



Key principles	
Tone at the Top	
ISQC 1 16-19	To assess the tone set by the firm's senior management and, in particular, ensure that audit quality is given sufficient emphasis throughout the firm's system of quality control.
Directive articles 3, 4, 5, 24a and 24b	To consider, through external inspection activity, whether quality is given sufficient focus in practice.
Regulation article 13 (2)	

Step	Test objective	Relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's structure	ISQC 1 16-19 Directive article 3, 4, and 5	<ol style="list-style-type: none">1. Understand, update and evaluate the firm's structure.2. Understand, update and evaluate the key changes made by the firm since the previous inspection visit and how they were approved, communicated, implemented and monitored. Obtain extracts of key policies and procedures which have been changed.3. Enquire whether any changes in the control and/or ownership of the firm, which took place during the inspection period (or are planned) comply with the EC requirement that audit firms are controlled by a majority of approved auditors. Review evidence of actions taken by the firm to demonstrate compliance with these requirements.
2	Review previous regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none">1. Obtain an up to date response from the firm on actions taken to remediate deficiencies noted in prior external and internal inspection reports and review this on appropriateness.2. Evaluate whether senior management has taken steps to inform audit managers and staff of the result of the latest inspection and its findings, and whether these communications are considered sufficient.
3	Obtain an understanding of, and evaluate the firm's transparency report	Regulation art. 13	<ol style="list-style-type: none">1. Evaluate the current firm's transparency report, including the following:<ol style="list-style-type: none">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; andc. Compare to the firm's prior year transparency report.
4	Consider the firm's strategy and business model, its potential impact on the firm's internal quality control system and its impact on audit quality	Directive article 24 b(2)	<ol style="list-style-type: none">1. Review the firm's latest annual report.2. Evaluate the firm's current financial situation and development.3. Evaluate the business model of the firm, its effectiveness in achieving high quality audits and any controls/procedures aimed at achieving quality goals while dealing with the economic environment in which it operates.

Step	Test objective	Relevant regulations	Inspection procedures
5	Consider the firm's use of off-shore and on-shore centers and outsourcing	Directive art. 24a 1d)	<ol style="list-style-type: none"> Understand, update and evaluate details of the firm's policies and practices on the on /off-shoring and outsourcing of audit work, including any on /off-shore centers and outsourcing currently undertaken and planned audit hours (as a % of total audit hours, including historical and forecast estimates) relating to those centers. If significant use is made of on / off-shore centers and outsourcing, consider completing the separate work programme ["N – workprogramme on On-and Offshoring"] Obtain a list of audit clients for which on / off-shore or outsourcing audit hours currently exceed 5% of audit hours. For a sample of those audits, either: <ol style="list-style-type: none"> Select those audits for external inspection review; or Request details of the work performed by the on / off-shore or outsourcing team and consider the appropriateness of the extent of use of the on / off-shore center or outsourcing.
6	Meet with senior management to update our understanding of the firm's tone at the top	ISQC 1 18-19 Directive art. 3, 4, and 5	<ol style="list-style-type: none"> Meet with the firm's CEO. Meet with the firm's Head of Audit (HoA) and the Risk Management Partner (RMP) respectively. Meet with the Audit Compliance Partner or equivalent (the partner with responsibility for external regulation). Discuss current issues relating to the firm's arrangements for regulatory compliance and the manner in which they are carrying out their role, including the sufficiency of resources available to the compliance function. If the firm has a non-executive or supervisory board, consider having an interview with a representative of that board regarding Audit Quality.
Compliance testing procedures			
7	Evaluate management's external and internal communications		<ol style="list-style-type: none"> Obtain and review minutes from meetings of the firm's partner, management and board meetings, as well as any firm committees dedicated to maintaining audit quality, in order to assess whether audit quality aspects have a high priority within the firm's top-level boards. Review a selection of communications. Review a sample of the firm's latest audit tenders / proposal documents. Request the results of any surveys undertaken by the firm of (a) their personnel; or (b) their audit clients. Review the results of any survey undertaken and any firm actions taken/planned to address them. Review the firm's documentation regarding partners and staff leaving the firm (exit interviews) and actions taken. When performing engagement file reviews, ask a sample of engagement team members about their understanding of the tone at the top of the firm. Inquire specifically about the CEO and Head of Audit and how they communicate within the firm regarding audit quality. Conduct an anonymous independent survey (or undertake interviews / set up focus group meetings) of a sample of firm personnel about "tone at the top" in their firm. Conduct a survey of audit committees about the quality of communications from their auditor.
8	Evaluate senior management's background, audit expertise and standing within the firm	ISQC 1 18-19	<ol style="list-style-type: none"> Perform interviews with other partners within the firm, selected either randomly or through judgment. For example, in light of the firm's organizational structure, consider the need to meet with selected heads of business units/industry sectors. If the CEO does not have an audit background and/or the board as a whole does not have sufficient audit focus, pay particular attention as part of the inspection procedures to ensure that audit quality has sufficient focus within the firm. Obtain and review CVs of a selection of members of senior management. Discuss any issues arising with the members of management concerned.

Step	Test objective	Relevant regulations	Inspection procedures
9	Perform an overall evaluation of the tone at the top set by the firm.	Directive art. 24a	<ol style="list-style-type: none"> 1. Evaluate current inspection results from external regulatory review of partner, manager and staff evaluation, compensation, promotion and disciplinary actions (as per the CAIM D. Partner and E. Staff Evaluation, Compensation and Promotion work programme). Consider whether findings raise additional concerns relating to the firm's tone at the top. 2. Evaluate current inspection results from external regulatory review of the firm's internal monitoring of audit quality (as per the CAIM Internal Monitoring work programme). Consider whether findings raise additional concerns relating to the firm's tone at the top. 3. Evaluate the findings arising from all tone at the top procedures performed together with matters arising from other work programmes completed. Evaluate whether the firm has the appropriate policies, procedures and strategy to promote continuous improvement in audit quality. 4. Review the firm's internal assessment of internal monitoring and any other audit quality monitoring activities undertaken by the firm). Consider whether the firm has an appropriate focus and response to deficiencies identified. 5. Review any root cause analysis undertaken by the firm (in response to either internal or external findings). Consider whether the firm appears to have identified the true root causes of the findings. 6. Review the most recent presentation to the firm by the CEAOB Inspection sub-group and homework given to the firm by the CEAOB Inspection sub-group and consider any implications for the firm's focus on audit quality and the firm's tone at the top.



Key principles	
Ethics & Independence	
<p>ISQC 1 20 to 25</p> <p>Directive articles 21 to 25¹</p> <p>Regulation articles 4, 5, 17¹</p> <p>EU Commission Recommendation²</p> <p>EU Commission Memo 14/427 (Memo 14/427)</p> <p>EU Q&A 09/2014³</p> <p>IESBA Code of Ethics (CoE), Part 4A</p>	<p>To assess whether the firm has established adequate policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical and independence requirements.</p>

Definitions and List of Acronyms

Definition	Reference to relevant regulations	Impact on the work programme ⁴
(Audit) Firm	<p>Directive Article 2 (3)</p> <p>IESBA CoE Glossary</p>	Refers to statutory auditor, the audit firm or any member of the network to which the statutory auditor or audit firm belongs.
Key Audit Partner (KAP)	<p>Directive Article 2 (16)</p> <p>Regulation Article 17 (7)</p> <p>IESBA CoE Glossary Section 540 Long Association of Personnel</p>	<p>Definition of the KAP is particularly relevant with respect to rotation and long term associations.</p> <p>Note: Inspectors should note that CoE is different than the Directive and the Regulation with respect to the definition of KAP:</p> <ul style="list-style-type: none">For the CoE, KAP also includes <u>EQCR</u>; <p>For PIE-Audits, KAPs shall cease their participation in the audit of a PIE not later than seven years from the date of their appointment but thereafter the cooling-off period are different.</p>

¹ The requirements derived from the 2014 Audit Reform (Regulation and Directive) shall be applied for inspections beginning at the earliest on June 17, 2016, except for the provision on rotation subject to a transitional regime (articles 17 and 41 of the Regulation)

² Commission Recommendation 2002/590/EC - Statutory Auditors' Independence in the EU: A Set of Fundamental Principles

³ Q&A – Implementation of the New Statutory Audit Framework

⁴ Statements and opinions given in this work programme are tentative and represent the interpretation by the EAIG CAIM working group, they do not necessarily represent the correct interpretation of the current EU legislation and of the IESBA CoE. According to the treaty on the functioning of the EU, the Court of Justice has the sole power to interpret the acts of the institutions of the EU.

Public Interest Entity(ies) (PIE(s)) / Audit client	<p>Directive Article 2 (13)</p> <p>EU Commission Memo 14/427 (definitions of “parent undertaking” and “controlled undertaking”)</p> <p>IESBA CoE Glossary (definitions of “public interest entity”, “audit client” and “related entities”)</p>	<p>“PIE audit clients” include both the audited entities and their parent or controlled undertakings.</p> <p>The definition of a “PIE audit client” is relevant in respect to certain topics (for example, family trees, restricted investments, independence confirmations, rotation and long term associations).</p> <p>Note: The IESBA CoE definition of “PIE audit clients” differentiates between listed and non-listed PIEs. For listed entities the audit client includes the audited entity and its “related entities” as per the definition of the CoE. For non-listed entities, the audit client includes the audited entity and only “related entities” over which the client has direct or indirect control (R400.20). For the Directive / Regulation, the audit client is the audited PIE and rules apply to its parent undertaking and controlled undertakings.</p>
Non Audit Services (NAS)	<p>Regulation article 5</p> <p>IESBA CoE Section 600</p>	<p>The CoE deals with prohibitions relating to PIEs and non PIEs, whereas the Regulation only applies to PIEs within the EU.</p> <p>For PIEs, the Regulation is more stringent than the IESBA CoE.</p> <p>Both the CoE and Regulation provide derogations to prohibitions when the services have immaterial impact on the audited financial statements. The CoE also considers safeguard measures and exceptional circumstances for some of the prohibitions.</p> <p>Inspectors should refer to the CoE and the Regulation to assess any situation where a service provided to the audit client could be a prohibited services.</p> <p>National add-ons, laws and regulation should also be considered.</p>

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the policies and procedures in place to sustain ethical / independent behaviour	<p>ISQC 1 21(a), (b), 22(b), (c), 23, 24, 25(b) & A14</p> <p>Regulation art. 4, 5, 6.2 (a) and 17</p> <p>Directive art. 22.1, 22.2, 22.3, 22.4, 22.5, 22.6 and 22a</p> <p>IESBA CoE - sections 410, 420, 510, 511, 520, 521, 522, 523, 524, 525, 540, 600</p> <p>Recommendation A 4.3.2, B.1, B.2, B3, B4, B5, B7, B8 & B10</p> <p>Memo 14/427 ⁵</p>	<ol style="list-style-type: none"> Understand, update and evaluate the key changes made by the firm to its policies, procedures and system in the past year or since the previous inspection visit. If available, review the firm’s mapping of the requirements of the CoE (or national applicable ethical and independence standards) and of the Directive and Regulation to its policies. Evaluate the reasonableness of the firm’s policies, procedures and systems that cover the following areas in particular: <ol style="list-style-type: none"> Consultation process on ethics & independence issues; Ethics and independence confirmations; Ethics and independence training; Family trees; Restricted investments; Personal independence compliance testing; Rotation and long term association; Approval process for NAS (including the aspect of the fee cap for PIEs); Business relationships; Disciplinary Actions / Sanctions ; and Other areas; Evaluate the firm’s ISQC1 internal monitoring reports or similar documents showing annual measurement of the effectiveness of the firm’s Ethics / Independence programme.

⁵ Regarding change of status of an audit client from non-PIE to PIE during the engagement period, and transitional period on rotation

Step	Test objective	Reference to relevant regulations	Inspection procedures
		EU Q&A 09/2014⁶	<p>4. Review the latest version of the firm's code of conduct (and its approval by the board of directors or governing body and other decision-making bodies of the firm, as appropriate).</p> <p>5. Discuss changes made to the policies, procedures and systems with the Ethics Officer and /or the Independence Partner to understand the intention behind the changes.</p> <p>6. Review communications/ reporting made by the Ethics Officer / Independence Partner to the management bodies of the firm.</p>
2	Review previous external and internal regulatory inspection information, and evaluate management's response		1. Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure A.2.1].
Compliance testing of procedures			
3	Evaluate compliance with the consultation process on ethics & independence	ISQC 1 20-25	<p>1. Review and evaluate the types of independence & ethical issues on which partners and staff have sought advice and any training needs identified.</p> <p>2. Select a sample of consultations and review the nature and extent of the issues / queries raised. Evaluate the appropriateness and implementation of the responses given.</p>
4	Evaluate compliance with relevant ethical requirements	ISQC 1 20, A7-A10 Directive art. 21	<p>1. For a sample of employment contracts / partnership agreements ensure that those contracts contain a clause regarding confidentiality / professional secrecy / ethics & independence policies and requirements imposed by the firm.</p> <p>2. Review the results of the most recent ethics survey conducted (if any) amongst both (i) the firm's personnel and (ii) the firm's audit clients and ensure appropriate actions have been taken by the ethics and independence officers.</p>
5	Evaluate compliance with relevant independence requirements - Personnel independence – conflicts of interest	ISQC 1 21, 24, A11 Directive art. 22, 22a Regulation art. 6.2 (a) IESBA CoE Section 524 Employment with an audit client Recommendation, B.6 ISQC 1.21(b), 22(b)	<p>1. Annual Ethics / Independence confirmations:</p> <ul style="list-style-type: none"> a. Evaluate whether the firm appropriately followed up on individuals who did not provide their confirmations within the required timeframe and appropriately resolved any actual or potential compliance issues disclosed in the annual confirmations. b. Select a sample of partners and employees and check whether their ethics / independence confirmation is available. This procedure should also ensure that the respective individuals used the appropriate template for their confirmation. c. For a sample of PIEs, check whether the annual confirmation of independence of the audit firm 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)? <p>2. Partners and employees leaving the firm</p> <ul style="list-style-type: none"> a. Inquire whether any partners/employees left the firm in the period and subsequently joined, or are soon to join, an audit client. b. For a sample of partners/employees who left the firm to take a position at an audit client, confirm that an appropriate cooling off period was, or is being, observed where relevant. c. For the same sample, confirm that other appropriate safeguards measures have been taken where necessary. <p>3. For a sample of new employees hired in the firm's last fiscal year (from each level), confirm completion of the independence training and submission of an independence confirmation.</p> <p>4. Private business interests - Review that the firm monitors on an annual basis (and at each significant change) 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.</p>

⁶ Definitions of some categories of NAS prohibited by the Regulation

Step	Test objective	Reference to relevant regulations	Inspection procedures
			5. Conduct an anonymous independent survey of a sample of firm personnel about "ethics & independence" in their firm. The selected focus group should contain employees from every level within the firm for a more complete picture of the attitude among the personnel (random selection).
6	Evaluate compliance with relevant independence requirements - Personal and Firm independence – financial interests and relationships	ISQC 1 21(b), 22(a), 22(c), 23, A10 Directive art. 22	<ol style="list-style-type: none"> Family trees: <ol style="list-style-type: none"> Test on a sample basis, whether the family trees maintained in the firm's system are accurate and current. Select a sample of audit clients and test the completeness of the respective family tree information for these clients by looking up certain individual Group entities on a sample basis. Assess whether there has been any 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. Restricted investments (personal and firm): <ol style="list-style-type: none"> Test, on a sample basis, whether the firm's system to track restricted personal investments ensures proper and timely information is delivered to partners/employees and other concerned persons about the change in status of any entity within the firm's system (e.g a previously permissible investment becomes restricted following the firm's appointment as new auditor of the issuer). Test, on a sample basis, whether newly restricted investments owned by partners/employees and other concerned persons have been disposed of in a timely manner. Evaluate the firm's process to ensure firm investments (made for cash management purposes) do not include restricted securities or any other restricted financial interests. Personal independence compliance testing: <ol style="list-style-type: none"> Obtain the results / reports of the firm's most recent personal independence compliance testing; Select a sample of individuals who were subject to compliance testing and review the testing to ensure the firm's conclusions appear appropriate based on the relevant independence guidance; Evaluate whether the firm took appropriate remedial action in cases of independence violations. In particular, consider whether the firm received appropriate evidence that potential independence threats have been removed by the individuals (e.g. restricted securities have been sold within a set timeframe); and Evaluate whether the results of the personal independence compliance testing have been communicated to appropriate levels within the firm and within the network, if applicable.
7	Evaluate compliance with relevant independence requirements - Client independence	ISQC 1 21(b), 22(a), 22(c), 25(b), A10, A14 Regulation art. 4, 5, 16 (2) - 16 (5), 17 (1) - 17 (6), 17 (7) & (8) IESBA CoE Section 410, 540, 600 Recommendation B.2 B.8 Q&A 09 2014	<ol style="list-style-type: none"> KAP(s) and senior personnel rotation on PIEs statutory audits : <ol style="list-style-type: none"> Select a sample of audit engagements and evaluate whether the information contained in the firm's relevant rotation tracking system is accurate. For KAP, ensure that no violation(s) of the seven-year rotation period occurred during the inspected period. For KAP, ensure that no violation(s) with respect to the different cooling-off period occurred. Obtain a report identifying engagements where the senior personnel (including at least the persons registered as statutory auditors) involved in the statutory audits exceeded the normal rotation mechanism introduced by the firm and consider the appropriateness of the reasons given. Firm rotation on PIE audit engagements: <ol style="list-style-type: none"> Select a sample of audit engagements and evaluate whether the information contained in the firm's rotation tracking system is accurate. Assess whether the firm does not exceed the maximum duration of an audit engagement For a sample of audit engagements, evaluate the appropriateness of the documentation supporting rotation extensions (e.g. recommendation of Audit Committee (or equivalent), decision of the shareholders, request to the competent authority and additional delay granted), if applicable. Assess whether there are any violation(s) of the four-year cooling-off period after the expiration of the maximum duration of an audit engagement. NAS: <ol style="list-style-type: none"> Select a sample of the firm's audit clients and obtain a list of all NAS provided by the firm or any member of its network to these audit clients, (if the client is a PIE and/or a listed company to their parent undertakings and their controlled undertakings) for the inspection period. Select a sample of NAS to be further inspected and evaluate whether : <ol style="list-style-type: none"> the firm adhered to its internal processes regarding approval of NAS (including consultation of the independence desk for complex matters) prior to provision of that service; the safeguards implemented were effective, particularly where the services give rise to self-review threats; and



Step	Test objective	Reference to relevant regulations	Inspection procedures
			<p>iii. the actual services provided and related invoices issued, were consistent with the engagement letter and the basis for approving the service.</p> <p>In addition for PIEs ensure that :</p> <p>iv. the NAS provided either directly or indirectly by the audit firm are not prohibited according to the Regulation and/or to the CoE;</p> <p>v. the approval by the audit committee was obtained for permitted services on a timely basis; and</p> <p>vi. For new audit engagements: no prohibited NAS were provided by the audit firm between the beginning of the first period audited or when the audit team began to provide audit services and the issuance of the last audit report before firm rotation.</p> <p>vii. for an audited PIE, when non audit services prohibited within the EU have been provided by a member of the network of the audit firm to the parent undertaking or to a controlled undertaking incorporated in a third country, evaluate whether :</p> <ul style="list-style-type: none">o the audit firm has assessed the threats to its independence appropriately and - if applicable - has implemented proper safeguard measures in order to avoid its professional judgment and the audit report being affected by the provision of the NAS in the third country;o the related NAS concerns services specifically listed in the Regulation (article 5.3). <p>4. Audit Fees:</p> <p>a. Review that the fee cap is not exceeded for each PIE audited by the audit firm and, where applicable, for their parent undertakings and their controlled undertakings and for the consolidated financial statements of that group of undertakings</p> <p>b. Select a sample of PIE engagements and ensure that:</p> <ul style="list-style-type: none">i. the audit fees are not contingent-based;ii. the fee cap for NAS is not exceeded (unless authorized by the competent authority for a period not exceeding two financial years). <p>5. Business relationships:</p> <p>Select a sample of the firm's audit clients with whom the firm also has a business relationship and evaluate whether:</p> <ul style="list-style-type: none">a. the firm followed its internal processes in evaluating and documenting the threats to independence; andb. the firm arrived at appropriate conclusions in its evaluation of the relationships. <p>6. Fees:</p> <ul style="list-style-type: none">a. Review the output of the firm's monitoring arrangements in relation to the existence of significant overdue fees from audit clients. Consider whether the action taken was appropriate and in accordance with the firm's policies;b. Review the appropriateness of the firm's 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. Select a sample of local audit clients / audit partners to ensure completeness and accuracy of the reporting; andc. Obtain and review details of any contingent fee arrangements relating to non-PIE audit clients or their affiliates, advised to and approved by the Ethics Partner during the period. Consider whether such fee arrangements were permissible.
8	Evaluate the adequacy of remedial actions or sanctions in case of violation of ethical/independence requirements	ISQC1 23	<p>1. Review the list of the firm's reported ethics / independence violations since the last inspection visit. Select a sample of cases, walk through the investigation and resolution process to assess whether it reflects the firm's investigation management process and evaluate:</p> <ul style="list-style-type: none">a. The appropriateness of actions taken;b. The timeliness of the actions taken;c. Whether appropriate consideration was given to the need to reconsider the firm's acceptance or continuance process given the issues arising; andd. Whether consideration was given to imposing a financial penalty or taking other disciplinary action against the individuals concerned. <p>2. Follow up and consider the sufficiency of the firm's remedial action/sanction in case of violation(s) identified during the last inspection visit.</p>

Key principles	
Acceptance and continuance	
<p>ISQC 1 26 to 28 & A18 to A23</p> <p>Directive articles 12, 37 and 38 Regulation article 4, 5, 6, 7, 16, 17,18, 19</p>	<p>To assess the policies and procedures in place to ensure appropriate acceptance and continuance decisions are made by the firm.</p> <p>To assess whether the firm responds appropriately to issues identified by the acceptance and continuance process.</p>

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's client/engagement acceptance and continuance process	<p>ISQC1 26-27</p> <p>Directive article 37</p> <p>Regulation article 4, 5, 6,7, 12, 16, 17,18, 19</p>	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies, procedures and systems. Gain an understanding and evaluate the reasonableness of the firm's policies, procedures and systems that cover the acceptance and continuance (A&C) of client relations and engagements including related client risk assessments and received pre-approvals from Audit committees/Those Charged With Governance (TCWG). Meet with the partner responsible to discuss changes made to the policies, procedures and systems where significant to understand and evaluate the intention behind the changes. Evaluate the qualifications and authority of those individuals assigned responsibility for approving client acceptance and continuance decisions. Understand, update and evaluate the firm's policies and procedures in response to Money Laundering risk (including the importance of undertaking a "know your client" assessment) and its consideration within the firm's A&C process. Review any communications from the network regarding findings related to A&C processes and consider its timeliness. Evaluate any document showing annual measurement of the effectiveness of the firm's A&C policies communicated to the management bodies of the firm (For example, exception reports, or results of the review of the global network).
2	Obtain an up to date understanding of the firm's arrangements and processes on dismissal and withdrawal	<p>ISQC1 28</p> <p>Directive article 38</p> <p>Regulation article 18</p>	<ol style="list-style-type: none"> Review a summary of the key changes to the policies and procedures on dismissal and withdrawal in the past year or since the previous inspection visit and evaluate its reasonableness.
3	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].

Step	Test objective	Reference to relevant regulations	Inspection procedures
Compliance testing of procedures			
4	Evaluate compliance with A&C policies and procedures	ISQC 1 26-27 Directive article 37	<ol style="list-style-type: none"> For a sample of clients (new clients and continuing clients), review the latest A&C documentation. Select a sample of new clients and confirm that the audit was appointed in compliance with national legislation.
5	Evaluate compliance with arrangements and processes on dismissal and withdrawal	ISQC 1.28 Directive article 38 Regulation article 18	<ol style="list-style-type: none"> Review a list of the clients / audit engagements the firm has withdrawn from or lost since the last inspection and discuss significant changes with the risk management partner, obtaining details of the reason for losing or withdrawing from the clients. 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.

Key principles	
Partner Evaluation, Compensation and Promotion	
ISQC 1 29 to 31 and A4, A5, A14 to A28	To assess whether the firm has sufficient personnel with competence, capabilities and commitment to ethical principles necessary to perform audit engagements. Encompasses: recruitment, performance, evaluation, compensation and assignment of engagement teams.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's procedures and policies dealing with partners performance evaluation and accountability	ISQC1 29 to 31 and A4, A5, A24, A28	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures regarding objective-setting and performance appraisal for audit partners. Understand, update and evaluate the firm's policies and procedures for driving audit partner accountability. Understand, update and evaluate the firm's policies and procedures for assigning engagements. Analyze the latest data available on the monitoring of the process.
2	Obtain an up to date understanding of the firm's procedure and policies dealing with partners compensation and link with appraisal	ISQC1 29 to 31 and A4, A5, A24, A28	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures for determining the compensation of audit partners.
3	Obtain an up to date understanding of the firm's procedure and policies dealing with nomination to partnership	ISQC1 29 to 31 and A4, A5, A24, A28	<ol style="list-style-type: none"> Understand, update and evaluate the framework established by the firm to define the competencies required by audit partners. Understand, update and evaluate the firm's policies and procedures for nominating candidates for entry to the partnership.
4	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].

Step	Test objective	Reference to relevant regulations	Inspection procedures
Compliance testing of procedures			
5	Test the firm's partners performance evaluation and accountability procedures		<ol style="list-style-type: none"> For a sample of partners selected, evaluate the documentation relating to their last appraisal and their following year's objectives. Inquire of the HoA whether or not any engagement partners of listed clients were recently changed at the client's request or due to other reasons, Review the appropriateness of the change and any other actions taken by the firm to ensure high audit quality. Obtain a list of audit engagements where no (or very few) audit hours were charged by the partner and request the firm to provide explanations for the absence of hours and actions taken.
6	Test the firm's partner remuneration procedures		<ol style="list-style-type: none"> Select a sample of partners and evaluate the basis on which changes in their remuneration from one year to the next has been determined.
7	Test compliance with the firm's policies and procedures related to assignment of engagement to partners		<ol style="list-style-type: none"> Review the schedule of changes since the previous year in partner allocations of engagements and other responsibilities (portfolios) and ascertain why any changes have taken place (e.g. mandatory rotation requirements). Evaluate the results of the periodic and/or annual monitoring of assignment of engagements to partners. Select a sample of partners with poor audit quality results and review their portfolios to identify any root causes.
8	Test the firm's partner promotion procedures		<ol style="list-style-type: none"> Select a sample of candidates considered for partnership during the period (both internal and external candidates). Review their promotion documentation and /or personal files (note: the sample should include candidates who were and who were not promoted) and evaluate the appropriateness of the basis for the decision to admit or refuse the candidate to the partnership.

Key principles	
Staff Evaluation, Compensation and Promotion	
<p>Directive article 24a(1) ISQC 1 29 to 31 and A4, A5, A14 to A28</p>	<p>To assess whether the firm has sufficient personnel with competence, capabilities and commitment to ethical principles necessary to perform audit engagements. Encompasses: recruitment, performance, evaluation, compensation and assignment of engagement teams.</p>

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain information on the firm's procedures relating to staff	Directive art 24a(1) ISQC 1 29-31	<ol style="list-style-type: none"> 1. Understand, update and evaluate the firm's policies and procedures relating to audit staff. 2. Understand, update and evaluate the firm's process for assigning staff to each engagement team. 3. Discuss changes made to the firm's policies and procedures relating to partners and staff (including assignment to engagements) with the partner responsible and evaluate the intention behind the changes. 4. Review the latest available employee statistics and data and consider whether the staff mix appears appropriate for the firm. 5. Obtain further information on the members of the leadership team of the audit firm (professional background, membership of professional bodies, etc.).
2	Obtain an up to date understanding of the firm's procedures and policies dealing with staff performance evaluation	ISQC1 29 to 31 and A4, A5, A24, A28	<ol style="list-style-type: none"> 1. Understand, update and evaluate the firm's objective setting and performance appraisal processes for staff.
3	Obtain an up to date understanding of the firm's procedure and policies dealing with staff compensation and link with appraisal	ISQC1 29 to 31 and A4, A5, A24, A28	<ol style="list-style-type: none"> 1. Understand, update and evaluate the firm's policies and procedures for determining staff remuneration.
4	Obtain an up to date understanding of the firm's procedure and policies dealing with promotion of staff	ISQC1 29 to 31 and A4, A5, A24, A28	<ol style="list-style-type: none"> 1. Understand, update and evaluate the framework established by the firm to define the competencies required by audit staff at all levels.

Step	Test objective	Reference to relevant regulations	Inspection procedures
5	Obtain an up to date understanding of the firm's procedures and policies relating to newly hired personnel	ISQC1 29 to 31 and A4, A5, A24, A28	<ol style="list-style-type: none"> Understand, update and evaluate the framework established by the firm to define the competencies required by newly hired personnel. Obtain information on the firm's current staffing needs and recruitment process.
6	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].
Compliance testing of procedures			
7	Evaluate compliance with the firm's policies and procedures related to assignment of engagement teams		<ol style="list-style-type: none"> Review the results of the periodic and / or annual monitoring of job allocations and workload for managers and qualified staff.
8	Test the firm's staff performance evaluation process		<ol style="list-style-type: none"> Select a sample of staff assigned to audits and review the documentation relating to their last appraisals and following year's objectives.
9	Test the firm's staff promotion, remuneration and bonus process		<ol style="list-style-type: none"> Select a sample of staff promotion and remuneration and assess adherence to the procedure.
10	Test the firm's recruitment process		<ol style="list-style-type: none"> Select a sample of newly hired personnel and assess the adequacy of the recruitment process.

Key principles	
Methodology	
<p>ISQC 1 29 to 33</p> <p>Directive articles 21 (2), 26-28 Regulation articles 10-11</p>	<p>To assess whether partners and staff receive the necessary guidance relating to the firm's audit methodology to ensure that audits are performed effectively and in accordance with both professional and auditing standards.</p>

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's methodology and related guidance	<p>ISQC1 29-33</p> <p>Directive article 24a(1h), 26 Directive article 27 Regulation articles 7, 10-11</p>	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures for mapping the requirements of applicable auditing standards and other requirements to its audit methodology and related guidance. In particular, (for the first inspection after implementation) understand, update and evaluate the changes made as a result of the implementation of the Directive and Regulation on statutory audits. Understand, update and evaluate the firm's policies and procedures for 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). Understand, update and evaluate the firm's IT systems used within the audit practice in relation to audit methodology (in particular the firm's audit software), including where the system is maintained and updated and who has responsibility for that system. Consider the relevance of that system to the firm's quality control and any implications for the inspection approach. Understand, update and evaluate the firm's approach to the use of specialists in audits, including IT, taxation and other experts. In relation to IT specialists, specifically consider the firm's requirements for assessment of the design and testing of general IT controls and IT application controls. Understand, update and evaluate the firm's policies and procedures regarding the review and approval of audit work. Consider whether the appropriate policies are in place to ensure that the work of less experienced team members is reviewed by more experienced staff. Understand, update and evaluate the design process and the change management process of the global methodology. Review a list of any separate guidance/standard documentation etc. issued on how the firm's methodology is to be applied to specific industry groups (e.g. banking and other financial sector audits). Consider the adequacy of aspects of that additional guidance.
2	Meet with senior management to update our understanding of the firm's methodology and related guidance		<ol style="list-style-type: none"> Meet with the partner responsible for the firm's audit methodology to discuss issues arising, including any matters relating to the implementation in practice of the requirements of the ISAs or national applicable auditing standards, any planned changes to the firm's methodology within the next year and any areas in which additional guidance is to be issued.

Step	Test objective	Reference to relevant regulations	Inspection procedures
3	Review previous external and internal regulatory inspection information, and evaluate management's response		1. Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].
Compliance testing of procedures			
4	Assess recent changes to the firm's methodology and related guidance	Directive article 21 (2)	<ol style="list-style-type: none"> Review and assess the appropriateness of any significant changes made to the firm's audit methodology, including related systems, and related guidance and standard documentation, in the period since the last inspection. Review details of and evaluate any specific methodology and related guidance issued regarding the application of appropriate professional scepticism by partners and staff involved in audit work.
5	Review key communications relating to firm's methodology and related guidance	Directive article 28 Regulation articles 10-11	<ol style="list-style-type: none"> Review the firm's templates for audit reports and reports to those charged with governance in conjunction with the Directive and Regulation or local requirements. Assess whether the templates appropriately reflect the requirements. 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. Review relevant technical and other guidance material issued to audit personnel in the period, including communications relating to any changes made to the firm's audit methodology as a result of implementing the new Directive and Regulation, or for any other purpose.
6	Evaluate the impact of external inspection findings and internal monitoring review findings in our assessment of the firm's methodology and related guidance		<ol style="list-style-type: none"> Evaluate whether <u>external</u> inspection findings have identified issues regarding aspects of the firm's audit methodology, including related systems, guidance and standard documentation, which need to be followed-up. Particular attention should be given to review findings in areas which are important from an audit quality perspective. Evaluate whether <u>internal</u> inspection findings have identified issues regarding aspects of the firm's audit methodology, including related systems, guidance and standard documentation, which need to be followed-up.
7	Evaluate the firm's methodology and related guidance in relation to the audit of Information Technology		<ol style="list-style-type: none"> Evaluate the firm's audit methodology and related guidance on how to test the completeness and accuracy of reports used for audit work. Consider how the firm distinguishes between reliance on reports where general IT controls and application controls are effective, and reliance where general IT controls and application controls have either not been tested or found to be ineffective. Evaluate how the firm evaluates general IT controls weaknesses. Evaluate the firm's audit methodology and related guidance on how to evaluate the impact of ineffective general IT controls and on IT application controls. Identify whether the firm explains the relationship between IT application controls and relevant general IT controls. Evaluate the firm's audit methodology and related guidance on reliance on IT work performed during an interim or previous period. Consider whether the firm's methodology / guidance appropriately reflects the ISA requirements. Evaluate the firm's audit methodology / guidance on the extent of testing of IT application controls. Consider whether the firm appropriately explains the basis for a 'test of one' and how to test the attributes of an IT application control. Evaluate any training on assessing and testing IT controls provided to audit staff. Consider whether it appropriately covers the above matters.

Step	Test objective	Reference to relevant regulations	Inspection procedures
			6. Evaluate the IT audit related training material for courses provided to IT audit specialists (from new joiner to senior manager). Consider the appropriateness of the matters covered.

Key principles	
Training	
<p>ISQC 1 29-32</p> <p>Directive articles 3, 4, 5, 13 and 30</p>	To assess whether partners and staff receive the necessary training to ensure that audits are performed effectively and in accordance with both professional and auditing standards.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's training policies and procedures.	<p>ISQC1 29-32</p> <p>Directive article 13</p> <p>[IES 7.33, 7.42, 7.46, Appendix]⁷</p> <p>Directive article 30</p>	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures for ensuring that audit partners and staff undertake appropriate training to maintain their theoretical knowledge, professional skills and values at a sufficiently high level. Understand, update and evaluate the firm's policies and procedures for ensuring that audit partners and staff undertake appropriate continuing professional development (“CPD”). Also consider the firm's arrangements for detecting/imposing/reporting sanctions when failure to respect the CPD requirements is detected Evaluate whether an appropriate accreditation process (for example foreign GAAP, industry specific, PIE, IFRS, etc.) is in place for ensuring that team members have the required knowledge. Consider the sanction process if the partner or employee fails to meet the accreditation training requirements.
2	Meet with senior management to update our understanding of the firm's training	<p>ISQC1 18-19</p> <p>Directive articles 3, 4 and 5</p>	<ol style="list-style-type: none"> Meet with the partner responsible for training to discuss significant changes in policies and procedures.
3	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].
4	Consider the communication of external inspection findings and internal monitoring review findings in training courses		<ol style="list-style-type: none"> Based on our review of the training material for the annual audit update training, consider whether training needs arising from relevant prior year external and internal quality review findings (including the need to exercise appropriate professional scepticism) were appropriately communicated.

⁷ While not a requirement in the EU, the International Education Standards may provide useful reference in this area.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Compliance testing of procedures			
5	Evaluate the quality of training material used	ISQC1 A26	<ol style="list-style-type: none"> 1. Review a sample of training material. 2. Review any specific training material issued regarding the application of appropriate professional scepticism by partners and staff involved in audit work. 3. Where external training has been undertaken: Consider on a sample basis whether: external training was appropriately approved and accredited; participants had to pass a final test; participants received a certificate; training hours are correctly reported in the tracking system; and training hours are accountable.
6	Assess the adequacy of attendance monitoring		<ol style="list-style-type: none"> 1. Review attendance statistics for the firm's core training programme and mandatory annual audit update training and enquire how such information is used by the firm in practice. Document a summary of these statistics and record the trends year on year. 2. Consider, on a sample basis, whether partners and employees have met the particular training requirements in accordance with the accreditation process.
7	Evaluate CPD procedures	Directive article 13 [IES 7.33]	<ol style="list-style-type: none"> 1. Evaluate the controls in place to ensure that partners and qualified staff comply with the training requirements (at least 120 hours/units of relevant professional development activity in each rolling three-year period of which 60 hours/units should be verifiable). 2. For a sample of partners and qualified staff, obtain supporting documentation relating to meeting the necessary training or other professional development requirements and assess the adequacy of the evidence provided. 3. Evaluate the adequacy of the necessary measures/sanctions in place if partner and employees do not comply with relevant requirements.

Key principles	
Engagement Quality Control - Consultation	
ISQC 1 34, 43 and 44	To assess the policies and procedures in place for consultations and differences of opinion.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's policies and procedures related to consultations	ISQC 1 34	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures for consultations. Inquire of the firm whether they have identified "sensitive" engagements (listed entities, high-risk engagements, etc.) for which no consultations have been made; obtain an understanding of the background for not conducting any consultations for those engagements.
2	Obtain an up to date understanding of the firm's procedures and policies related to differences of opinion	ISQC 1 43 and 44	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures related to resolving differences of opinion.
3	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].
Compliance Testing of Procedures			
4	Test compliance with the firm's policies and procedures related to consultations	ISQC 1 34	<ol style="list-style-type: none"> Select a sample of audits and evaluate whether: <ol style="list-style-type: none"> formal consultations were made if required in accordance with the firm's policies (note: only applicable to engagement files selected for inspection); the formal consultations and the conclusions reached were appropriately documented in the audit files; the nature and scope of, and conclusions resulting from such formal consultation were agreed with the party consulted; and the conclusions resulting from such consultations were implemented.
5	Test compliance with the firm's policies and procedures related to differences of opinion	ISQC 1 43 and 44	<ol style="list-style-type: none"> Inquire of the firm whether there have been any differences of opinion between the engagement partner/manager/team and the person/team consulted that had to be escalated according to the firm's policy for differences of opinion. As deemed necessary, assess the appropriateness of the conclusions reached to resolve those differences of opinion.

Key principles	
Engagement Quality Control - EQCR	
<p>ISQC 1 35 to 42</p> <p>Regulation article 8</p>	To assess the policies and procedures in place for Engagement Quality Control Reviews.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's procedures and policies related to Engagement Quality Control Reviews	<p>ISQC 1 35-42</p> <p>Regulation article 8 in connection with articles 4, 5, 6, 7, 16, 17</p>	<ol style="list-style-type: none"> Understand, update and evaluate the firm's criteria for the eligibility of the Engagement Quality Control Reviewer ("EQC-Reviewer") and the training provided to the EQC-Reviewer. Understand, update and evaluate the firm's policies and procedures to determine whether an Engagement Quality Control Review ("EQCR") is required. Understand, update and evaluate the firm's guidance related to the nature, timing and extent of the EQCR. Understand, update and evaluate the firm's policies and procedures related to the documentation requirements for the EQCR. Evaluate the appropriateness of communication made to all audit staff and partners regarding the role of EQC-Reviewers and if this is in line with the policy.
2	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections regarding EQCR [as obtained through Tone at the Top work programme procedure 2.1].
Compliance Testing of Procedures			
3	Test compliance with firm's policies and procedures related to Engagement Quality Control Reviews		<ol style="list-style-type: none"> Select a sample of audits for which an EQCR was allocated and evaluate the nature, timing and extent of the allocation of the EQCR and the EQC-Reviewer, respectively. For the selected sample of audits evaluate the nature, timing and extent of the EQC-Reviewer's involvement: Select a sample of audits that appear to meet the criteria for an EQCR and check that the engagement is included in the list of engagements to which an EQC-reviewer was allocated. Evaluate involving the EQC-reviewer in the external inspection review for a sample of high profile engagements, such as attending kick off/opening meeting and closing meeting to discuss review findings. Review a list of audit engagements where no (or very few) audit hours were charged by the EQC-reviewer and request the firm to provide explanations for the absence of hours and actions taken.

Key principles	
Engagement Quality Control – Other quality control reviews	
ISQC 1 32	To assess the policies and procedures in place for other quality control reviews.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's guidance relating to other quality control reviews	ISQC 1 32	1. Understand, update and evaluate the firm's policies and procedures for other quality control reviews outside the audit engagement team (e.g. "Hot Reviews" and pre-issuance reviews).
2	Review previous external and internal regulatory inspection information, and evaluate management's response		1. Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].
Compliance Testing of Procedures			
3	Test compliance with the firm's policies and procedures related to other quality control reviews	ISQC 1 32	1. Select a sample of audits and review the documentation relating to the other quality control reviews conducted.

Key principles	
Engagement Quality Control – Audit documentation and data security	
<p>ISQC 1 45 to 47</p> <p>Regulation article 15</p>	To assess the policies and procedures in place for Audit documentation and data security.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's guidance relating audit documentation and data security	<p>ISQC 1 45-47</p> <p>Regulation article 15</p>	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures for audit documentation, including the assembly of final engagement files (at most 60 days after the date of the report issued) and the confidential treatment, retention, accessibility and retrievability of documentation. Based on a discussion with the audit firm's IT manager and office manager (or equivalent), understand, update and evaluate the firm's policies and procedures for data security.
2	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].
Compliance Testing of Procedures			
3	Test compliance with the firm's policies and procedures relating to audit documentation and data security	<p>ISQC 1 45-47</p> <p>Regulation article 15</p>	<ol style="list-style-type: none"> Select a sample of audit engagements and review whether the engagements have been assembled and archived in compliance with the policies of the firm. Select a sample of audit engagements and review whether the retention of engagement documentation for a specific period is sufficient to meet the needs as required by law or regulation.

Key principles	
Internal monitoring	
ISQC 1 48 to 54 and 57 to 58	<p>To assess the policies and procedures in place to monitor the system of quality control within the firm.</p> <p>To assess whether the firm responds appropriately to issues identified by the monitoring process.</p>

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's internal monitoring approach to reviews of audit files and the review of firm-wide processes.	ISQC1 48	<ol style="list-style-type: none"> 1. Understand, update and evaluate the firm's plan for the latest internal review of audit files undertaken/in progress. And/or, 2. If the firm does not perform its own, national monitoring process, but instead relies upon a process performed by the network, obtain details of that network process. Consider whether the network's monitoring process is at an appropriate level of detail and occurs frequently enough for the national firm to rely upon that process. And/or 3. Understand, update and evaluate the scope and interrelation between the processes, if the firm performs its own national monitoring process as well as relying on a process performed by the network. 4. Review the firm's policies and procedures to assess the relevance and adequacy of each element of the firm's system of quality control reviews of audit files, including instructions for reviewers and the review programme for each element of quality control. 5. Review a summary of the key changes to the monitoring process for reviews of audit files in the past year or since the previous inspection visit. 6. Evaluate the quality of the guidance materials developed by the firm for the monitoring teams reviewing audit files. 7. Discuss with the internal individual/team responsible for the firm-wide process, how the process was organized and documented in practice. Assess the adequacy of the scope of the process, principal findings and root causes arising and the related action plans put in place. Or consider the adequacy of any global monitoring process relied upon. 8. Review the qualification, authority and objectivity of individuals' assigned responsibility for the monitoring process. 9. Review details of any global monitoring process undergone by the local firm in the period under review. 10. Identify and evaluate the firm's policies regarding the communication of the results of internal inspections in other jurisdictions to relevant audit partners.
2	Obtain an up to date understanding of the firm's arrangements for reporting on the outcome of the monitoring process of reviews of audit files and the review of firm-wide processes	ISQC1 49, 50, 53, 54	<ol style="list-style-type: none"> 1. Understand, update and evaluate the overall internal report produced by the firm for its Board (or equivalent) on the outcome of the monitoring process. 2. Review the communications to the audit personnel on the monitoring process and results. Consider whether they are at an appropriate level for the audience. 3. Review the appropriateness of any remedial actions taken / sanctions applied and whether root causes have been identified. 4. Review any global report on the local firm and consider whether the firm has taken appropriate action to address the findings identified.

Step	Test objective	Reference to relevant regulations	Inspection procedures
			<p>5. Review any communications regarding findings from global monitoring processes and consider whether the findings are communicated on a timely basis.</p> <p>6. Meet with the firm's monitoring leader to discuss the process and developments since the prior year.</p>
3	Review previous external and internal regulatory inspection information, and evaluate management's response		<p>1. Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].</p>
Compliance testing of procedures			
4	Evaluate the monitoring procedures for reviews of audit files	ISQC1 48, 51, 58	<p>1. Select a sample of audit engagements reviewed by the firm's monitoring process across a number of offices/business units [focusing primarily on PIE entities]. If possible, include in the sample audits reviewed or planned to be reviewed by the external inspection team in this inspection.</p> <p>2. Evaluate the completed review questionnaire, including which areas of the audit were covered and the nature and significance of the issues raised.</p> <p>3. For audits also reviewed by the external inspection team, consider the reasons for any significant differences in the findings.</p> <p>4. Observe the internal inspection process in progress, by, for example:</p> <ul style="list-style-type: none"> • 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. <p>5. Evaluate the amount of time spent on the review in comparison to the total audit hours for the audit.</p>
5	Evaluate the firm-wide monitoring process	ISQC1 57	<p>1. Evaluate the effectiveness of the firm's process for monitoring its system of quality control, considering the scope and depth of the review programme used for each element of quality control.</p> <p>2. Review the supporting documentation for a sample of the procedures performed by the audit firm as part of its monitoring process.</p> <p>3. Re-perform some of the procedures performed.</p>
6	Evaluate the results of the firm's monitoring process of reviews of audit files and the review of firm-wide processes	ISQC1 53, 54	<p>1. Review the final monitoring report and consider whether it is an appropriate reflection of the findings of individual reviews and firm-wide monitoring process.</p> <p>2. Evaluate the differences between external regulatory observations from file reviews generally and the firm's findings.</p> <p>3. Review a sample of reports at an office/business unit level (if produced by the firm) for consistency with the findings of any individual audits. Also consider consistency with the firm-wide work reviewed for the office/business unit concerned and the overall monitoring report for the firm.</p>
7	Ensure that the firm has a process in place to address the issue of an audit report being issued inappropriately	ISCQ1 52	<p>1. If one of the external inspection file reviews or an internal review produces results that 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 to address the identified deficiencies on that audit and/or to confirm whether or not the audit opinion was appropriate.</p>

Key principles	
Complaints and allegations	
ISQC 1 55 - 56, 59 Directive article 5	To assess the procedures in place for dealing with complaints and allegations.

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an up to date understanding of the firm's processes regarding complaints and allegations	ISQC1 55, 59	<ol style="list-style-type: none"> Understand, update and evaluate the firm's policies and procedures for identifying complaints and allegations, such as <ul style="list-style-type: none"> Dealing with audit-related complaints or allegations; Audit partners and staff being able to raise concerns ("whistle-blowing"), including whether the firm's whistle-blowing arrangements have been communicated to audit personnel in an appropriate manner; and Dealing with any other external whistle-blowing communications. Meet with the person responsible for overseeing the firm's exposure to claims and litigation and assess their experience, authority and objectivity.
2	Review previous external and internal regulatory inspection information, and evaluate management's response		<ol style="list-style-type: none"> Consider the adequacy of actions taken to mitigate deficiencies noted in prior year external and internal inspections [as obtained through Tone at the Top work programme procedure 2.1].
Compliance testing of procedures			
3	Evaluate the nature of the professional complaints and litigation notified to the firm	ISQC1 56 Directive, Article 5	<ol style="list-style-type: none"> Review an up-to-date summary of outstanding claims or circumstances that may give rise to a claim notified to the firm's insurers. Meet with the person responsible for managing claims within the firm and ensure sufficient understanding of each item to assess its likely impact on the firm. Enquire whether there is any litigation involving a current audit client either currently in progress or considered probable. If so, inquire as to why the firm has not resigned as auditor to the relevant client(s). Enquire as to the actions taken regarding changes necessary to the firm's system of internal quality control as a result of issues identified from complaints and allegations. Review whether any issues arising from the testing performed, or matters identified by the firm itself, call into question the firm's good reputation. If so, consider what action should be taken to withdraw the firm's approval to conduct statutory audits and when the firm's license has been withdrawn the need to inform other relevant competent authorities of host European Member States where the firm is also registered Review whether there are any items of litigation significant enough to cause doubts regarding the ability of the firm to continue to provide audit services on a sustainable basis.

Step	Test objective	Reference to relevant regulations	Inspection procedures
4	Evaluate the nature of the complaints and allegations notified to the firm	ISQC1 56	<ol style="list-style-type: none"> 1. Select a sample of personal complaints and suspicions of business wrongdoing. Review the current status of each matter with the appropriate member of the firm's management responsible for Ethics and Business conduct matters and assess proper resolution in accordance with the applicable policies and procedures. 2. Select a sample of matters reported to the whistleblower hotline or equivalent. Review a summary of the matters arising and consider any matters that require further follow-up. Consider meeting with the individual responsible for the matters raised to discuss the issues arising and actions taken.
5	Evaluate the adequacy of the firm's professional insurance program	ISQC 1 55	<ol style="list-style-type: none"> 1. Meet with the firm's risk leader and the person in charge of the professional insurance program. Assess if the financial level of insurance coverage is adequate with regards to the accumulated amount of current and/or probable claims 2. Select a sample of claims and litigations and review whether the firm has promptly notified the matter to its insurer (s) and if not why.

Key principles	
On-/Offshoring	
ISQC 1	To assess whether the firm is able to ensure high quality standards if parts of audit an/or QC work is outsourced to on-/offshoring units

Step	Test objective	Reference to relevant regulations	Inspection procedures
Assessment of the design of the internal quality control system of the audit firm			
1	Obtain an understanding of firm's management message from the top regarding on-/offshoring	ISQC1.18 A4, A5	<ol style="list-style-type: none"> Understand the firm's management's message from the top regarding on-/offshoring. Consider the following aspects in particular: Does the firm follow the policies included in the Global Policies Manual with respect to this area? If not, describe why not and what local policies are being used by the firm. Has the firm made any modifications to the policies in this area, either for local, legal, or other reasons? If so – summarize the modifications made: Does the firm monitor compliance with the policies in this area?
2	Obtain an understanding of the firm's acceptance & continuance procedures outsourced to on-/offshoring units	ISQC1 26 to 28 A19 to A23	<ol style="list-style-type: none"> If the firm outsourced certain tasks within the acceptance / continuance process (e.g. family tree maintenance) obtain an understanding of how the firm ensures compliance with its internal quality standards.
3	Obtain an understanding of the firm's independence procedures outsourced to on-/offshoring units	ISQC1 21 to 25 A10 to A17	<ol style="list-style-type: none"> If the firm outsourced certain tasks within the independence process (e.g. tracking of training participation) obtain an understanding of how the firm ensures compliance with its internal quality standards. Evaluate independence policies and procedures of on-/offshoring units to assure they are in line with firm's policies.
4	Obtain an understanding of the firm's policies and procedures with respect to human resources employed at on-/offshoring units	ISQC1 29 to 31 A24 to A31	<ol style="list-style-type: none"> Evaluate the on-/offshoring unit's policies and procedures for hiring, in particular regarding the qualification requirements to ensure compliance with the firm's policies and guidelines. Evaluate the on-/offshoring unit's training concepts and training material for the on-/offshoring unit's employees related to ISA and IFRS requirements to ensure compliance with the firm's policies and guidelines.

Step	Test objective	Reference to relevant regulations	Inspection procedures
5	Obtain an understanding of the on-/offshoring unit's involvement in the engagement performance	ISQC1 32 to 33 A32 to A35	<ol style="list-style-type: none"> Obtain standardized audit programs used in on-/offshoring units (if such programs exist) and evaluate their appropriateness (if applicable). When performing this procedure take into account that the qualification of the employees of the on-/offshoring unit might be lower than firm staffs' is. Evaluate whether the firm has established adequate policies and procedures (locally and in the on-/offshoring unit) for the review of the work which is transferred to an on-/offshoring unit. Obtain a list of activities for which on-/off-shoring is available. Evaluate, whether the individual responsibilities of both the on-/offshoring unit and the respective audit engagement team are clearly defined.
6	Obtain an understanding of the firm's monitoring policies and procedures regarding the work of on-/offshoring units	ISQC1 48 A64 to A68	<ol style="list-style-type: none"> Understand whether the firm incorporated outsourced quality control procedures in its monitoring processes and procedures. Understand whether there are specific internal monitoring procedures at the on-/offshoring unit itself in place.
Compliance testing of procedures			
7	Test the development of the quantity of the work outsourced to on-/offshoring units in the last three years		<ol style="list-style-type: none"> Obtain the information requested in the Appendix "SSC_Usage_Statistics" per Big 4 Firm (e.g. a computation of total audit hours outsourced for the firm's last three fiscal years). Analyze the development of outsourced audit hours. Compare the development of total audit hours outsourced as a percentage of the firm's total audit hours for the last three years.
8	Test the influence of on-/offshoring on partner remuneration		<ol style="list-style-type: none"> If firm's management expect partners to achieve certain on-/offshoring goals (e.g. a certain percentage of hours to be outsourced): Select a sample of partners and evaluate their documents with respect to goal setting, evaluation and remuneration for the firm's most recent fiscal year. Consider the following aspects in particular:
9	Test compliance with the firm's policies and procedures related to outsourced acceptance and continuance procedures		<ol style="list-style-type: none"> If certain tasks are outsourced (see step 7 above) evaluate a sample of work performed by on-/offshoring units to ensure the work is conducted in line with the firm's policies and guidelines.
10	Test compliance with the firm's policies and procedures related to outsourced independence procedures		<ol style="list-style-type: none"> If certain tasks are outsourced (see step 7 above) evaluate a sample of work performed by on-/offshoring units to ensure the work is conducted in line with the firm's policies and guidelines. Test a sample of employees of the on-/offshoring unit with respect to the following aspects: <ul style="list-style-type: none"> Annual independence confirmation Participation in annual independence trainings
11	Test compliance with the firm's policies and procedures related to staff training		<ol style="list-style-type: none"> Select a sample of employees of the on-/offshoring unit and test participation in mandatory trainings.

Step	Test objective	Reference to relevant regulations	Inspection procedures
12	Test compliance with the firm's policies and procedures related to engagement performance		<ol style="list-style-type: none"> 1. Obtain a list of audit clients for which outsourced audit hours exceeded 5% of total audit hours for the engagement. 2. Evaluate including a sample of the clients identified in your inspection and particularly evaluate the output of the audit work in the areas being subject to on-/offshoring including the internal review procedures that have taken place.
13	Test compliance with the firm's policies and procedures related to internal monitoring of on-/offshoring units		<ol style="list-style-type: none"> 1. If the firm prepares review reports of its monitoring processes with respect to on-/offshoring units, evaluate these reports to identify potential weaknesses related to QC processes at on-/offshoring units. 2. Evaluate whether the firm has been subject to claims or lawsuits for quality issues as a result of services delivered by the on-/offshoring unit on behalf of the firm and if there are specific arrangements, including insurance arrangement, to share responsibilities in that case.