



National Audit Office

The UK NAO's System of Quality Management

UK NAO

November 2023

Summary

The purpose of this presentation is to:

- Re-cap on the main features of the ISQM1 standard
- Provide an update on progress with implementation in the UK and how **we** operate **our** System of Quality Management
- Highlight how we have gone about identifying key matters in our risk assessment with reference to the nature and context of the UK NAO, our people and audited bodies; and
- Explain what impact these have on our quality objectives, risk assessment and how we have or are in the process of addressing them in our responses to those quality objectives.

Re-cap on the main features of the ISQM1 standard

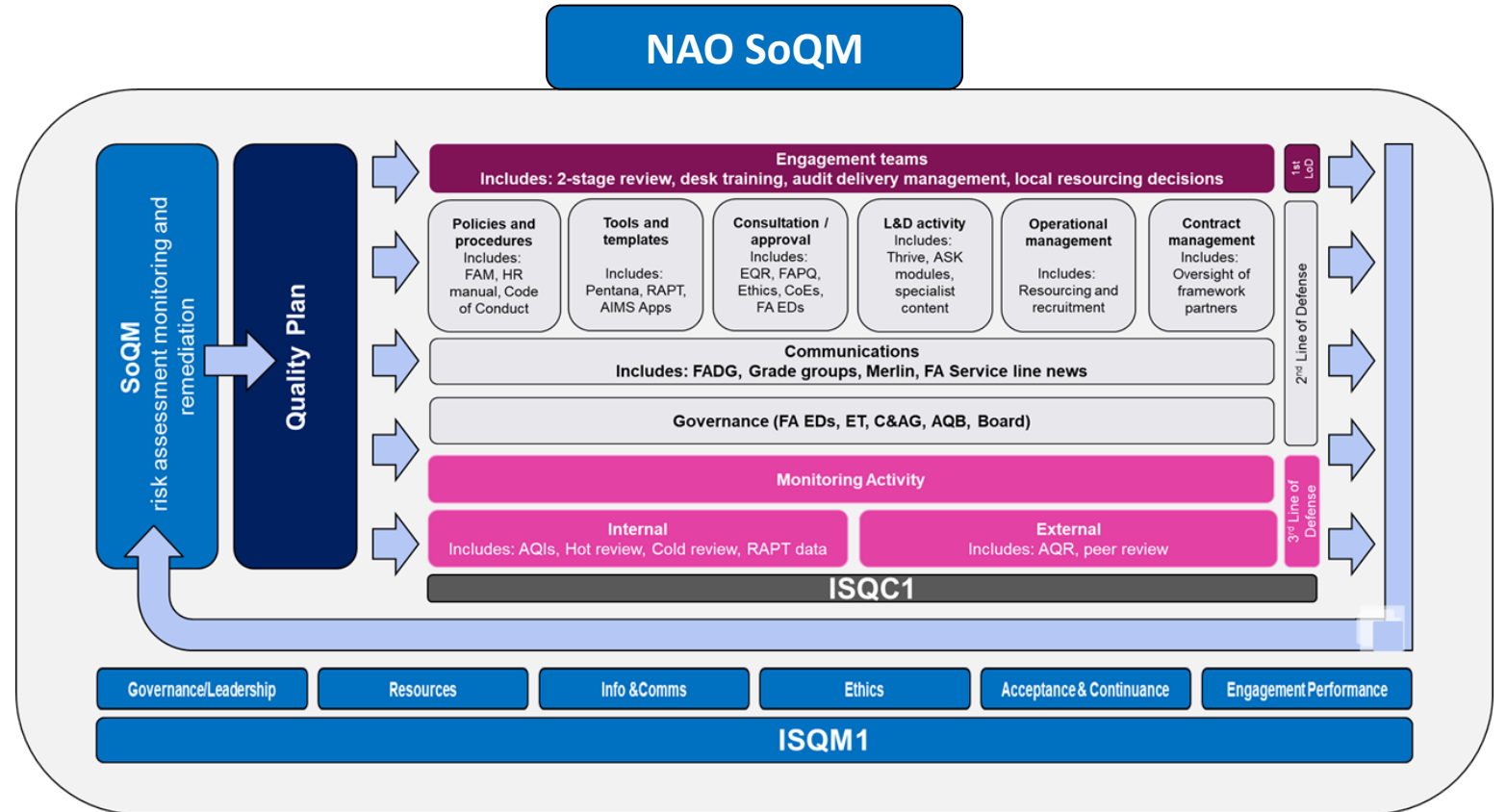
- **ISQM1 requires firms to design, implement and operate a system of quality management (SoQM) to manage their engagement quality.** Firms need to establish quality objectives, identify and assess the risks that could threaten the achievement of those objectives before designing and implementing responses to mitigate those risks.
- **ISQM1 and the system of quality management (SoQM) represent a significant change from ISQC1 requirements,** with a big shift in focus from (sometimes boilerplate) quality control approaches under ISQC1, to pro-active, whole system quality management under ISQM1.
- **Tailored risk assessment, response and continuous improvement is key to the SoQM.** That's because quality risks will differ substantially between firms.
- **The SoQM will help ensure that our audit procedures evolve with the UK NAO, audited bodies and the profession.**

Our System of Quality Management (SoQM):

Progress with implementation and operation

We've taken this opportunity to reassess, refresh and update existing procedures. We're not starting from a blank sheet. Our service line operating model and many of our well-established existing quality control policies and procedures under old ISQC1 remain fully relevant within the new framework.

We've built on the strong foundations laid by ISQC1 and our Quality Plan. This had already moved us in to the more pro-active, whole-system space with a more forensic approach, underpinned by root cause analysis.



We implemented the necessary changes to our existing approach by the required date of 15 December 2022

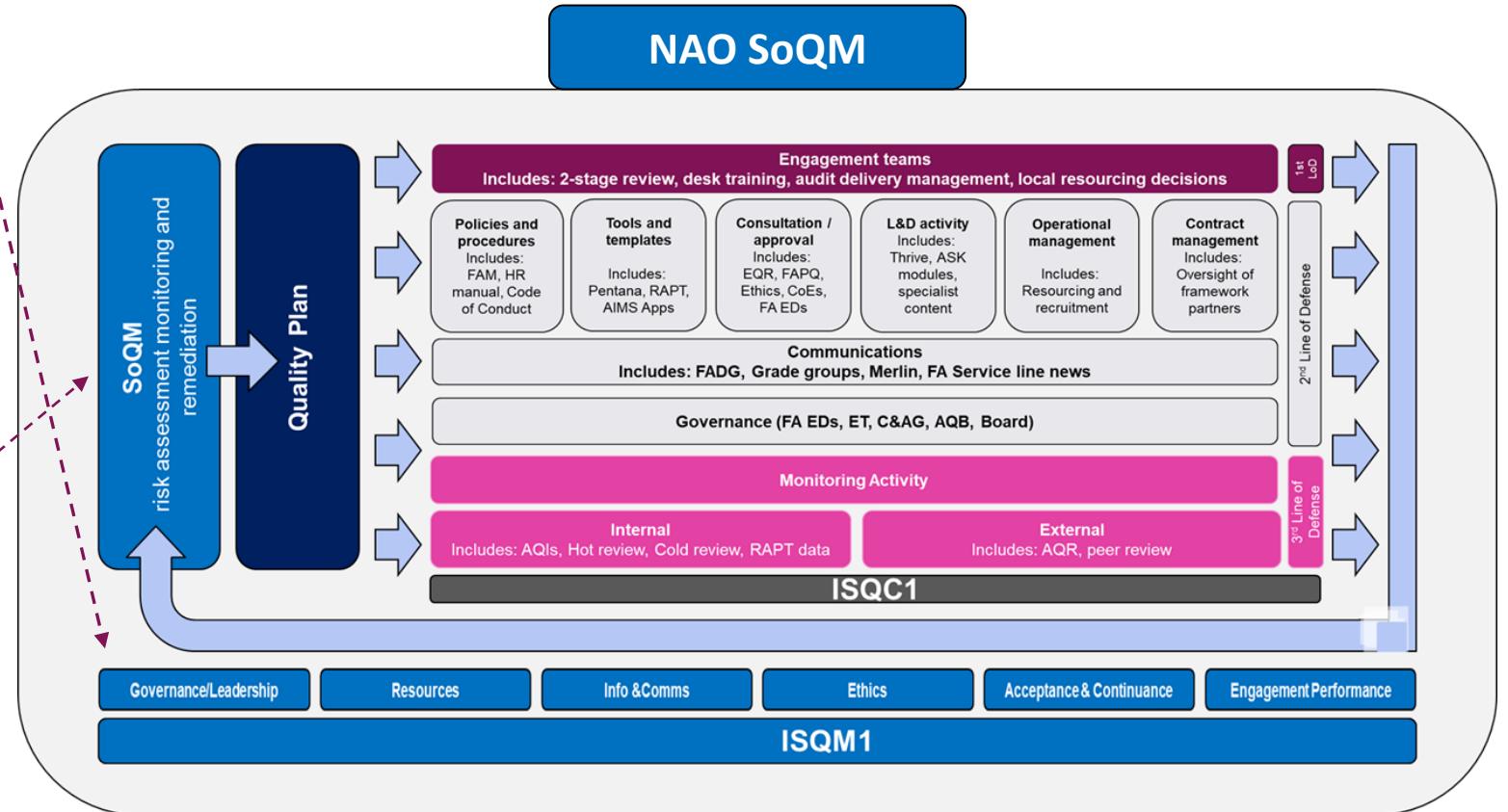
The components of our System of Quality Management

ISQM1 lays out 6 operational components of a firm's SoQM .

ISQM1 requires firms to set quality objectives (mandatory and bespoke where needed) for each of the 6 areas

ISQM1 mandates two further SoQM components:

- The quality risk assessment process in relation to the objectives; and
- The monitoring, evaluation and remediation process.



- We monitor at engagement and firm level
- We consider the effectiveness of our BAU activities and actions for specific risks
 - We change course where indicated and track progress

Key changes for us under ISQM1

What's changed

- **Under ISQM1 we've needed to explicitly set out our quality objectives and broaden and take a more structured and granular approach to our risk assessment, monitoring, evaluation and remediation processes and procedures.** (See slides 9 and 10).

Our Approach to risk assessment, monitoring, evaluation, review and remediation

- **We carried out an initial identification and baselining of quality objectives** (mandatory and specific), risk assessment and mitigations across the six operational areas defined in ISQM1
- **We recorded this in our new Audit Quality Risk Register** with risk owners assigned.
- **FA Service Line Leadership regularly reviews and evaluates the risks and responses** at monthly FA Management Board meetings, commissioning new actions and interventions where needed.
- **Monitoring is informed by Risk Owner updates and key MI and intelligence** (AQIs, CQU (AQR, Cold, Hot reviews, RCA), FAPQ (consultations, ad hoc queries), FA Ops MI, Front Line intel (directors and teams), RAPT data)
- **Action, remediation and tracking:** Risk owners take forward actions; amended risk assessments are updated with new responses / actions, closed responses / actions, new monitoring activity and the **Quality Plan** and **NAO Corporate Risk register** is updated where necessary. Formal review happens each month at FAMB, but risk owners take more urgent action as and when needed in consultation with the FA Service Line Leadership.

Example: Managing quality risk through our SoQM: Journals as an example

Monitoring	Management risk review, evaluation & response	Action & Remediation
<p>Example: Issue identified through monitoring: Feedback from Directors and initial regulator queries indicates continuing challenge re journals (but not “below the line” issues).</p>	<p>Risk review at FA Management Board</p> <p>Risk assessment re journals held at AMBER but with further action to address.</p>	<p>Action</p> <p>New journals refresher training (key points document and video) + targeted use of existing training modules. Update Quality Plan (then track and monitor)</p>

ISQM1 requires us to perform an evaluation by 15 December 2023

The essentials are in place and operating

- **Operating a SoQM is an iterative process** which will develop and improve over time
- **We implemented the necessary changes on time** to our existing approach by the required date of 15 December 2022

Work remains for us to:

- **Iterate our objectives, risk assessments and mitigations** –this is advanced and we have covered all components once in live operation
- **Fully embed our operating and review approach** - so that it is on a regular, established footing, well understood and informed with our full suite of AQIs and other MI and intel.
- **Streamline and fully systematise our risk registers and action tracking** – it's spreadsheet heavy - we want to align it more closely to the corporate risk management machinery and take advantage of various Microsoft management tools.

Key matters identified in our ISQM risk assessment

We have a more granular understanding of where our quality risks lie

- Our implementation of ISQM 1 has been useful in helping us to unpack the FA quality risk in the corporate risk register.
- We have better visibility of the specific issues that are driving our quality risk and how we are managing them
- In common with the firms and regulator expectations, our key areas of risk are within engagement performance and resources