, implementation and operation of the responses identified as part of the risk assessment
 - Whether the monitoring and remediation programmes and processes are achieving its intended purpose
 - How the firm has addressed network resources or services
 - Process for evaluating the SoQM
 - Whether the requirements of ISQM 1 and other relevant standards have been met

How should the SoQM be monitored

(also see ISQM 1, par 36 and 37)

Monitoring comprises:



1. Ongoing monitoring activities are generally routine activities built into the firm's processes and performed on a real time basis, reacting to changing conditions.

2. Periodic monitoring activities are conducted at certain intervals by the firm

How should the SoQM be monitored

(Cont...) (also see ISQM 1, par 36 and 37)

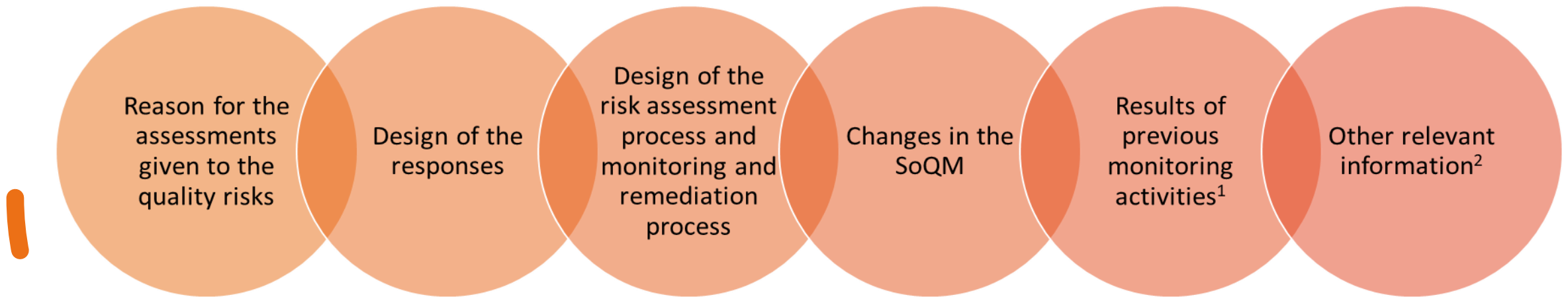
Both ongoing and periodic monitoring activities occur at the engagement level and the SoQM level. The individuals responsible for the monitoring, the frequency that the monitoring occurs and how the SoQM is monitored will vary based on the type of monitoring activity as outlined in the table below:

Type of monitoring	Responsible individual(s)	When monitoring occurs	How is it monitored
SoQM level ongoing monitoring	Business process owner ("BPOs")	Ongoing as designed by the BPOs	Use of Audit Quality Indicators ("AQIs") and performance measures, monitoring activities performed by the BPO
SoQM level periodic monitoring	Quality management self testing team	At least annually Note: it is encouraged that firms consider performing periodic monitoring more frequently to be able to identify findings and deficiencies in a timelier manner	Design and operating effectiveness assessment of the SoQM including the SoQM level ongoing monitoring
Engagement level ongoing monitoring	Real Time Assurance ("RTA") team	Ongoing as designed by the RTA team	RTA dashboard and RTA reviews
Engagement level periodic monitoring	Engagement inspections team	At least annually	Engagement compliance reviews, completed engagement reviews

Nature, timing and extent of the monitoring activities

(also see ISQM 1, par 36 and 37)

The responsible individuals will need to consider:



1. Do previous monitoring activities continue to be relevant and were remedial actions to address previously identified deficiencies effective.
2. 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 and procedures.

Nature, timing and extent of the monitoring activities (Cont...)

(also see ISQM 1, par 36 and 37)

- 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 SoQM, 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.
- In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable and timely information about the SoQM and responding appropriately to identified deficiencies.

Ongoing monitoring - SoQM Level

WHAT	<p>Ongoing monitoring is:</p> <ul style="list-style-type: none">• Performed by the business process owner,• Built into business processes,• Provides timely information on whether the risk responses are operating effectively and• Sufficiently mitigate the relevant quality risks. <p>The BPO will raise issues and follow up as necessary to determine whether corrective or other actions are needed.</p>
Difference to a procedure/ control	<p>A <u>procedure/control</u> responds to a specific risk-intent to detect and correct errors</p> <p><u>Ongoing monitoring</u> assesses whether the procedure/control is operating as intended-why did an error occur+ assign management the responsibility of fixing the process to prevent future errors</p>
Audit Quality Indicators (AQIs)	<p>AQIs are used as part of ongoing monitoring and are:</p> <ul style="list-style-type: none">• Identified by the BPO• Calculated and analyzed at an appropriate frequency based on<ul style="list-style-type: none">• Nature of the AQI• The risk the AQI is related to• Analyzed at a sufficiently detailed level against preset benchmarks and thresholds <p>Leading (predictive/preventive) AQIs are forward looking and focus on identifying potential quality risks before they lead to deficiencies in the SoQM or non-compliant engagements.</p> <p>Lagging (retrospective/reactive) AQIs focus on identified findings and/or deficiencies and should be analyzed as part of the RCA process.</p>

Ongoing monitoring-Engagement Level

WHAT	<ul style="list-style-type: none">• Inspection of in-process engagements is a preventative programme that aims to monitor engagements on a real-time basis to support resolution of questions or matters before they become quality findings and coach engagement teams to consistently deliver quality services. (e.g., reviews that are designed to detect failures or shortcomings in the SoQM so that they can prevent a quality risk from occurring)
Considerations	<ul style="list-style-type: none">• Appoint an individual responsible for the real-time reviews• Assemble the team• Design an effective programme• Assess and enhance the programme on an ongoing basis• Establish information and communication process

Periodic monitoring-SoQM Level

WHAT	<ul style="list-style-type: none">• Periodic monitoring (Self testing):<ul style="list-style-type: none">• Is an objective review,• Is performed by the self testing team,• Is generally not part of the business processes, and• Provides information as to whether the firm's SoQM is designed and operating effectively.
Periodic monitoring programme	<p><u>Considerations:</u></p> <ol style="list-style-type: none">1. Appoint a self testing team leader:<ul style="list-style-type: none">• Appropriately statured, objective, and experienced individual with sufficient skills, bandwidth and resources to perform effective periodic monitoring.2. Assemble the self testing team:<ul style="list-style-type: none">• Enough resources with appropriate competence, capabilities, and bandwidth to support the self testing team leader.3. Plan your approach to periodic monitoring:<ul style="list-style-type: none">• Assign roles and responsibilities• Timing• Obtain an understanding of the firm's SoQM• Design effectiveness testing• Operating effectiveness testing• Collect findings4. Establish information and communication process<ul style="list-style-type: none">• Identify and obtain relevant information that will influence their periodic monitoring• Communicate to others in the firm, such as Leadership, Real-time reviews team and BPOs

Periodic monitoring-Engagement Level

WHAT	<ul style="list-style-type: none">• Inspection of completed engagements is one type of monitoring activity performed by the firm and required under both ISQC 1 and ISQM 1.• Inspections of completed engagements provide information about the firm's SoQM and on whether the risk responses (e.g., policies and procedures) or other aspects of the firm's SoQM are designed, implemented and operating in the manner intended.
HOW	<ul style="list-style-type: none">• Firms need to implement the engagement compliance review programme• Other completed engagement review programmes in place
Considerations	<ul style="list-style-type: none">• Establishing policies and procedures addressing the inspection of completed engagements• Having the right individuals perform the completed engagement review• Identifying when completed inspections should occur• Making sure all services under the scope of ISQC 1 and ISQM 1 have been covered• Establishing communication process to make sure that the results of the completed engagement reviews are shared with leadership, real-time review team and engagement teams.

Evaluating Findings and Identifying Deficiencies

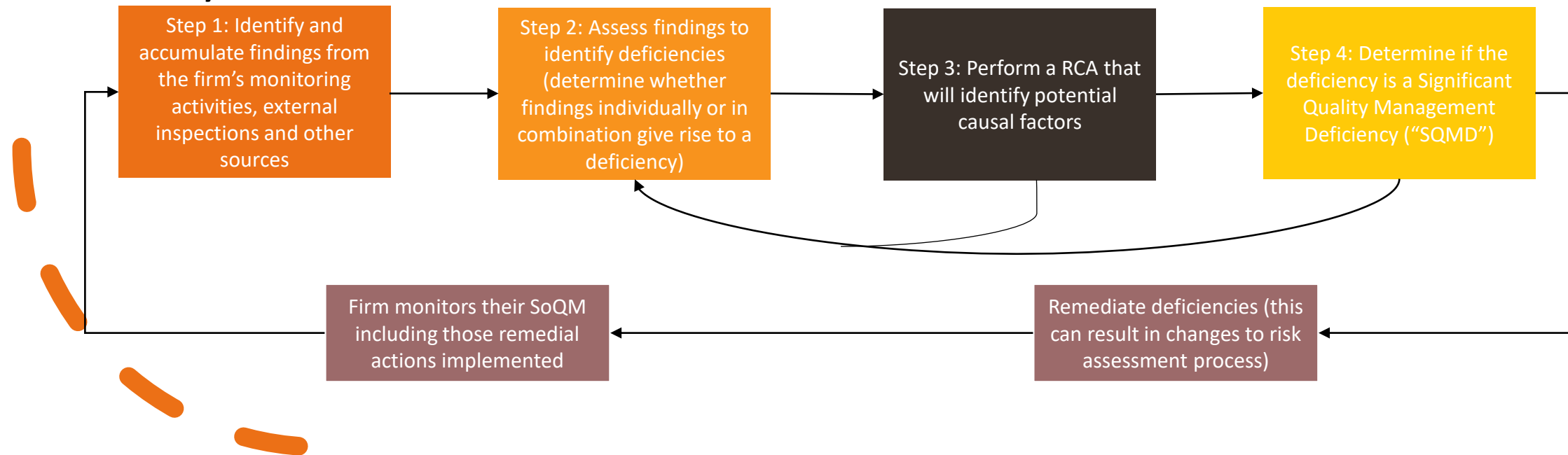
(also see ISQM 1, par 40 and 41)

- The firm shall evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process.
- The firm shall evaluate the severity and pervasiveness of identified deficiencies by:
 - (a) Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root cause(s), the firm shall take into account the nature of the identified deficiencies and their possible severity.
 - (b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the SoQM.

Evaluating Findings and Identifying Deficiencies (Cont...)

(also see ISQM 1, par 40 and 41)

The diagram below summarises the standard steps firms should take when assessing a finding to consider if that finding gives rise to a deficiency:



Root cause analysis (“RCA”)

- **What is an RCA?**

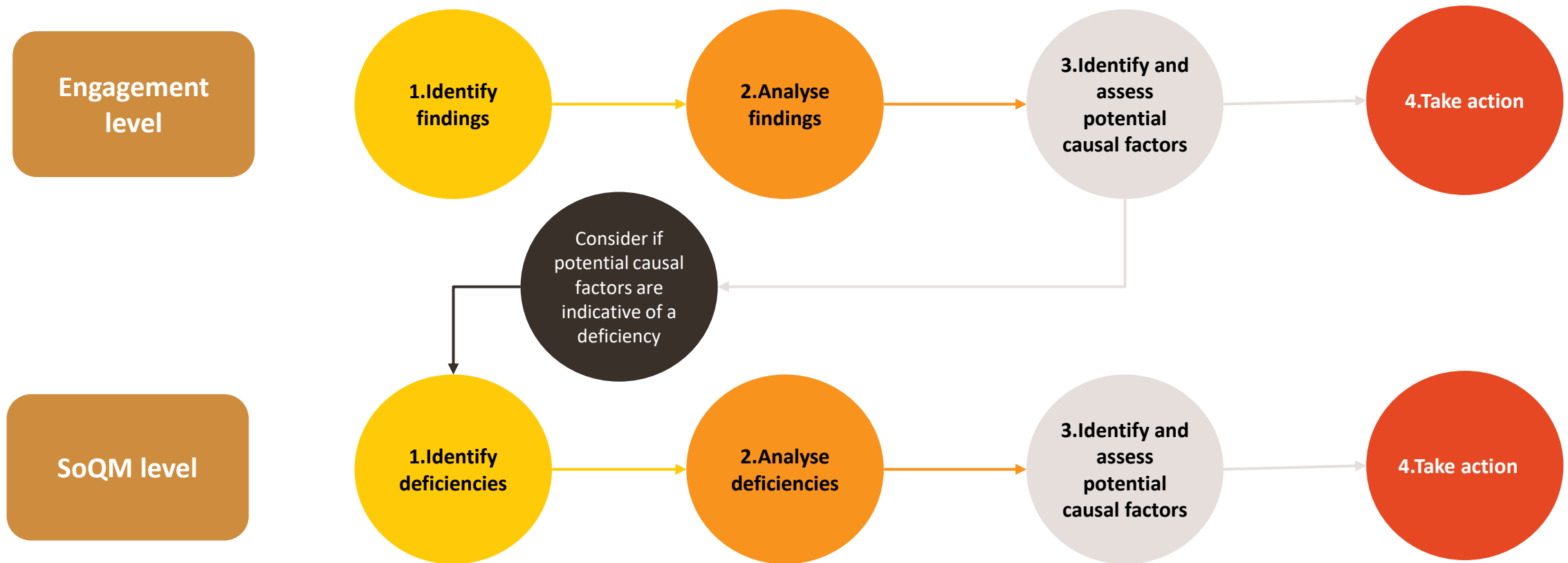
- RCA is a process for identifying potential causal factors of quality findings at both the engagement level and SoQM level, determining which of those findings are indicative of deficiencies in the SoQM, **to support development of appropriate remedial action.**
- RCA is one of the core building blocks in an organisation’s continuous **improvement efforts** and is an important element of a firm’s SoQM.

- **Why do we perform an RCA? To:**

- Identify the potential causal factors of quality findings and deficiencies;
- Evaluate the severity and pervasiveness of the potential causal factors; and
- Identify a complete and robust Quality Improvement Plan (“QIP”) for timely remediation of findings and deficiencies.

Root Cause Analysis (“RCA”) (Cont...)

The following diagram depicts the overall RCA process for identifying and assessing quality findings at both the engagement level and SoQM level. Engagement level findings should be assessed to determine if they are indicative of deficiencies that should be further analyzed as part of the SoQM level RCA process.



Root Cause Analysis (“RCA”) (Cont...)

5*Why technique

Using this tool can help answer the following questions:

- What sequence of events led to the finding?
- What conditions allowed the finding to occur?
- What other findings surround the occurrence of the central finding?

This technique is used to quickly identify a potential causal factor to a finding. When trying to understand the potential causal factor, the technique suggests asking “why” at least 5 times to identify the underlying cause.

The use of the 5* Why technique for RCA first requires the identification of a finding. Then it provides a linear path to the potential causal factor(s). It’s important to note that findings can be interrelated. This technique should be used to assess individual findings on both engagement and SoQM levels and assess deficiencies at the SoQM level. Also, to be able to really ‘dig deep’, the RCA results should be analysed in aggregate to determine whether certain findings are indicative of a deficiency in the SoQM.

The end goal is to find the underlying causal factors (including thematic causal factors) in a member firm’s SoQM in order to prevent related findings from reoccurring.

Remediation (also see ISQM 1, par 42)

- The BPOs and self testing team in consultation with leadership is responsible for designing and implementing remedial actions to address the identified deficiencies that are responsive to the results of the RCA;
- Ongoing quality control and monitoring efforts including QIPs should focus on the effectiveness of the firm's SoQM as well as actions to remediate the potential causal factors.
- Any actions identified should be consistent with and supportive of the firm's quality strategy.
- The plan should include how the implementation of the remediation plan will be monitored, communicated, and reported.
- Once a remediation plan has been agreed, it is the responsibility of the BPOs with support from firm and Assurance leadership to implement and monitor any changes.

Quality Improvement Plan (“QIP”)

- Focuses on the actions to **remediate the potential causal factors** related to specific quality findings (not just on remediating the finding itself);
- QIP = **live document** and should be updated as and when quality findings are identified;
- Remedial actions in the QIP - monitored ongoing (e.g., monthly);
- **Effectiveness of remedial actions** and further actions implemented, when appropriate; and
- Uses other monitoring activities to provide insights into the effectiveness of remediation efforts.