

COMMON AUDIT INSPECTION METHODOLOGY

Risk Assessment Process

Component	Reference	Title	Description	Relevant Laws & Regulation
Risk Assessment Process	00-01	Overall assessment	Understand and evaluate whether the firm has established a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks.	ISQM1 §23
Risk Assessment Process	01-01	Design of the risk assessment process	Understand and evaluate how the firm proceeds to establish the quality objectives, identify and assess quality risks, and design and implement responses, based on the nature and circumstances of the firm (including how the firm is structured and organised) and the engagements it performs.	ISQM1 §23-26
Risk Assessment Process	02-01	Compliance testing Quality Objectives	Consider the result of the CAIM WP for the following components : • Governance and leadership; • Relevant ethical requirements; • Acceptance and continuance of client relationships and specific engagements; • Engagement performance; • Resources; and • Information and communication and conclude whether the firm has established the <u>quality objectives</u> specified in ISQM1.	ISQM1 §24
Risk Assessment Process	03-01	Compliance testing Quality Risks	Consider the result of the CAIM WP for the following components : • Governance and leadership; • Relevant ethical requirements; • Acceptance and continuance of client relationships and specific engagements; • Engagement performance; • Resources; and • Information and communication and conclude whether the firm, in identifying and assessing <u>quality risks</u> : - has obtained an understanding of the conditions, events, circumstances actions or inactions that may adversely affect the achievement the quality objectives; - has taken into account how, and the degree to which, the conditions, events, circumstances, actions or inactions identified above may adversely affect the achievement of the quality objectives.	ISQM1 §25 (a) & (b) ISQM1 First time Implementation Guide p23-25
Risk Assessment Process	03-02	Network requirements and network services	Understand and evaluate whether the firm has understood the <u>network requirements</u> and the <u>network services</u> and the actions necessary for their implementation and assess whether the firm has: - determined how the network requirements or network services are relevant to and taken into account and implemented in its SOQM; - evaluated whether they need to be adapted or supplemented to be appropriate for use in the firm's SOQM; - documented the matters related to network requirements and network services and the evaluation referred in the second bullet.	ISQM1 §16(k), 16(l) ISQM1 §48-49 A175-A180 ISQM1 §58-59
Risk Assessment Process	04-01	Compliance testing Responses	Consider the result of the CAIM WP for the following components : • Governance and leadership; • Relevant ethical requirements; • Acceptance and continuance of client relationships and specific engagements; • Engagement performance; • Resources; • Information and communication; and • Engagement Quality Review and conclude whether the firm has designed and implemented <u>responses</u> to address the quality risks identified included the responses specified in ISQM1 and ISQM2.	ISQM1 §26 A49-A51 ISQM1 §34
Risk Assessment Process	05-01	Additions or Modification to the Quality objectives, Quality risks or Responses	Understand and evaluate whether the firm has policies and procedures designed to identify information that indicates the need for changes to quality objectives, quality risks or responses.	ISQM1 §27
Risk Assessment Process	05-02	Additions or Modification to the Quality objectives, Quality risks or Responses	Understand and evaluate whether the firm has, due to changes in the nature and circumstances of the firm or its engagements: - established additional or modified the quality objectives - identified or assessed additional, modified or reassessed the quality risks - designed and implemented additional or modified the responses.	ISQM 1 §27

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Governance and Leadership	00-01	Quality objectives	Overall assessment of quality objectives (QO)	Understand and evaluate whether the firm has established the quality objectives that address the firm's governance and leadership, which establishes the environment that supports the SoQM. Assess whether these objectives include: - all mandatory quality objectives (§28); - any additional quality objectives deemed necessary (A42-A43); - any breakdown into quality sub-objectives (A44).	ISQM1 §24 ISQM1 §28
Governance and Leadership	01-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.1 " <i>The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces: (i) The firm's role in serving the public interest by consistently performing quality engagements; (ii) The importance of professional ethics, values and attitudes; (iii) The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behavior; and (iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r), ISQM1 §25, A45-A48 ISQM1 §28 (a)
Governance and Leadership	01-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.1 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §28 (a), A55-A56
Governance and Leadership	01-03	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate the following aspects: - What are the values of the audit firm? Are there specific audit values ? Does the audit firm hold regular training courses or undertake promotional campaigns on its values? - What are the expected/encouraged behaviors of the audit firm? What are the means used to ensure people within the audit firm are able to act in accordance with the expected behaviors? Does the audit firm value the importance of learning from mistakes within their encouraged behaviors (culture of continuous improvement)? - What is the stated purpose of the audit firm, is it related to the public interest, and if so how? Is it consistent with performing quality engagements, and if so how? - Does the firm purpose includes a link to the broader importance of audit (business or capital market confidence), not only a focus towards managing reputational risk for the firm and helping clients achieve compliance ? - How does the culture reflect the multi-disciplinary nature of the firm (if applicable)? (independence rules for NAS, tensions regarding the profitability of the different services lines...) - Is audit quality included in the whole firm strategy? Does the audit firm have incentives focused on financial and operational priorities that may discourage behaviors that demonstrate a commitment to quality? - Does the audit firm have a plan on how to achieve the desired culture ? (activities, resources, findings from root cause analysis) - Does the audit firm use staff surveys (and focus group) or listening processes, AQI or RCA to monitor culture?	
Governance and Leadership	02-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.2 " <i>Leadership is responsible and accountable for quality.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective and have an effect on the achievement of this quality objective.	ISQM1 §16 (r), ISQM1 §25, A45-A48 ISQM1 §28 (b)
Governance and Leadership	02-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.2 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur.	ISQM1 §26, A49-51 ISQM1 §28 (b), A57
Governance and Leadership	02-03	Responses	Assessment of the inclusion of the mandatory response	Assess whether the firm undertakes periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the SOQM, and the individual(s) assigned operational responsibility for the SOQM.	ISQM1 §28(b), A57 ISQM1 §56
Governance and Leadership	02-04	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate whether : - the performance management and reward system encourage behaviors that are consistent with the firm's culture; - the amount of revenue that the statutory auditor or the audit firm derives from providing non-audit services to audited entity does not form part of the performance evaluation and remuneration of any person involved in, or able to influence the carrying out of the audit; - the audit firm has a process to sanction poor quality work or behaviors but also to recognise and reward positive contribution to audit quality; - the firm puts in place an accountability framework for partners and staff and whether this is used in combination with the RCA to ensure that lessons are being learnt where quality issues have been identified and that individuals are being held accountable in a fair way; - in case the audit firm's leadership does not have an audit background: (i) the firm ensures that the public interest predominates the financial interests in strategic decisions, (ii) the firm ensures that the leadership has sufficient knowledge to make organizational decisions with the aim to enhance audit quality.	Directive art.24a
Governance and Leadership	03-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.3 " <i>Leadership demonstrates a commitment to quality through their actions and behaviors.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r), ISQM1 §25, A45-A48 ISQM1 §28 (c)
Governance and Leadership	03-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.3 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §28 (c), A58

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Governance and Leadership	03-03	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate the following aspects: - How are leaders living and demonstrating the firm's values ? - What are the communication channels used to deliver open and consistent messages ? - How are leaders making auditors feel valued for the work they do? - Does the audit firm publicly report on their assessment of how they are promoting culture in its transparency report? (challenges to audit culture, steps taken and monitoring)	
Governance and Leadership	04-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.4 " <i>The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r), ISQM1 §25, A45-A48 ISQM1 §28 (d)
Governance and Leadership	04-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.4 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §28 (d), A59
Governance and Leadership	04-03	Responses	Assessment of the responsibility for the SOQM	Identify individuals assigned with: - Ultimate responsibility and accountability for the SOQM - Operational responsibility for the SOQM - Operational responsibility for Compliance with independence requirements and the monitoring and remediation process - Operational responsibility for specific aspects of the SOQM (as determined by the firm) AND - assess whether they have the appropriate experience, knowledge, time, influence and authority - assess whether the individuals assigned operational responsibilities have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the SOQM.	ISQM1 §20-22, A32-A38 ISQM1 §28 (d)
Governance and Leadership	05-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.5 " <i>Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r), ISQM1 §25, A45-A48 ISQM1 §28 (e)
Governance and Leadership	05-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the responses, which cover the risks related to QO.5 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §28 (e), A60-A61
Governance and Leadership	05-03	Expected good practices	Assessment of responses according to expected good practices	1. Understand and evaluate if and how the individual(s) assigned ultimate responsibility or operational responsibility are able to influence the nature and extent of resources, the firm obtains, develops, uses, maintains, and how those resources are allocated or assigned, including the timing of when they are used. 2. Understand and evaluate whether the firm performs a profitability analysis of its audit engagements and identify whether some factors can be an indicator of poor audit quality (grade mix of staff resources, relative cost of staff, level of revenue relative to the level of audit work, level of other direct costs incurred) 3. Understand and evaluate whether the firm has resources planning (determining the resources currently required, forecasting the firm's future resource needs, process to deal with unanticipated resource needs when they arise). 4. Reference should be made to the Resources Component.	
Governance and Leadership	06-01	Quality risks	Assessment of quality risks for non-mandatory QO	For any additional quality objective and any associated sub-objectives (besides the 5 mandatory QO), understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this additional quality objective.	ISQM1 §16 (r), ISQM1 §25, A45-A48 ISQM1 §28
Governance and Leadership	06-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the responses, which cover the quality risks related to QO and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §28
Governance and Leadership	07-01	Specified (mandatory) Responses	Assessment of the inclusion of the mandatory response	Understand and evaluate the firm's policies and procedures for receiving, investigating and resolving <u>complaints and allegations</u> 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 established in accordance with the SoQM.	ISQM1 §34(c) A120-A121
Governance and Leadership	07-02	Expected good practices	Assessment of responses according to expected good practices	In designing and implementing this response, assess whether the firm has considered matters such as: • Who should receive, investigate and resolve the complaints and allegations (include "whistleblowing"), including whether it should be outsourced to a service provider, and whether one, or multiple individuals should be involved in the process. • Whether law, regulation or relevant ethical requirements establish responsibilities for the firm or its personnel regarding complaints or allegations, such as an obligation on the firm or its personnel to report the matter to an authority outside the firm (e.g., sections 260 and 360 of the IESBA Code address the approach to be taken by the firm or its personnel in responding to non-compliance or suspected non-compliance with laws or regulations). • How complaints and allegations should be communicated. • How confidentiality of complaints and allegations will be retained. • How complaints and allegations should be dealt with, including when leadership should be informed, and legal counsel should be involved.	ISQM1 First time Implementation Guide p29
Governance and Leadership	08-01	Responses	Assessment of OE of responses	For any responses where design and implementation has been assessed as appropriate, consider testing <u>operating effectiveness</u> of those responses during the reviewed period.	
Governance and Leadership	09-01	Monitoring of responses	Assessment of D&I of monitoring procedures	Evaluate the D&I of the firm's monitoring activities over responses within the Governance and Leadership component of SOQM.	

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Governance and Leadership

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Governance and Leadership	09-02	Monitoring of responses	Assessment of OE of monitoring procedures	Evaluate the operating effectiveness (OE) of the testing plan implemented by the firm within its monitoring activities. Consider reperforming some of the testing on a sample basis.	
Governance and Leadership	09-03	Monitoring of responses	Assessment of remediation procedures	Review the results of the firm's monitoring procedures and assess whether identified deficiencies (considering their severity and pervasiveness) and remedial actions have been implemented and timely communicated within the firm.	
Governance and Leadership	10-01	Evaluating and concluding on the effectiveness of the SOQM	Assessment of the evaluation and the conclusion on the effectiveness of the SOQM	Assess whether the individual(s) assigned ultimate responsibility and accountability for the SOQM has(have): - evaluated the SOQM at a point of time and at least annually; - concluded on the effectiveness of the SOQM in achieving its objectives; - taken further actions and communicated as required depending on which conclusion is reached.	ISQM1 § 53-55, A187-A198
Governance and Leadership	11-01	Documentation of the SoQM	Assessment of the documentation	Assess whether the firm prepared a complete detailed documentation of the SOQM, which is retained for a proper period of time.	ISQM1 § 57-60

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Relevant Ethical Requirements

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Relevant Ethical Requirements	00-01	Quality objectives	Overall assessment of quality objectives (QO)	Understand and evaluate whether the firm has established the quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Assess whether these objectives include: - all mandatory quality objectives (§29); - any additional quality objectives deemed necessary (A42-A43); - any breakdown into quality sub-objectives (A44).	ISQM1 §24 ISQM1 §29
Relevant Ethical Requirements	01-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.1 " The firm and its personnel: (i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject and (ii) Fulfil their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r), 16(t), A22-A24 ISQM1 §25, A45-A48 ISQM1 §29 (a)
Relevant Ethical Requirements	01-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.1 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §29 (a), A62-A64
Relevant Ethical Requirements	01-03	Expected good practices	Assessment of responses according to expected good practices	- Reference should be made to the Information and Communication component addressing matters relating to relevant ethical requirements, including : (i) The firm communicating the independence requirements to all personnel, (ii) Personnel and engagement teams communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence, or breaches of relevant ethical requirements. - Reference should be made to the Resources component regarding (i) The assignment of individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements, (ii) The use of IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence, (iii) The regular (mandatory) trainings that the firm's personnel are following on the relevant ethical requirements and the monitoring thereof.	ISQM1 A64
Relevant Ethical Requirements	02-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.2 " Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject: (i) Understand the relevant ethical requirements that apply to them; and (ii) Fulfil their responsibilities in relation to the relevant ethical requirements that apply to them. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r), 16(t), A22-A24 ISQM1 §25, A45-A48 ISQM1 §29 (b)
Relevant Ethical Requirements	02-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.2 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §29 (b), A65
Relevant Ethical Requirements	02-03	Expected good practices	Assessment of responses according to expected good practices	- For service providers, the firm may include the specific relevant ethical requirements in the terms of the contract (e.g., confidentiality requirements). - When component auditors are involved (in network or out of network), the relevant ethical requirements may be included in the group audit instructions, and in some circumstances, the group auditor may determine it appropriate to provide additional training to component auditors.	ISQM1 A65
Relevant Ethical Requirements	03-01	Specified (mandatory) Responses	Assessment of the inclusion and D&I of the mandatory specified response	Asses the design and implementation of the firm's policies and procedures established for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements (the 5 fundamental principles of the IESBA Code of Ethics (Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional behaviour) and the International Independence Standards (IESBA Code of Ethics Part 4a and 4b)).	ISQM1 §34 (a)(i), A117
Relevant Ethical Requirements	03-02	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate whether the responses address the following topics:	
Relevant Ethical Requirements	03-02a	Expected good practices	Assessment of responses according to expected good practices	a. Conflict of interest - Whether the policies assess the different types of conflicts: of interest that may arise: Transactional conflicts, Relational conflicts, Advocacy conflicts, Personal conflicts, Competitive situation. - Whether the firm monitors on an annual basis (and at each significant change) of the corporate directorships and similar offices held in a personal capacity by a partner/director and the corporate shareholding and similar ownership interests held by a partner/director or by his/her spouse, spouse equivalent or children. The firm should also note the name of the partner/director's spouse (or spouse equivalent) together with the nature of any employment/office held.	Directive art.22.1 IESBA CoE Section 112, 310
Relevant Ethical Requirements	03-02b	Expected good practices	Assessment of responses according to expected good practices	b. Business or other direct and indirect relationship: - How the firm ensures that existing and new relationships with audit client do not compromise its independence towards these clients; - Documentation of the assessment of threats to independence arising out of individual relationships - Consideration of sponsorships, alliance arrangements, vendor relationships, sub-contractors, etc.	Directive art.22.1 and 22.6 IESBA CoE Section 520, 521 and 523

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Relevant Ethical Requirements

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Relevant Ethical Requirements	03-02c	Expected good practices	Assessment of responses according to expected good practices	c. Financial interests - Family trees - Completeness of all relevant audit clients, split between PIEs and non-PIEs; - Completeness of all relevant entities within an audit client and, for PIEs, parent undertakings and controlled undertakings indicating home country ; - Timeliness of completion and update of the family trees; - Procedures in case of a merger or acquisition of the audit client during the period covered by the financial statements; - Instance of non-compliance/violation of independence law and regulation, including personal independence, as a result of inaccurate family trees or late updating of family trees.	Directive art.22.2, 22.4 and 22.6 IESBA CoE Section 510
Relevant Ethical Requirements	03-02d	Expected good practices	Assessment of responses according to expected good practices	d. Financial interests - Restricted investments - All relevant partners / employees are required to enter their investments in a tracking system on a regular and timely basis; - All audit clients that the firm has to be independent from are tracked; - The tracking system ensures completeness of the restricted investments or provides a clearance process that ensures appropriate evaluation of investments entered into the system that were not included in the system before (clearance could be done by a central independence desk); - The tracking system is able to track changes in the status of a certain investment (e.g. a previously permissible investment becomes restricted as the firm is newly appointed as auditor) and informs partners / employees with investments in this entity about the change in status and investments which need to be disposed of. The firm monitors whether these restricted investments are disposed on a timely basis; and - The system includes consideration of global audit clients within the firm's network. - The firm's own investment (made for cash management) do not include restricted securities or any restricted financial interests.	
Relevant Ethical Requirements	03-02e	Expected good practices	Assessment of responses according to expected good practices	e. Financial interests - Personal Independence compliance testing: - Completeness of the population that forms the basis for the sample; - The criteria used by the firm to select the sample (e.g. how every partner is captured within a certain time frame; does the sample reflect certain risks (e.g. new partners, partners with recent findings)); - How the firm ensures that the supporting documents requested from the partner or employee are complete (e.g. by requesting copy of tax returns, investment portfolios, letter of representation); - The firm's process to deal with issues identified in testing; - The firm's process to communicate the results of the testing within the firm; and - The summary report on the latest testing.	
Relevant Ethical Requirements	03-02f	Expected good practices	Assessment of responses according to expected good practices	f. Gifts or favors - Whether all relevant employees are required to confirm that - if any - gifts and hospitality accepted from an audit client are in line with the firm's policies and procedures established thus far - Whether the confirmation with respect to gifts and hospitality is usually part of the annual ethics and independence confirmation - Missing confirmations are appropriately followed-up - Ethics and independence issues arising are appropriately followed-up - The templates used appropriately reflect the ethical/ independence requirements for the individual hierarchy levels within the firm (e.g. partners / managers / staff).	Directive art. 22.5 IESBA CoE Section 340 and 420
Relevant Ethical Requirements	03-02g	Expected good practices	Assessment of responses according to expected good practices	g. Employment by audited entities of former statutory auditors or of employees of statutory auditors or audit firms - Exit interview to identify professionals leaving the firm to work at an audit client and, in turn, communicate results to Independence for appropriate action, if applicable - All former statutory auditors or employees of statutory auditors or audit firms who have accepted a position at an audit client are identified and included on the firm's tracking list.	Directive art. 22a IESBA CoE Section 522 and 524
Relevant Ethical Requirements	03-02h	Expected good practices	Assessment of responses according to expected good practices	h. Confidentiality and professional secrecy - Mandatory Independence Learnings to ensure that all professionals are aware of the importance of the principle of confidentiality and professional secrecy. - Independence trainings are tracked and monitored to ensure timely completion. - Appropriate consequences for non-participants are established. - All new joiners are required to confirm that they understand the principle of confidentiality and professional secrecy and that they are going to comply with it. Tracking of new joiner confirmations to ensure timely completion.	Directive art.23 IESBA CoE Section 114
Relevant Ethical Requirements	03-02i	Expected good practices	Assessment of responses according to expected good practices	i. Fees - Monitoring of the existence of significant overdue fees from audit clients. - Analysis of the audit fees per client / promoter and audit fees per audit partner in order to detect any undue dependence on total fees from a client. - Monitoring of contingent fee arrangements relating to audit clients or their affiliates, advised to and approved by the Ethics Partner during the period - Monitoring of the Fee cap.	Directive art.25 Regulation art.4 IESBA CoE Section 410

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Relevant Ethical Requirements

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Relevant Ethical Requirements	03-02j	Expected good practices	Assessment of responses according to expected good practices	j. NAS - Maintenance of a comprehensive list of permissible / restricted / prohibited services and that the list is in line with the relevant requirements of the CoE and the independence requirements of the Regulation on statutory audits of PIEs - Approval of any service, prior to provision of that service, by the global lead audit engagement partner (considered globally across all network firms) - Guidelines regarding which documents need to be obtained by the approver (e.g. engagement letter) - Guidance on how to deal with critical / complex issues (e.g. consultation requirements with the independence desk) - Documentation requirements within the approval process - Communications and approvals required with the Audit Committee - Guidance for the fee cap for NAS.	Regulation art.5 IESBA CoE Section 600
Relevant Ethical Requirements	03-02k	Expected good practices	Assessment of responses according to expected good practices	k. Rotation and long term association - All audit clients that are subject to rotation requirements (internal and external) are identified and included on the firm's tracking list; - All relevant partners are included on the tracking list (e.g. KAP(s), EQCR); - A rotation mechanism has been introduced for the senior personnel involved in statutory audits on an individual basis, including at least the persons registered as statutory auditors; - Changes in responsibilities are appropriately captured on the tracking list (e.g. changes in audit partner, changes from audit partner to EQCR or vice versa); - The firm's tracking list also covers tracking of the three-year cooling-off period for key audit partner(s) and of the four-year cooling-off period for the audit firm or, where applicable, any members of their network within the Union.	Regulation art.17 IESBA CoE Section 540
Relevant Ethical Requirements	03-02l	Expected good practices	Assessment of responses according to expected good practices	l. Other - Firm's Code of Conduct; - Secondments; - Anti-Bribery ; - Competition and Anti-Trust Law Compliance ; - Insider Trading ; - Non Compliance with Laws and Regulations (NOCLAR); - Partner's objectives and compensation.	
Relevant Ethical Requirements	04-01	Specified (mandatory) Responses	Assessment of the inclusion and D&I of the mandatory specified response	Assess the design and implementation of the policies or procedures established by the Firm for identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.	ISQM1 §34 (a)(ii), A118-A119 IESBA CoE R.100.4 R.400.80 to R.400.89
Relevant Ethical Requirements	04-02	Expected good practices	Assessment of responses according to expected good practices	Matters the firm may address relating to breaches of the relevant ethical requirements include: - The communication of breaches of the relevant ethical requirements to appropriate personnel; - The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements; - The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable; - Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority; and - Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.	ISQM1 A119
Relevant Ethical Requirements	05-01	Specified (mandatory) Responses	Assessment of the inclusion and D&I of the mandatory specified response	Assess the design and implementation of the Firm's policies or procedures in order to obtain, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.	ISQM1 §34 (b)
Relevant Ethical Requirements	05-02	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate whether: - All relevant employees are required to provide an annual ethics and independence confirmation - The firm maintains a system that allows for tracking of independence confirmations - Missing confirmations are appropriately followed-up - Independence issues arising are appropriately followed-up - The templates used appropriately reflect the ethical/ independence requirements for the individual hierarchy levels within the firm (e.g. partners / managers / staff).	
Relevant Ethical Requirements	06-01	Quality risks	Assessment of quality risks for non-mandatory QO	For any additional quality objective and any associated sub-objectives (besides the 2 mandatory QO), understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this additional quality objective.	ISQM1 §16 (r), 16(t), A22-A24 ISQM1 §25, A45-A48 ISQM1 §29
Relevant Ethical Requirements	06-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §29
Relevant Ethical Requirements	07-01	Responses	Assessment of OE of responses	For any responses where the design and implementation have been assessed as appropriate, consider testing <u>operating effectiveness</u> of those responses during the reviewed period.	
Relevant Ethical Requirements	08-01	Monitoring of responses	Assessment of D&I of monitoring procedures	Evaluate the D&I of the firm's monitoring activities over responses within the Relevant Ethical Requirements component of SOQM.	
Relevant Ethical Requirements	08-02	Monitoring of responses	Assessment of OE of monitoring procedures	Evaluate the operating effectiveness (OE) of the testing plan implemented by the firm within its monitoring activities. Consider reperforming some of the testing on a sample basis.	

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Relevant Ethical Requirements	08-03	Monitoring of responses	Assessment of remediation procedures	Review the results of the firm's monitoring procedures and assess whether identified deficiencies (considering their severity and pervasiveness) and remedial actions have been implemented and timely communicated within the firm.	



COMMON AUDIT INSPECTION METHODOLOGY

Acceptance and Continuance

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Acceptance & Continuance	00-01	Quality objectives	Overall assessment of quality objectives (QO)	Understand and evaluate whether the firm has established the quality objectives that address the acceptance and continuance of client relationships and specific engagements (including AML). Assess whether these objectives include: - all mandatory quality objectives (§30); - any additional quality objectives deemed necessary (A42-A43); - any breakdown into quality sub-objectives (A44).	ISQM1 §24 ISQM1 §30
Acceptance & Continuance	01-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.1 " <i>Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on: (i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and (ii) The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §30 (a)
Acceptance & Continuance	01-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.1 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §30 (a), A67-A72
Acceptance & Continuance	01-03	Expected good practices	Assessment of responses according to expected good practices	Assess whether the firm's policies, procedures or systems addressing acceptance and continuance (including withdrawals): a) specify the information (including AML) that needs to be gathered about the <u>nature and circumstances</u> of the engagement and the <u>integrity and ethical values</u> of the client (including management, and, when appropriate, those charged with governance). In some cases, the policies or procedures may also suggest or specify where the information needs to be sourced from (inquiries, background searches, discussion with other third parties...). b) set out factors (including AML) to be considered in determining whether the firm is able to perform the engagement <u>in accordance with professional standards and applicable legal and regulatory requirements</u> . c) specify (or prohibit) the types of engagements that may be performed by the firm, — engagements related to certain subject matter when the firm does not have appropriate expertise to perform engagements over that subject matter — engagements for entities operating in certain industries (e.g., emerging industries) — engagements for entities in industries where the firm does not have experience and cannot easily develop relevant knowledge. d) ensure a risk based approval hierarchy (in terms of approval of new clients and engagements) e) ensure there is a link between risks and responses given to one client (ensure scalability in the risk assessment process (e.g. local clients vs global clients)).	Directive art.37 and 38 Regulation art.4, 5, 6, 7, 12, 16, 17, 18, 19 Directive 2018/843 (AML&CFT) ISQM1 A67-A69, A72 ISQM1 First time Implementation Guide p39-40
Acceptance & Continuance	01-04	Expected good practices	Assessment of responses according to expected good practices	When reviewing the policies, it is common to also consider for the <u>continuance process</u> how the audit firm: - Identifies possible conflicts of interests (actual or perceived); - Considers whether independence requirements can be established and maintained (e.g. via identifying any contingent fee arrangements or prohibited non-audit services that have been provided to PIE-audit engagements); - Identifies the duration of the audit engagement, partner rotation-period, and ensures that the maximum has not been exceeded; - Maintains its audit engagement overview such as family tree of controlled undertakings, (reverse) restricted entity list etc.	
Acceptance & Continuance	02-01	Specified (mandatory) Responses	Assessment of the inclusion of the mandatory specified response	Evaluate the reasonableness of the firm's policies, procedures for addressing circumstances when: (i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; or (ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement.	ISQM1 §34 (d) A122-A123
Acceptance & Continuance	02-02	Expected good practices	Assessment of responses according to expected good practices	Matters that could be addressed in the firm's policies or procedures for circumstances when information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm's decision to accept or continue a client relationship or specific engagement • Undertaking consultation within the firm or with legal counsel. • Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement. • Discussing with the appropriate level of the client's management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances. • When it is determined that withdrawal is an appropriate action: o Informing the client's management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal. o Considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.	ISQM1 A122



COMMON AUDIT INSPECTION METHODOLOGY

Acceptance and Continuance

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Acceptance & Continuance	02-03	Expected good practices	Assessment of responses according to expected good practices	Matters that could be addressed in the firm's policies or procedures in circumstances when the firm is obligated to accept or continue an engagement or the firm is unable to withdraw from an engagement, and the firm is aware of information that would have caused the firm to decline or discontinue the engagement • The firm considers the effect of the information on the performance of the engagement. • The firm communicates the information to the engagement partner, and requests the engagement partner to increase the extent and frequency of the direction and supervision of the engagement team members and review of their work. • The firm assigns more experienced personnel to the engagement. • The firm determines that an engagement quality review should be performed.	ISQM1 A123
Acceptance & Continuance	03-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.2 " <i>The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §30 (a)
Acceptance & Continuance	03-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.2 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §30 (a), A73-A74
Acceptance & Continuance	04-01	Quality risks	Assessment of quality risks for non-mandatory QO	For any additional quality objective and any associated sub-objectives (besides the 2 mandatory QO), understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this additional quality objective.	ISQM1 §16(r), 24, 25 & 33
Acceptance & Continuance	04-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the risks related to QO and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 A112
Acceptance & Continuance	05-01	Responses	Assessment of OE of responses	For any responses where the design and implementation have been assessed as appropriate, consider testing <u>operating effectiveness</u> of those responses during the reviewed period.	
Acceptance & Continuance	06-01	Monitoring of responses	Assessment of D&I of monitoring procedures	Evaluate the D&I of the firm's monitoring activities over responses within the Acceptance and continuance component of SOQM.	
Acceptance & Continuance	06-02	Monitoring of responses	Assessment of OE of monitoring procedures	Evaluate the operating effectiveness (OE) of the testing plan implemented by the firm within its monitoring activities. Consider reperforming some of the testing on a sample basis.	
Acceptance & Continuance	06-03	Monitoring of responses	Assessment of remediation procedures	Review the results of the firm's monitoring procedures and assess whether identified deficiencies (considering their severity and pervasiveness) and remedial actions have been implemented and timely communicated within the firm.	



COMMON AUDIT INSPECTION METHODOLOGY

Engagement Performance

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Engagement Performance	00-01	Quality objectives	Overall assessment of quality objectives (QO)	Understand and evaluate whether the firm has established the quality objectives that address the performance of quality engagements. Assess whether these objectives include: - all mandatory quality objectives (§31); - any additional quality objectives deemed necessary (A42-A43); - any breakdown into quality sub-objectives (A44).	ISQM1 §24 ISQM1 §31
Engagement Performance	01-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.1 " Engagement teams understand and fulfil their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §31 (a)
Engagement Performance	01-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.1 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §31 (a) A75
Engagement Performance	01-03	Expected good practices	Assessment of responses according to expected good practices	The following matters are commonly considered: - Whether the firm has the necessary support resources (human, intellectual and technological) for effective and efficient performance of engagements ; - Whether the firm maintains methodology and guidance which meet the professional and industry standards, best practices and applicable laws and regulations; - Whether the firm has the possibility to use SDC to support engagement teams; - Whether the firm has implemented relevant support resources provided by the network. Consideration should be given to the results of the review the Governance and Leadership , Resources components and Network services for common matters.	
Engagement Performance	02-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.2 " The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §31 (b)
Engagement Performance	02-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.2 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §31 (b) A76-77
Engagement Performance	02-03	Expected good practices	Assessment of responses according to expected good practices	The following matters are commonly considered : - Whether the firm has defined roles and responsibilities for engagement leaders, managers and other members of the team, as well as policies and procedures for planning and performing engagements including project management, coaching, on the job training and supervision; - Whether the firm has reinforced the importance of and made engagement leaders accountable for sufficient involvement in the engagement direction, supervision and review; - Whether the firm is supporting engagement leaders in executing their role by providing them with technology tools or inspection of in-process engagements; - Whether the firm is using metrics (milestones) to evaluate the efficient and effective performance of engagements. Consideration should be given to the results of the review the Governance and Leadership (roles, responsibilities and accountability) and Resources (technology tools) components for common matters.	
Engagement Performance	03-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.3 " Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §31 (c)
Engagement Performance	03-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.3 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §31 (c) A78
Engagement Performance	03-03	Expected good practices	Assessment of responses according to expected good practices	The following matters are commonly considered: - How the topic of professional skepticism is addressed in the firm's core and annual update training; - Whether the audit methodology highlights the actions the firm or the engagement team may need to undertake to mitigate : (i) impediments to professional skepticism (such as budget constraints, tight deadlines, lack of cooperation by management or overreliance on automated tools and techniques); (ii) Unconscious or conscious biases (such as availability, confirmation, groupthink, overconfidence, anchoring or automation biases).	ISA 220 (revised) A33-A36
Engagement Performance	04-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.4 " Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §31 (d)



COMMON AUDIT INSPECTION METHODOLOGY

Engagement Performance

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Engagement Performance	04-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.4 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §31 (d) A79-A81
Engagement Performance	04-03	Expected good practices	Assessment of responses according to expected good practices	The following matters are commonly considered: - Circumstances in which consultations on judgmental and technical issues are required; - Consultation design process (responsibilities, format, etc.); - Whether the firm has implemented a consultation log providing all necessary information with respect to the consultations (origin, date, context and issues, requestor and respondent, etc.); - Firm's procedures to ensure completeness of the consultation log; - Whether the consultation process is designed to involve the right resources so that the audit engagement team can reach appropriate conclusions; - Firm's policies and procedures regarding consultations with external experts; - Firm's procedures to ensure consistency of consultations provided on similar subjects; - Processes to ensure a timely distribution of communications regarding professional matters to appropriate staff members; - Firm's policies and procedures to ensure that the conclusions resulting from the consultation are discussed and agreed by the audit engagement partner on or before the date of the audit report; - Documentation requirements with respect to the consultations, in particular the nature and scope of, and the conclusions resulting from, consultations; and - Retention period for the consultations captured in the consultation log, if applicable.	ISA 220 (revised) §35 A99-A102
Engagement Performance	05-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.5 " <i>Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §31 €
Engagement Performance	05-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.5 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §31 (e) A82
Engagement Performance	05-03	Expected good practices	Assessment of responses according to expected good practices	QO.4 step 04-03 applies also to this QO.	ISA 220 (revised) §37-38 A107-A108
Engagement Performance	06-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.6 " <i>Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §31 (f)
Engagement Performance	06-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.6 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §31 (f) A83-A85
Engagement Performance	06-03	Expected good practices	Assessment of responses according to expected good practices	The following matters are commonly considered. <u>The firm's procedures</u> should: - Require all personnel in the audit function to treat data confidentially and to manage confidential documents appropriately - Enable the determination of when and by whom working papers and documents were created, changed or reviewed - Enable and require the physical protection of, and prevent unauthorized access to, working papers and confidential documents - Record keeping for at least five years following the creation of certain documentation or information as referred to in Regulation article 15. <u>Technological aspects</u> - Is encryption forced, for example for network traffic and portable data storage devices? - Do the employees of the audit firm receive any training on data security? - Does the audit firm maintain an electronic archiving system which is capable of proving that a retained document is original (at both hardware and software levels)? - System of server backup; - Virus screening system; - Storage of paper based documents (in the firm's office and external and internal files); - Were there any IT problems in the years inspected (lost, stolen laptop, unauthorized access to computers)? and - Rules governing access to offices (card, security service, etc.). Consideration should be given to the results of the review of Information and Cybersecurity WP for common matters.	
Engagement Performance	07-01	Quality risks	Assessment of quality risks for mandatory QO	For any additional quality objective and any associated sub-objectives (besides the 6 mandatory QO), understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this additional quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §31



COMMON AUDIT INSPECTION METHODOLOGY

Engagement Performance

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Engagement Performance	07-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the risks related to QO and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51
Engagement Performance	08-01	Responses	Assessment of OE of responses	For any responses where the design and implementation has been assessed as appropriate, consider testing <u>operating effectiveness</u> of those responses during the reviewed period. For the engagement performance component the testing of operating effectiveness is mainly achieved through file reviews.	
Engagement Performance	09-01	Monitoring of responses	Assessment of D&I of monitoring procedures	Evaluate the D&I of the firm's monitoring activities over responses within the Engagement performance component of SOQM.	
Engagement Performance	09-02	Monitoring of responses	Assessment of OE of monitoring procedures	Evaluate the operating effectiveness (OE) of the testing plan implemented by the firm within its monitoring activities. Consider reperforming some of the testing on a sample basis.	
Engagement Performance	09-03	Monitoring of responses	Assessment of remediation procedures	Review the results of the firm's monitoring procedures and assess whether identified deficiencies (considering their severity and pervasiveness) and remedial actions have been implemented and timely communicated within the firm.	

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Resources	00-01	Quality Objectives	Overall assessment of quality objectives (QO)	Understand and evaluate whether the firm has established the quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the SOQM. Assess whether these objectives include: - all mandatory quality objectives (§32); - any additional quality objectives deemed necessary (A42-A43); - any breakdown into quality sub-objectives (A44).	ISQM1 §24 ISQM1 §32 A86-A87
HUMAN RESOURCES					
Resources	01-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.1.HR " <i>Personnel are hired, developed and retained and have the competence and capabilities to (i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or (ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (a)
Resources	01-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.1.HR and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (a), A88-90
Resources	01-03	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered for <u>recruitment</u> aspect: - Planning and recruitment, competency framework for audit personnel; career development policies and other human resource issues; - Whether appropriate systems, resources and procedures are in place to ensure staff-continuity and regularity; and - Whether to discuss any unusual or extraordinary developments with respect to human resources and partner matters (excessive turnover, transfer of employees to the audit firm from recently acquired audit firms, etc.).	
Resources	01-04	Expected Good Practices	Assessment of firm's responses compared to expected good practices	In particular, the following matters are commonly considered for <u>training and development</u> aspects: - The firm's learning plan; - The firm's induction programme for new personnel; - The firm's core training programme for personnel; - The arrangements and accreditation policy for mandatory annual audit and GAAP update training and for monitoring attendance (including issuing 'waivers' to mitigate non-compliance); - Specific procedures for attending external trainings; - The use of external training suppliers; - The firm's approach to training those delivering training courses; - The training provided relating to specialized industry sectors, in conjunction with the accreditation policy for these sectors; - The arrangements to update partners and staff on training needs identified between the annual update training and the start of the busy season for December year ends, such as those identified from internal and external quality reviews; - The arrangements for monitoring the effectiveness of the firm's training programmes; and - Whether the firm follow the policies from the Network Policies with respect to this area and whether the firm made any modifications to the policies in this area, either for local, legal, or other reasons. - The arrangements for ensuring that appropriate training records are maintained to enable the audit experience of trainees to be evaluated; - The firm's requirements/guidelines for CPD, how these are communicated to audit partners and staff and the arrangements in place for monitoring compliance; and - The arrangements for ensuring that CPD requirements set by professional bodies are met.	
Resources	01-05	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered for <u>evaluation</u> aspects: - Who has responsibilities for monitoring the process (appraisal and objective settings) and how is this done? - Who sets the objectives assigned to each category of personnel? Who performs the appraisal of personnel? - Are goal setting and appraisal forms formally agreed / signed by both parties? - Firm's guidance on setting of objectives? - Do the objectives set include business achievements? Do such goals include non-audit services? - Nature of objectives / goals assigned? - What recognition and reward are given to the development and maintenance of competencies and commitment to ethical principles? - How does the firm assess the extent to which personnel have demonstrated the competencies required in their current role and those required for progression to a more senior role; - Are quality and compliance with ethic and risk management procedures clearly promoted and taken into account in the goal setting / appraisal process? - Frequency of goal settings (at least annually); and - Frequency of appraisals (for each engagement? Half year? Year-end?).	

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Resources	01-06	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered for compensation aspects: - Components of staff's salary (base salary, bonus, etc.); - Basis on which bonus awards are made under the scheme; - Size of the bonus "pool" as a % of staff salaries; - If individual performance affects the size of bonus awards; - Linkage to the outcome of staff performance appraisals; - Extent to which audit quality indicators appear to be taken into account; and - Whether success in selling non-audit services to audit clients appears to be taken into account.	
Resources	02-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.2.HR " Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (b)
Resources	02-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.2.HR and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (b), A91-93
Resources	02-03	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered for competence aspects: - Career levels established by the firm (associate, manager, director, partner, etc.); - Whether the required competencies identified for the main levels of seniority within the firm appear appropriate; - Extent to which audit quality indicators and compliance with risk management requirements are identified as required competencies; and - How the firm assists audit personnel to develop the required competencies for progression to more senior roles, including the linkage to the firm's career development policies and objective-setting process.	
Resources	02-04	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered for timely evaluation aspects: - Who has responsibilities for monitoring the process (appraisal and objective settings) and how is this done? - Who sets the objectives assigned to each category of staff? Who performs the appraisal of staff? - Are goal setting and appraisal forms formally agreed / signed by both parties? - Firm's guidance on setting of objectives? - Do the objectives set include business achievements? Do such goals include non-audit services? - Nature of objectives / goals assigned? - What recognition and reward are given to the development and maintenance of competencies and commitment to ethical principles? - How does the firm assess the extent to which staff have demonstrated the competencies required in their current role and those required for progression to a more senior role; - Are quality and compliance with ethic and risk management procedures clearly promoted and taken into account in the goal setting / appraisal process? - Frequency of goal settings (at least annually); and - Frequency of appraisals (for each engagement? Half year? Year-end?).	
Resources	02-05	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered for promotion and other incentives aspects: - the link between promotion and the outcome of the performance evaluation; - the link between the change in remuneration and the outcome of the performance evaluation; - how the amount of the awarded performance bonuses was determined; - the firm's policies and procedures for nominating candidates for entry to the partnership, the promotion documentation and the appropriateness of the criteria that founds the basis for the decision to admit or refuse a candidate to the partnership	
Resources	03-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.3.HR " Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (c)
Resources	03-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.3.HR and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (c), A94
Resources	03-03	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered - Review documentation relating to the recruitment and selection process, such as: job profile, application, rationale for hiring; - Ensure that a performance evaluation was performed for these individuals.	
Resources	04-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.4.HR " Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of the quality objectives.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (d)

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Resources	04-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.4.HR and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (d), A88-A89, A95-A97
Resources	04-03	Expected Good Practices	Assessment of firm's responses compared to expected good practices	The following matters are commonly considered: - Responsibility for the assignment of appropriate staff to audit engagements; - Existence of a planning team; - Criteria used for the assignment of appropriate staff to an audit engagement (industry specialization, specific knowledge requirements, practical experience, ability to apply professional judgment, etc.); - Allocation of specialists to audit engagements; and - Periodic and / or annual monitoring of job allocation and workload for managers and upper level staff. - Criteria used for the assignment of audit engagements to partners (industry specialization, specific knowledge requirements, seniority, workload, independence, etc.); - Yearly review of partner's portfolio (including rotation requirements and risk review) and other responsibilities within the firm monitoring partner's workload; and - Process to communicate the identity and role of the partner to the entity's management and those in charge with governance.	
Resources	05-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.5.HR " Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (e)
Resources	05-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.5.HR and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (e)
TECHNOLOGICAL RESOURCES					
Resources	06-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.6.TR " Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the quality risks that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (f), A98-A101
Resources	06-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.6.TR and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these <u>quality risks</u> occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (f), A104
Resources	06-03	Expected Good Practices	Assessment of firm's responses compared to expected good practices	Issues commonly considered are: - Is there a mechanism to track, communicate, and report information reliably? - Are IT resources internal or provided by service providers? If from service providers, are appropriate agreements in place? - Are confidentiality procedures appropriate? - Are data completeness controls appropriate? - Is the ITGC environment well designed? - Are individuals using the IT applications appropriately trained?	
INTELLECTUAL RESOURCES					
Resources	07-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.7.iR " Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (g), A102-A103
Resources	07-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.7.iR and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (g), A104
Resources	07-03	Expected Good Practices	Assessment of firm's responses compared to expected good practices	Characteristics of the policies around the development of intellectual resources may include: - A mapping of the firm's methodology to the ISAs - A log of changes to the intellectual resources year-on-year - An approval mechanism for new guidance - Responsiveness to new guidance issued by standard setters - Procedures to ensure compliance with local and global requirements - A log of instances of non-compliance - A process around adopting local guidance into the methodology.	
SERVICE PROVIDERS					
Resources	08-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.8.SP " Human, technological or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in the performance of engagements, taking into account the QO.4.HR, QO.5.HR, QO.6.TR and QO.7.iR. " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r), §16(v), A28 ISQM1 §25, A45-A48 ISQM1 §32 (g), A105-A108

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Resources	08-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.8.SP and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §32 (g), A105-A108
Resources	08-03	Expected Good Practices	Assessment of firm's responses compared to expected good practices	Examples of good practice may include: - when the service provider is engaged by the engagement team, the firm may establish policies or procedures that set out matters for the engagement team to consider in engaging the service provider. - the firm may include the specific relevant ethical requirements in the terms of the contract (e.g., confidentiality requirements). - in some cases, the firm may determine that there is no quality risk related to certain resources from service providers, in which case the firm may not need to design and implement responses related to those resources - if the firm uses an IT application from a service provider, the service provider distributes updates automatically.	ISQM1 First-time-implementation-guide
Resources	09-01	Quality risks	Assessment of quality risks for mandatory QO	For any additional quality objective and any associated sub-objectives (besides the 8 mandatory QO), understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this additional quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §32 (a)
Resources	09-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM §26, A49-51
Resources	10-01	Responses	Assessment of OE of responses	For any responses where the design and implementation has been assessed as appropriate, consider testing <u>operating effectiveness</u> of those responses during the reviewed period.	
Resources	11-01	Monitoring of responses	Assessment of D&I of monitoring procedures	Evaluate the D&I of the firm's monitoring activities over responses within the Resources component of SOQM.	
Resources	11-02	Monitoring of responses	Assessment of OE of monitoring procedures	Evaluate the operating effectiveness (OE) of the testing plan implemented by the firm within its monitoring activities. Consider reperforming some of the testing on a sample basis.	
Resources	11-03	Monitoring of responses	Assessment of remediation procedures	Review the results of the firm's monitoring procedures and assess whether identified deficiencies (considering their severity and pervasiveness) and remedial actions have been implemented and timely communicated within the firm.	



COMMON AUDIT INSPECTION METHODOLOGY

Information and Communication

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Information and Communication	00-01	Quality Objectives	Overall assessment of quality objectives (QO)	Understand and evaluate whether the firm has established the quality objectives that address obtaining, generating or using information regarding the SOQM, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the SOQM. Assess whether these objectives include: - all mandatory quality objectives (§33); - any additional quality objectives deemed necessary (A42-A43); - any breakdown into quality sub-objectives (A44).	ISQM1 §24 ISQM1 §33 A109
Information and Communication	01-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.1 " <i>The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources</i> ." and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §33 (a)
Information and Communication	01-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.1 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §33 (a), A110-111
Information and Communication	01-03	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate the scope and level of automated/manual aspects of the information system used by the audit firm and the level of integration of various elements: - audit methodology requirements - acceptance, performance and management of audit and non-audit engagements - compliance with ethical and independence requirements - human resources (evaluation, remuneration, trainings) - quality monitoring process.	
Information and Communication	02-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.2 " <i>The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another</i> ." and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §33 (b)
Information and Communication	02-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.2 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §33 (b), A112
Information and Communication	02-03	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate how are the following lines of communication established within the audit firm: - presence of direct line of communication between individuals with operational responsibilities to individuals with ultimate responsibilities, i.e. communication between audit staff and audit partners - communication of conclusions and further actions resulting from assessment of SOQM - various ways of communication of commitment to quality (e.g. through intranet, extranet, announcements, newsletters, technical updates, presentations, meetings etc.) - whistleblowing communications.	
Information and Communication	03-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.3 " <i>Relevant and reliable information is exchanged throughout the firm and with engagement teams [...]</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §33 (c)
Information and Communication	03-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.3 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §33 (c), A112
Information and Communication	03-03	Expected good practices	Assessment of responses according to expected good practices	Understand and evaluate the different types of information that are exchanged among the firm, personnel and engagement team. This could include: - evaluation of policies for appropriate communication of breaches of ethical requirements; - communication of the results of the personal independence compliance testing; - communication on the annual measurement of the effectiveness of the firm's A&C policies (for example, exception reports, or results of the review of the global network); - evaluation of policies and testing instances for communicating any issues regarding declining or resigning from or discontinuing an engagement; - communicating technical developments and current audit issues within the audit practice (e.g. through technical alerts, audit newsletters, annual audit update courses and other training, access to information sources) - communication of the findings from prior year external and internal quality reviews to the network, to those responsible for SOQM and to engagement teams and inclusion of relevant topics in relevant training activities; - communication on the role of the EQC-reviewers; - whistleblowing communications.	
Information and Communication	04-01	Quality risks	Assessment of quality risks for mandatory QO	For the QO.4 " <i>Relevant and reliable information is communicated to external parties [...]</i> " and any associated sub-objectives, understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §33 (d)
Information and Communication	04-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO.4 and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM1 §26, A49-51 ISQM1 §33 (d), A113-A115



COMMON AUDIT INSPECTION METHODOLOGY

Information and Communication

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Information and Communication	04-03	Specified (mandatory) Responses	Assessment of the inclusion of the mandatory specified response	Understand and evaluate the firm's policies and procedures to determine whether they: - Require communication with those charged with governance when performing an audit of financial statements of listed entities about how the system of quality management supports the consistent performance of quality audit engagements; - Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and - Address the information to be provided when communicating externally in accordance with the 2 preceding bullet points, including the nature, timing and extent and appropriate form of communication.	ISQM1 §34 (e) A124-A132
Information and Communication	04-04	Compliance testing	Communication with external parties required by law, regulation or professional standards	Evaluate the current firm's transparency report, including the following: a. Review the factual accuracy of the latest report in the light of the findings of both external regulatory firm-wide work and external regulatory reviews of individual audits; b. Note any areas in which the "arrangements in place to promote audit quality" (both firm arrangements and its network) reported by the firm in their transparency report appear either inconsistent with the external regulator's understanding, incomplete or, while factually correct, potentially misleading to readers; and c. Compare to the firm's prior year transparency report.	Regulation art.13
Information and Communication	04-05	Compliance testing	Communication with external parties required by law, regulation or professional standards	Review the firm's templates for communicating with Audit Committees of PIEs in conjunction with the Regulation or local requirements. Assess whether the templates appropriately reflect the requirements.	Directive art.28 Regulation art.10 and 11
Information and Communication	04-06	Compliance testing	Communication with external parties required by law, regulation or professional standards	For a sample of PIEs in the audit portfolio, check whether the following has been communicated to the audit committee (or to the body performing equivalent functions within the audited entity if the entity does not have an audit committee): - the annual confirmation of independence of the audit firm - any provided NAS had been timely and properly approved.	Directive article 22 Regulation article 6.2 (a) Regulation article 5 IESBA CoE, Section 600
Information and Communication	04-07	Compliance testing	Communication with external parties required by law, regulation or professional standards	For a sample of clients / audit engagements the Audit Firm has withdrawn from/resigned or lost, review (a) if resigned/withdrawn the adequacy of communications with regulatory authorities (b) the documentation provided by the firm to the incoming auditor. Ensure that it includes whether details were appropriately reported to the Audit Committee and any reports to the competent authority related to previous years.	Directive art.38 Regulation art.18
Information and Communication	05-01	Quality risks	Assessment of quality risks for non-mandatory QO	For any additional quality objective and any associated sub-objectives (besides the 4 mandatory QO), understand and evaluate whether the firm has identified and assessed the <u>quality risks</u> that could adversely affect the achievement of this additional quality objective.	ISQM1 §16 (r) ISQM1 §25, A45-A48 ISQM1 §33
Information and Communication	05-02	Responses	Assessment of D&I of responses	Understand and evaluate whether the <u>responses</u> , which cover the quality risks related to QO and any associated sub-objectives, are properly designed and implemented to address quality risks and mitigate the possibility that these quality risks occur and have an effect on the achievement of this quality objective.	ISQM §26, A49-51
Information and Communication	06-01	Responses	Assessment of OE of responses	For any responses where the design and implementation has been assessed as appropriate, consider testing <u>operating effectiveness</u> of those responses during the reviewed period.	
Information and Communication	07-01	Monitoring of responses	Assessment of D&I of monitoring procedures	Evaluate the D&I of the firm's monitoring activities over responses within the Information and Communication component of SOQM.	
Information and Communication	07-02	Monitoring of responses	Assessment of OE of monitoring procedures	Evaluate the operating effectiveness (OE) of the testing plan implemented by the firm within its monitoring activities. Consider reperforming some of the testing on a sample basis.	
Information and Communication	07-03	Monitoring of responses	Assessment of remediation procedures	Review the results of the firm's monitoring procedures and assess whether identified deficiencies (considering their severity and pervasiveness) and remedial actions have been implemented and timely communicated within the firm.	

COMMON AUDIT INSPECTION METHODOLOGY

Engagement Quality Reviews

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Engagement Quality Reviews	01-01	Specified (mandatory) Responses	Assessment of the inclusion of the mandatory specified response	Understand and evaluate the firm's policies and procedures to address engagement quality reviews (EQR) in accordance with ISQM 2 and require an engagement quality reviewer (EQ-reviewer) for: (i) Audits of financial statements of listed entities; (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s).	ISQM1 §34 (f) Regulation art.8
Engagement Quality Reviews	02-01	Specified (mandatory) Responses	Appointment and Eligibility of Engagement Quality Reviewers	Assess whether the firm has assigned the responsibility for the appointment of EQ-reviewers to an individual with competence, capabilities and appropriate authority within the firm to fulfil the responsibility.	ISQM2 §17
Engagement Quality Reviews	02-02	Specified (mandatory) Responses	Appointment and Eligibility of Engagement Quality Reviewers	Understand and evaluate the firm's policies and procedures that set forth the criteria for eligibility to be appointed as an EQ-reviewer and criteria for eligibility of individuals who assist the EQ-reviewer.	ISQM2 §18-20
Engagement Quality Reviews	02-03	Specified (mandatory) Responses	Appointment and Eligibility of Engagement Quality Reviewers	Understand and evaluate whether the firm's policies and procedures : - Require the EQ-reviewer to take overall responsibility for the performance of the EQR (§21(a)); - Address the EQ-reviewer's responsibility for determining the nature, timing and extent of the direction and supervision of the individuals assisting in the review, and the review of their work (§21(b)-A22); - Address circumstances in which the EQ-reviewer's eligibility to perform the EQR is impaired and the appropriate actions to be taken (including replacement and notification) (§22-23 - A23-A24).	ISQM2 §21-23 A22-A24
Engagement Quality Reviews	03-01	Specified (mandatory) Responses	Performance of the Engagement Quality Review	Understand and evaluate the firm's policies, procedures and guidance regarding the performance of the EQR including : - the timing of the procedures to be performed (appropriate point of time during the engagement) (§24(a)); - the preclusion for the engagement partner from dating the engagement report until notification has been received from the engagement quality reviewer that the review is complete (§24(b)); - avoiding situations giving rise to the threat to the objectivity of the EQ-Reviewer (timing and extent of the discussions with the engagement team about a significant judgement) (§24(c)); - the focus on significant judgments and significant matters including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team (§25); - the notification of appropriate individual(s) in the firm of unresolved concerns; (§26) - the requirement for the engagement quality reviewer to “stand-back” to determine whether the performance requirements have been fulfilled (§27).	ISQM2 § 24-27
Engagement Quality Reviews	03-02	Compliance testing	Regulation requirements	Evaluate whether the policies and procedures regarding the EQR at least include the review of the following elements: (a) the independence of the statutory auditor and/or the audit firm from the audited entity (Process of the selection of the statutory auditor or firm, prohibition of the provision of non-audit services, assessment of threats to independence, duration of the audit engagement, prohibition of contingent fee-arrangements, prohibited financial interest etc.); (b) the significant risks which are relevant to the statutory audit and which the statutory auditor or the key audit partner has identified during the performance of the statutory audit and the measures that he or she has taken to adequately manage those risks; (c) the reasoning of the statutory auditor or the key audit partner, in particular with regard to the level of materiality and the significant risks referred to in point (b); (d) any request for advice to external experts and the implementation of such advice; (e) the nature and scope of the corrected and uncorrected misstatements in the financial statements that were identified during the carrying out of the audit; (f) the subjects discussed with the audit committee and the management and/or supervisory bodies of the audited entity (including (if any) irregularities, continuity, breaches, refusal to issue audit opinion or adverse/qualified opinion); (g) the subjects discussed with competent authorities and, where applicable, with other third parties as well as assessment and validation of the duty of prompt possible reporting to the competent authorities (e.g. dismissal/resignation, reported irregularities, continuity, breaches, refusal to issue audit opinion or adverse/qualified opinion); (h) whether the documents and information selected from the file by the reviewer support the opinion of the statutory auditor or the key audit partner as expressed in the draft of the audit report and, if applicable, the additional report to the audit committee.	Regulation art.8
Engagement Quality Reviews	03-03	Compliance testing	Regulation requirements	Evaluate whether the firm has established procedures for determining the manner in which any disagreement between the KAP and the EQ-Reviewer are to be resolved.	ISQM 2 §26 A49 Regulation art.8
Engagement Quality Reviews	04-01	Specified (mandatory) Responses	Documentation of the Engagement Quality Review	Understand and evaluate the firm's policies and procedures related to the documentation requirements for the EQR.	ISQM2 §28-30
Engagement Quality Reviews	04-02	Compliance testing	Regulation requirements	Evaluate whether the firm procedures require the EQ-Reviewer (and his assistant(s)) to record : (a) the oral and written information provided to them to support the significant judgements as well as the main findings of the audit procedures carried out and the conclusions drawn from those findings; (b) the results of the review, together with the considerations underlying those results.	Regulation art.8
Engagement Quality Reviews	05-01	Compliance testing	Assessment of OE of responses	Select a sample of audits for which an EQ-Reviewer was allocated and evaluate whether the requirement to appoint an EQ-Reviewer are fulfilled and whether the appointed EQ-Reviewer is eligible according to the firm's criteria.	

COMMON AUDIT INSPECTION METHODOLOGY

Engagement Quality Reviews

Component	Reference	Key areas	Title	Description	Relevant Laws & Regulation
Engagement Quality Reviews	05-02	Compliance testing	Assessment of OE of responses	For the selected sample of audits evaluate the nature, timing and extent of the EQ-Reviewer’s involvement and whether his activities were in line with the policies.	
Engagement Quality Reviews	06-01	Monitoring	Monitoring of the implementation and operation of the responses	Evaluate the D&I of the firm's monitoring activities over responses regarding the role of EQR.	
Engagement Quality Reviews	06-02	Monitoring	Monitoring of the implementation and operation of the responses	Evaluate the operating effectiveness (OE) of the testing plan implemented by the firm within its monitoring activities. Consider reperforming some of the testing on a sample basis.	
Engagement Quality Reviews	06-03	Monitoring	Monitoring of the implementation and operation of the responses	Review the results of the firm's monitoring procedures and assess whether identified deficiencies (considering their severity and pervasiveness) and remedial actions have been implemented and timely communicated within the firm.	

COMMON AUDIT INSPECTION METHODOLOGY

Monitoring and Remediation

Component	Reference	Title	Description	Relevant Laws & Regulation
Monitoring and remediation	01-00	Overall assessment	Understand and evaluate whether the firm has established a monitoring and remediation process to provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.	ISQM1 §35 A138
Monitoring and remediation	01-01	Design and Implementation of the Monitoring and Remediation Process	Understand and evaluate the nature, timing and extent of the monitoring activities designed and performed by the firm and assess whether the firm considered the following factors in the process: a) The size, structure and organization of the firm; b) The involvement of the firm's network in monitoring activities; c) The resources that the firm uses in monitoring activities (such as IT applications); d) The reasons for assessments given to quality risks; e) The design of responses; f) The design of the firm's risk assessment process and monitoring and remediation process; g) Changes in the SoQM; h) Results of previous monitoring activities and effectiveness of remedial actions; and i) Other relevant information such as complaints and allegations and from external inspections and service providers.	ISQM1 § 37, A139-A150
Monitoring and remediation	01-02	Compliance testing	1) Discuss with the individual(s) assigned operational responsibility for the monitoring and remediation process: a) Any changes to the design of the SoQM including the monitoring and remediation process; b) How the process was organized and documented in practice; c) The findings and actions, along with their implementation, from the previous monitoring process: and 2) Consider the impact of any changes and / or findings on the inspection process.	ISQM1 § 35-47, 50-52.
Monitoring and remediation	01-03	Design and Implementation of the Monitoring and Remediation Process	Understand and evaluate how the firm selected engagements and engagement partners for the inspection of completed engagements and whether the firm considered: a) The types of engagements performed by the firm, the extent of the firm's experience in performing the type of engagement, the types of entities for which engagements are undertaken and the tenure and experience of engagement partners. b) The results of previous inspections of completed engagements, including for each engagement partner; d) Other information such as complaints and allegations about an engagement partner, results of external inspections and the results of the firm's evaluation of each engagement partner's commitment to quality; e) The nature, timing, extent and the results of other monitoring activities undertaken by the firm and engagement partners subject to such activities; and f) Selected at least one completed engagement for each engagement partner on a cyclical basis (this cyclical basis is determined by the firm).	ISQM1 § 38, A141, A151-154
Monitoring and remediation	01-04	Design and Implementation of the Monitoring and Remediation Process	Assess whether the firm's policies or procedures require the individuals performing the monitoring activities : a) to be objective (taking into account the relevant ethical requirements giving rise to self-review threat); and b) have the competence, capabilities and sufficient time to perform the monitoring activities effectively.	ISQM1 § 39 A155-156
Monitoring and remediation	01-05	Network monitoring activities	When the network performs monitoring activities relating to the firm's SoQM, evaluate whether the firm: a) Determined the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm's own monitoring activities; b) Determined its responsibilities in relation to the monitoring activities, including any related actions; and c) Obtained as part of evaluating findings and identifying deficiencies, the results of the monitoring activities from the network on a timely basis.	ISQM1 § 50 A181
Monitoring and remediation	01-06	Network monitoring activities	When the network performs monitoring activities across network firms, evaluate whether: a) The firm understands the overall scope and how the network will communicate the results of the monitoring activities to the firm; and b) The firm, at least annually, (i) Obtained the information of the network about the overall results of the network's monitoring activities across the network firms. (ii) Communicated the information to engagement teams and other individual assigned activities within the SoQM, as appropriate, to enable them to take action (e.g. "common methodology"). (iii) Considered the effects of the information on the firm's SoQM.	ISQM1 § 51 A182-184
Monitoring and remediation	01-07	Compliance testing - inspection process	Select a sample of completed engagements reviewed by the firm [focusing primarily on PIE entities] and inspect these engagements during the current external inspection cycle. Focus on the same focus areas as the firm and evaluate the reasons for any significant differences in findings.	ISQM1 § 35-38

COMMON AUDIT INSPECTION METHODOLOGY

Monitoring and Remediation

Component	Reference	Title	Description	Relevant Laws & Regulation
Monitoring and remediation	01-08	Compliance testing inspection process	Observe the internal inspection process in progress for "in-process engagements" / "completed engagements", by, for example: - Attending a briefing meeting for the individuals undertaking the monitoring review and assess the adequacy of the briefing given; - Observing a review in progress, by attending the meetings between the review team and the audit team; - Undertaking a review of a file concurrently with the monitoring review and compare findings; and - Attending the final "moderation" meeting and assess the robustness of the moderation process.	ISQM1 § 35-38
Monitoring and remediation	01-09	Compliance testing inspection process	Select a sample of final review questionnaires for completed and/or in-process engagements and evaluate a) The significance of the areas covered and whether the selection also complied to the internal instructions if so; b) Whether the findings raised were considered appropriately.	ISQM1 § 35-38
Monitoring and remediation	01-10	Compliance testing inspection process	Evaluate the amount of time budgeted / spent on the review of completed and/or in-process engagements or parts of the SoQM and analyse whether the time spent is considered sufficient for the scope of work.	ISQM1 § 35-38
Monitoring and remediation	01-11	Compliance testing inspection process	Select a sample of in-process engagements reviewed by the firm [focusing primarily on PIE entities]. Inspect whether findings (if any) were remediated fully and timely.	ISQM1 § 35-38
Monitoring and remediation	02-00	Overall assessment	Understand and evaluate whether the firm has established a monitoring and remediation process to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.	ISQM1 §35 A138
Monitoring and remediation	02-01	Design and Implementation of the Monitoring and Remediation Process	Assess whether the firm: a) Accumulated findings from the performance of monitoring activities (network /own), external inspections and other relevant sources; and b) Evaluated the findings to determine whether deficiencies exist, including deficiencies in the monitoring and remediation process.	ISQM1 § 40 A157 -A162
Monitoring and remediation	02-02	Compliance testing Remediation	Review on a sample basis the procedures performed and the results on firm level.	ISQM1 § 35-38
Monitoring and remediation	02-03	Compliance testing Remediation	Evaluate the differences between external regulatory observations from file reviews and the firm's monitoring findings.	ISQM1 § 35-38
Monitoring and remediation	02-04	Design and Implementation of the Monitoring and Remediation Process	Evaluate whether the firm assessed the severity and pervasiveness of identified deficiencies by: a) Investigating the root causes; and b) Evaluating the effect of the identified deficiencies, individually and in aggregate on the SoQM.	ISQM1 § 41 A161, A163-164
Monitoring and remediation	02-05	Compliance testing Remediation	Evaluate (on a sample basis) the remedial actions designed by the firm to address the identified deficiencies and assess whether the remedial actions: a) Addressed the identified deficiencies and their related root causes; b) Were implemented; and c) Were evaluated (and modified, if required) by the individual(s) assigned operational responsibility for the monitoring and remediation process.	ISQM1 § 42-44
Monitoring and remediation	02-06	Network monitoring activities	Assess whether the firm has identified deficiency(ies) in the network requirements or network services and if so: a) Whether it was communicated to the network; and b) Whether remedial actions to address the effect of the identified deficiencies were properly designed and implemented.	ISQM1 § 52 A185 - 186
Monitoring and remediation	02-07	Findings about a Particular Engagement	Evaluate whether the firm properly responded to circumstances when findings indicated that there is an engagement for which procedures were omitted during the performance of the audit or the report issued may be inappropriate.	ISQM1 § 45 A173
Monitoring and remediation	02-08	Compliance testing Remediation	If results on external or internal file reviews indicate that relevant audit procedures were not undertaken or casts doubt on the appropriateness of the audit opinion issued, assess the adequacy of any follow-up action taken by the firm to address the identified deficiencies on that audit and/or to confirm whether or not the audit opinion was appropriate.	ISQM1 § 45 A173
Monitoring and remediation	02-09	Ongoing Communication Related to Monitoring and Remediation	1) Assess whether the following elements were properly communicated by the individual(s) assigned operational responsibility for the monitoring and remediation process to the individual assigned ultimate responsibility and accountability for the SoQM and the individual assigned operational responsibility for the SoQM: a) A description of the monitoring activities performed; b) Identified deficiencies, including the severity and pervasiveness of such deficiencies; and c) Remedial actions. 2) Evaluate whether the firm communicated the matters under no. 1 to engagement teams and other individuals assigned activities within the SoQM.	ISQM1 § 46-47 A174