



AUDIT QUALITY THEMATIC REVIEW

ROOT CAUSE ANALYSIS
A REVIEW OF THE SIX
LARGEST UK AUDIT FIRMS

SEPTEMBER 2016

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Financial Reporting Council

Audit Quality Thematic Review

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Introduced in 2013, thematic reviews supplement our annual programme of reviews of individual audit firms. In a thematic review we look at firms' policies and procedures in respect of a specific area or aspect of the audit or firm-wide procedures to make comparisons between firms with a view to identifying both good practice and areas of common weakness. The reviews are deliberately narrow in scope, and are chosen to focus on an aspect of audit or firm-wide procedures in greater depth than is generally possible in our review of audits.

The FRC believes this thematic review will be valuable to audit firms in developing or enhancing and evolving their procedures on Root Cause Analysis ("RCA"), contributing to their own processes of continuous improvement to enhance audit quality. It should also be of interest to audit committees, other audit regulators and audit standard setters.

Our previous thematic reviews are as follows:

- Engagement Quality Control Reviews – February 2016
- Firms' audit quality monitoring – January 2016
- The audit of loan loss provisions and related IT controls in banks and building societies – December 2014
- Fraud Risks and Laws and Regulations – January 2014
- Materiality – December 2013

Reports on these reviews can be found at www.frc.org.uk/Our-Work/Audit/Audit-Quality-Review/Thematic-inspections.aspx.

1 Overview

1.1 Objectives, scope and structure of this report

This report sets out the findings of our thematic review on the subject of Root Cause Analysis ("RCA"), carried out by the Audit Quality Review ("AQR") team of the Financial Reporting Council ("FRC"). It is intended to provide an understanding of the audit firms' RCA procedures, including observing areas of good practice and how these procedures can be improved, with the objective of promoting continuous improvement in audit quality.

We reviewed the six largest UK audit firms¹ ("the firms"). We considered the processes undertaken by them, as well as the output of those processes, covering the RCA performed for external and internal inspection results identified in 2015 (i.e. the most recent completed process at the time of our review). The external inspection results mainly relate to those of the FRC for the year ended March 2016, which were published for each of these firms in May 2016. Some firms also included the results of the inspections performed by the ICAEW for non Public Interest Entities (PIEs). The relevant RCA reports of the firms were completed between November 2015 and May 2016. Our review took place between January and May 2016.

Section 1 sets out an overview of the RCA performed by the firms, along with a summary of our findings, examples of how RCA has made a difference, the good practices observed and recommendations for improvement for the firms. Section 2 sets out details of our findings. Appendix 1 summarises our approach to the review.

1.2 Benefits of performing RCA

Definition

Root cause analysis ("RCA") is a process for identifying the causes of problems or events in order to prevent them from recurring. It is based on the idea that effective management requires more than putting out fires for problems that develop, but finding a way to prevent them. RCA can also be a means of identifying good practice as part of continuous improvement.

RCA is an established process in a number of industries and is a developing area in the audit profession, where it typically relates to understanding why deficiencies have occurred on audits (referred to as "inspection results" in this report). These matters are generally identified during the firms' "internal" inspections of audits, as part of their audit quality monitoring process, and "external" inspections, carried out by the FRC or other audit regulators.

¹ BDO LLP, Deloitte LLP, Ernst & Young LLP, Grant Thornton UK LLP, KPMG LLP and KPMG Audit plc and PricewaterhouseCoopers LLP

Audit firms have frequently responded to inspection results with similar types of actions as in previous years. Such actions have not always proved successful in addressing the underlying causes of the issues identified, and similar matters have continued to occur. RCA seeks to identify the underlying causes to enable firms to implement better targeted actions to address them.

Continuous improvement in audit quality

A key focus of the FRC is to promote continuous improvement in audit quality.

A key objective of RCA is to improve audit quality by having a better understanding of how audits can improve. It is part of a continuous improvement cycle of inspecting audits, investigating the root causes for inspection results and improving the firms' ability to act on them through implementing effective actions.

We expect all the firms we inspect to make continuous improvements such that, by 2019, at least 90% of FTSE 350 audits reviewed will be assessed as requiring no more than limited improvements. Effective RCA should help to achieve this.

1.3 Standards setters and impact of audit regulators

The International Auditing and Assurance Standards Board ("IAASB") is considering RCA, as set out in their Invitation to Comment ("ITC") on "Enhancing audit quality in the public interest" (December 2015). The ITC notes that audit regulators expect firms to investigate and understand the root causes of inspection results and to use them as the basis for determining actions and assessing the effectiveness of those actions.

RCA has been performed by some firms on an informal basis for a number of years and has been formalised in the last few years. This has been largely as a result of requirements from their global networks, who have been encouraged to do so by the audit regulators, including the International Forum of Independent Audit Regulators ("IFIAR") and the European Audit Inspection Group ("EAIG"). The FRC is a member of both. IFIAR's 2015 survey of inspection results report states that discussions with firms on root cause analysis has increased steadily over recent years and that IFIAR intends to continue its exploration of the rigour of root cause analysis with firms.

1.4 Overview of RCA process

A summary of the RCA process used by firms is set out below. All firms performed most of these steps in practice, although the scope and the way they were performed varied by firm. In particular, not all firms performed steps 1 and 4. Further details are given in section 2.

Steps	Why is this important?
1) Plan the process: <ul style="list-style-type: none">- Plan/ timetable (see 2.1)- Allocate resources (see 2.2)- Provide training and guidance (see 2.3)	Preparing a plan and timetable helps ensure the RCA will be performed in line with the firm's objectives. The level of resources can impact the effectiveness of the RCA process. Providing training and guidance to those performing the RCA should ensure it is performed on a consistent basis.
2) Analyse inspection results/ decide on the scope of the RCA (see 2.4)	Increasing the scope of the RCA enhances its effectiveness as it will enable more matters to be investigated and increase the likelihood of identifying common causes across audits.
3) Conduct interviews with audit teams and central functions (see 2.5)	Audit teams can provide the best insight into what may have caused the audit related issues or what went well on the audit. Developing a structured approach to interviews can improve their effectiveness by ensuring they are adequately investigating the underlying causes.
4) Review Audit Quality Indicators (AQIs) (see 2.6)	AQIs measure elements of the audit process. These can assist in determining whether any of the AQIs show a causal relationship with the inspection results or whether they support the comments obtained from interviewing audit team members.
5) Identify the root causes (see 2.7)	The root causes are identified largely based on evidence of causal relationships through the interviews and analysing data. The identification of root causes is a matter of judgment and is an iterative process. It may result in a number of causes being identified for a particular issue.
6) Develop firmwide action plans and monitor their effectiveness (see 2.8)	The actions taken by the firms have a direct impact on the quality of audits. It is therefore important that they are effective in addressing the identified causes. Monitoring the effectiveness of actions helps ensure they are dealing with the root causes.
7) Report and communicate on the root causes (see 2.9)	Effective reporting of the identified causes can help ensure the firm understands any matters that need to be addressed at a firmwide level. Communicating the root causes increases awareness which is an important part of influencing the behaviours of auditors.

1.5 Summary of our findings

The following summarises our findings, further details of which are set out in section 2. The firms have improved their processes in the last year, when we reviewed them as part of our inspection work. This improvement is a positive development in aiming to achieve a continuous improvement in audit quality.

Subject	Summary of findings
Planning and timetable (2.1)	Most firms did not prepare a formal plan or timetable at the start of the process. The RCA was performed on a timelier basis compared with prior years.
Resources (2.2)	The total time spent by firms on RCA was estimated to range from 9 to 260 days. The firms that provided the most resource generally appeared to have the most thorough process and output.
Investigating internal and external inspection results (2.2)	There were a number of differences between the processes for investigating causes for internal and external inspection results.
Training and guidance (2.3)	Some firms provided guidance and training to those performing the RCA.
Scope of RCA (2.4)	All firms considered the results arising from internal and external audit inspections in their RCA, in particular poor quality audits, and generally the inspection themes arising from other audits. The scope of this varied between firms in terms of the number of audits considered.
Interviews (2.5)	The firms considered interviews with audit teams to be the most important part of the RCA. They did not involve anyone outside the audit practice, such as behavioural or other specialists. The interviews were with the audit engagement partner and often audit manager, but there were few interviews with the Engagement Quality Control Reviewer (EQCR) or more junior members of staff. There was limited evidence of a structured approach to the interviews.
Review of audit quality indicators (2.6)	Some firms reviewed audit quality indicators (AQIs) as part of the RCA process. There were generally a limited number of AQIs reviewed, most of which related to time spent on the audit, including by audit partners and managers.
Identified causes (2.7)	Most of the root causes identified by firms related to the knowledge or behaviours of individuals on audits. Other causes identified related to the direction and review of the audit by partners and managers, the level of resources and project management related matters, or the adequacy of the firm's processes.
Impact on actions to address underlying causes (2.8)	We found examples where the RCA had affected positively the actions to address the underlying issues by ensuring that the actions focused on the identified causes.
Reporting and communications (2.9)	While a summary of the causes were communicated to the head of audit at all firms and the Board (including non Executives) or leadership team for most firms, they were not communicated to external parties, such as Audit Committees. The RCA processes and results were also not communicated in the firms' transparency reports. The firms' internal reports on the results of the RCA varied in terms of quality and usefulness.

While the UK firms have not obtained external advice in the design of their processes, external consultants have been used by some global networks in considering the design of their processes. Some UK firms have been influential in the development of the global processes, for example by leading or taking part in pilot projects. The processes and related guidance were still under development at certain firms at the time of our review.

1.6 Examples of how RCA has made a difference

We discussed with the firms how the RCA had made a difference to them and the following are examples of the benefits the firms say they have obtained from performing the RCA:

- Implementing more focused actions by understanding the causes of inspection results, such as being more specific in designing the training programmes. The identification of the causes is now more evidence based than before.
- Developing different types of actions, including more focus on coaching, support by central teams, project management and resource allocation.
- Improved communications to audit partners and staff on how to improve audit quality by explaining the causes of the inspection results and having more focus on good practices.
- More involvement by audit teams in the process of deciding how to improve audit quality, through the RCA interview process.
- Increased awareness by the firms' audit leadership of the causes for inspection results.

1.7 Good practices observed

We have observed a number of good practices at one or more firms, which we

consider could contribute to the effectiveness of the RCA process. These are set out in section 2 and include the following:

- Investigating the causes for good quality audits and having a database to record good practices on audits (2.4).
- Using the same individuals for performing the RCA for internal and external inspection results (2.2).
- Interviewing staff in the audit team below manager level (2.5).
- Providing structure in the interview process, such as through example questions (2.5).
- Providing a good link between the identified causes and actions to address them (2.8).

1.8 Recommendations for improvement

We have the following recommendations for improvement by the firms:

- Prepare a formal plan and timetable at the start of the RCA process (2.1).
- Issue guidance and provide training to those taking part in the RCA process (2.3).
- Consider using individuals outside the audit practice or the firm, such as behavioural specialists, to provide additional support in performing the interviews (2.5).
- Improve the consistency of the processes for investigating internal and external inspection results (2.2).
- Consider focusing more on behavioural related training as an action to address related root causes (2.8).
- Communicate details of the RCA in the firms' transparency reports (2.9).

1.9 Differences in approach in other industries – Healthcare industry example

We met with someone responsible for performing RCA in the NHS to understand how it was carried out in the healthcare industry. We noted the following areas where the process is different compared to that used by the six largest audit firms:

- The RCA follows the “fishbone” technique (rather than “five why”). This cause and effect analysis encourages those performing the RCA to consider a number of possible causes of a problem, rather than just the ones that are most obvious. The technique helps with categorising the potential causes of a problem in order to identify the root causes.
- There is less focus on one on one interviews and more on group sessions to discuss potential causes.
- There is a standardised approach to reporting individual incidents in the NHS with a standard report completed following an investigation.
- There is a more structured approach to action plans, with recommendations made by those performing the RCA and actions designed by someone independent of the process.

Firms may want to consider whether any of these aspects of the process could be implemented in their RCA.

1.10 Firms’ plans for the development of RCA and next steps

All firms are planning to make further changes to their RCA processes and they should take into account our recommendations for improvement above.

Firms may also want to consider how RCA is being applied in other industries and whether it can be used in other service lines of the firm, in addition to audit.

We plan to perform a follow up thematic review within the next three years to report on the progress of firms on their RCA, in addition to reviewing their processes for monitoring the effectiveness of actions to address the identified root causes.

2 Findings of our review

2.1 Planning and timetable

Why is this important?	Preparing a plan and timetable helps ensure the RCA will be performed in line with the firm's objectives.
Summary of findings	Most firms did not prepare a formal plan or timetable at the start of the process. The RCA was performed on a timelier basis compared with prior years, with it now being carried out on an ongoing basis, rather than after the end of the inspection cycle.
Good practices observed	Including completion targets for reviewing the causes of issues on individual audits (two firms).

The RCA was performed after completion of the inspections of individual audits, although the extent of time between the completion of the inspections and the RCA varied by firm. Some firms thought that there was a benefit of having at least a month gap between completion of the inspection of an individual audit and the RCA on those inspection results, to enable the audit team to reflect on causes for the findings.

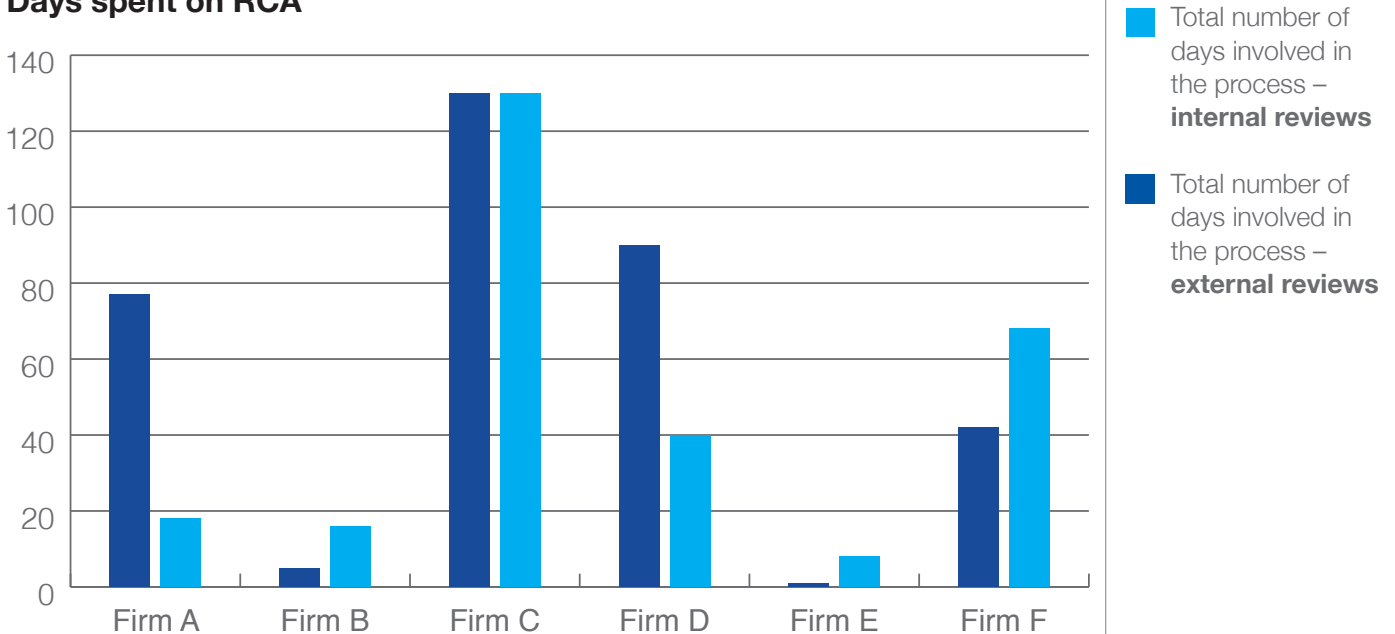
Most of the firms had no deadline set by the firm or global network for completion of the RCA for internal reviews. None of the global networks had requirements for submission of the RCA results for external reviews and it was often unclear whether the global networks required them to be performed.

2.2 Resources and differences in investigating internal and external inspection results

Why is this important?	The level of resources can have a direct impact on the effectiveness of the RCA process. Having consistent approaches to investigate the causes for both internal and external inspection results should assist in identifying the extent to which the causes are systemic or not.
Summary of findings	<p>The total time spent by the firms on the RCA process was estimated to range from 9 to 260 days. The firms that provided the most resource generally appeared to have the most thorough processes and output.</p> <p>There were a number of differences between the processes for investigating causes for internal and external inspection results.</p>
Good practices observed	Using the same individuals for performing the RCA for internal and external inspection results (two firms).

The number of days spent on the RCA, analysed between internal and external inspection results, is shown in the following chart. This is based on estimates provided by the firms and excludes time incurred for the design of the process and related communications and actions.

Days spent on RCA



While the above variations in time spent by firm were partly related to the size of the firms and the number of audits inspected, this did not fully explain the large variation in time spent. The firm which spent the most amount of time had formal processes for longer than the other firms and had dedicated resource for the RCA process. That firm believed there was a benefit of having dedicated resource as it led to more experience in performing the RCA.

The differences in the processes for investigating causes for internal and external inspection results included the following:

- the scope of the reviews and consideration of positive inspection results (see 2.4)
- the interview process (see 2.5)
- the link between the results of the RCA and the actions (see 2.8)
- the quality of reporting and extent of communications (see 2.9)

2.3 Training and guidance provided by the firms

Why is this important?	Providing training and guidance to those performing the RCA process should improve the effectiveness of the process and ensure it is performed on a consistent basis.
Summary of findings	Some firms provided guidance or training to those performing the RCA.
Good practices observed	Providing templates and/or examples of the types of causes that could be investigated (two firms).

The following table provides information on the guidance and training provided by the firms:

Guidance and training provided by the firm	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F
Had guidance been issued by the firm?	●	-	●	-	-	●
Had recent training been provided to those performing the RCA?	-	-	●	●	-	●
Was the training material provided to us?	-	-	●	-	-	-

For three firms, formal guidance had been issued by the global network. The level of detail of this varied and, in one case, it covered the RCA for internal and not external inspection results. For one firm, guidance had not been finalised at the time of our review, as that firm had been going through a pilot.

The extent of training varied by firm, with this provided by the global network for two firms. One of these firms was able to share its training material with us, which was comprehensive.

2.4 Scope of RCA

Why is this important?	Increasing the scope of the RCA process enhances its effectiveness, as it will enable more matters to be investigated and increase the likelihood of identifying common causes across audits.
Summary of findings	All firms considered the results from internal and external audit inspections in their RCA, in particular poor quality audits, as well as inspection themes arising from other audits. The scope of this analysis varied between firms in terms of the number of audits considered, but always included those audits with the lowest quality assessment.
Good practices observed	Investigating the causes for good quality audits (three firms). Having a database to record good practices on audits (one firm). Investigating matters other than audit inspection results, such as restatements of financial statements (one firm).

The following table sets out the scope of the reviews by firm:

Scope of matters investigated	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F
Worst performing audits (i.e. lowest quality assessment) and a sample of others – external and internal	●	●	●	●	●	●
Good audits to identify best practice – external	●	-	●	●	-	-
Good audits to identify best practice – internal	●	-	●	-	-	-
Issues related to firm-wide/ quality control procedures – external	●	●	●	●	●	●
Issues related to firm-wide/ quality control procedures – internal	-	-	●	●	-	●
Other matters, e.g. financial statement restatements	-	-	●	-	-	-

Three firms reviewed good quality audits as part of their analysis and believed this was useful, as it enabled them to identify best practices and to encourage them to be used on other audits.

All firms covered the external inspection results relating to the firms' quality control procedures. However, this was not always the case for the internal results.

One firm included RCA on other matters such as letters issued by the Corporate Reporting Review team of the FRC, first year audits and prior year re-statements of financial statements.

2.5 Interview process

Those involved in the interviews

Why is this important?	Audit teams can provide the best insight into what may have caused the audit related issues or what went well on the audit. The benefit of interviewing a range of staff is to obtain different views on the causes which should help in concluding on the underlying causes.
Summary of findings	The firms considered the interviews with audit teams to be the most important part of the RCA. They did not involve anyone outside the audit practice, such as behavioural or other specialists. The interviews were with the audit engagement partner and often audit manager, but there were few interviews with the Engagement Quality Control Reviewer (EQCR) or more junior members of staff.
Good practices observed	Interviewing staff in the audit team below manager level (two firms).

The following members of the audit team were interviewed as part of the RCA process:

Audit team member interviewed	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F
Audit engagement partner (all in scope audits)	●	●	●	●	●	●
EQCR – external reviews (small sample)	●	-	●	●	-	-
EQCR – internal reviews (small sample)	●	●	●	-	-	●
Audit director/ senior manager/ manager – external reviews (all in scope audits or sample)	●	●	●	●	●	●
Audit director/ senior manager/ manager – internal reviews (all in scope audits or sample)	●	●	●	-	-	●
Staff below manager level – external reviews (small sample)	●	-	●	-	-	-
Staff below manager level – internal reviews (small sample)	-	-	●	-	-	-
Individuals in central quality control or independence function	●	●	●	●	-	●

The interviews were always performed by someone independent from the audit team, such as someone from the central quality control function or other members of the audit practice, often at manager or partner level. In nearly all cases they were performed by someone independent from the review team that originally performed the inspection. One firm did not perform interviews for internal inspection results. The firms generally thought it was preferable to perform one on one interviews rather than in groups.

The two firms that interviewed staff below manager level considered there to be a clear benefit as the inspection results often related to work performed by those individuals who would have a better insight as to why they arose.

As well as the interviews with the audit teams, there were also interviews with key individuals outside the audit team, such as the independence team, audit technical and risk teams for most of the firms. The benefit of interviewing these individuals is they may provide deeper insight as to whether any of the causes relate to the firm's processes.

Approach to interviews

Why is this important?	Developing a structured approach to the interviews can improve their effectiveness by ensuring they are adequately investigating the underlying causes.
Summary of findings	The depth of interviews varied between firms, with each interview taking between 30 minutes to two hours. Five firms informed us that they sought to follow the "five why" technique in performing the interviews (see below for further details). There was limited evidence as to whether this technique had been adequately carried out, given that interview notes were not usually retained. There was limited evidence of a structured approach to interviews.
Good practices observed	Providing structure in the interview process, such as through example questions (two firms).

The primary goal of the "five why" technique is to determine the root cause of issues by repeating the question "why?" The technique has been used in other industries, including car manufacturers.

The following is an example:

Finding – insufficient audit work performed in relation to a significant audit risk	
First why	The audit staff member performing the work did not adequately understand what needed to be done to address the audit risks.
Second why	The audit manager was not briefed by the audit partner and so could not adequately brief those performing the work.
Third why	The audit partner did not adequately brief the staff member on the audit strategy.
Fourth why	The audit partner was not around at the planning stage of the audit.
Fifth why	The audit partner had other commitments and therefore wasn't able to be around to brief the audit team.

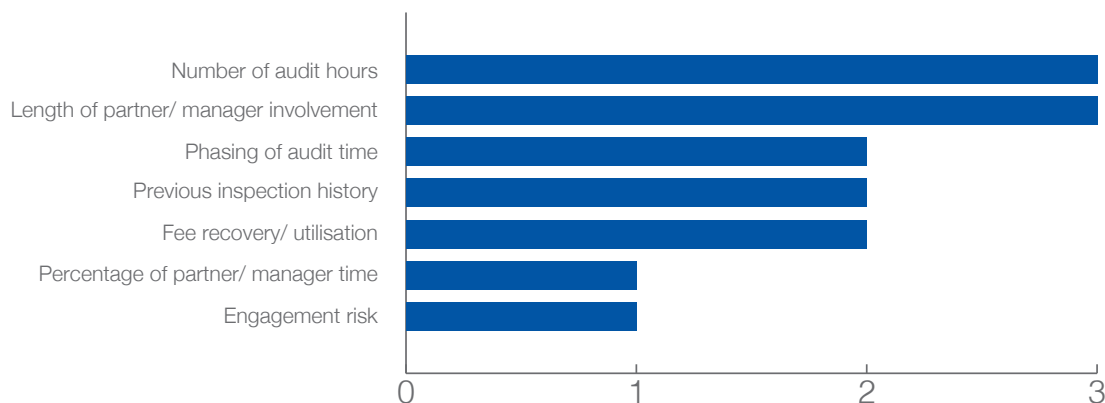
In performing this technique, there are no specific rules about what lines of questions to explore or how long to continue to search for root causes. Therefore, even when the method is followed, the outcome still depends upon the persistence of the interviewers and/ or the approach taken by them.

2.6 Review of Audit Quality Indicators (AQIs)

Why is this important?	Audit quality indicators (“AQIs”) measure elements of the audit process. These can assist in determining whether any of the AQIs show a causal relationship with the inspection results or whether they support the comments obtained from interviewing audit team members.
Summary of findings	Some firms reviewed AQIs as part of the RCA process. There were generally a limited number of AQIs reviewed, most of which related to time spent on the audit, including by audit partners and managers.
Good practices observed	Reviewing a broad range of AQIs (one firm).

The following table shows examples of the AQIs which were reviewed by three of the firms as part of their RCA.

AQIs reviewed – number of firms



One of the three firms said that reviewing the AQIs had contributed effectively to the RCA process. Another said that it was an evolving area, but provided some insights into the RCA, and the other firm said that it would need a larger volume of evidence before any such benchmarking could provide useful information.

2.7 Results of the process – identified causes

Why is this important?	Identifying the root causes is an iterative process. It forms the basis of the actions to be taken by the firm.
Summary of findings	Most of the root causes identified by firms from the RCA related to the knowledge or behaviours of individuals on audits. Other causes identified related to the direction and review of the audit by the partner and manager, the level of resources and project management related matters, or the adequacy of the firm's processes.
Good practices observed	Reporting on positive factors that were considered to have improved audit quality as part of the output of the RCA process (one firm).

We requested the firms to specify the top three themes identified from the results of their root cause analysis, and the responses are set out in the table below. In some cases the firm provided separate details for internal and external inspection results, in which case we have limited it to three themes below. As these related to the specific audits inspected, they may not be indicative of systemic issues across the firms.

Type of root cause identified by firm	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F
Knowledge/ skills of individuals – e.g. insufficient knowledge of the business or systems	-	●	-	●	●	-
Behaviours of individuals – e.g. mind set / lack of professional scepticism/ audit risks not identified	●	-	●	-	●	-
Care of individuals – e.g. insufficiently supported conclusions / responses to risks not sufficient	-	-	-	-	●	●
Direction by partners and senior team members – e.g. insufficient coaching and/or review	● <i>See note below</i>	●	-	●	-	●
Resources/ project management – e.g. not enough time, work performed too late	-	●	●	-	-	●
Firm's processes – e.g. gaps or lack of clarity in guidance	-	-	●	●	-	-

Note: Firm A stated that two of the top themes related to coaching and review on audits.

The results did not indicate any themes relating to concerns about the tone at the top or culture of the firms, which may indicate that the firms' RCA did not adequately investigate whether any of the causes related to the tone at the top of the firms. One firm identified a positive theme relating to the tone at the top of the firm contributing to an improvement in audit quality.

The nature of the root causes indicate that they may not have always been fully investigated in sufficient depth. For example, why had individuals not exercised adequate professional scepticism and why had audit partners not spent enough time reviewing the audit work?

2.8 Impact on actions to address underlying causes

Why is this important?	The actions taken by the firms have a direct impact on the quality of audits. It is therefore important that they are effective in addressing the identified causes.
Summary of findings	We found examples where the RCA had affected positively the actions to address the underlying issues by ensuring that the actions focused on the identified causes.
Good practices observed	Providing a good link between the RCA results and actions to address them (all firms for external inspection results).

The different types of actions planned by the firms to seek to address the causes are summarised in the table below:

Types of actions – number of firms



The firms continue to focus on training, guidance and communications to address the root causes identified, largely because these often relate to behaviours of individuals. However, the nature of these actions has changed over time, for example delivering training within audit teams on the areas of recurring issues to supplement traditional classroom training or the use of more practical workshops. While there is some evidence that firms are increasing the amount of behavioural related training, there could be further consideration of this by them.

There has been an increased focus on real time monitoring and use of central teams to directly support audit teams, improving the integration of internal experts and coaching related initiatives, such as providing practice aids in key areas of the audit.

Two firms included actions on how new joiners are integrated on audits or identifying individuals about to leave the firm because the RCA identified an increased risk of mistakes by them. Two firms had started projects to look at the adequacy of their resourcing to address causes relating to project management and resourcing. These were still under development at the time of our review.

At our request, the firms provided a link between the RCA results and actions taken for the external inspection results relating to the reviews performed by the FRC, but there was limited evidence that this had been done for the internal inspection results.

2.9 Reporting and communications

Why is this important?	Effective reporting of the identified causes can help ensure the firm understands any matters that need to be addressed at a firmwide level. Communicating the root causes increases awareness, which is an important part of influencing the behaviours of auditors.
Summary of findings	While a summary of the causes were communicated to the head of audit at all firms and the Board (including non Executives) or leadership team for most firms, they were not communicated to external parties, such as Audit Committees. The RCA processes and results were also not communicated in the firms' transparency reports. The firms' internal reports on the results of the RCA varied in terms of quality and usefulness.
Good practices observed	Producing a combined report on the RCA of the internal and external inspection results (one firm).

The following table summarises who the RCA results were communicated to:

RCA communicated to:	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F
Audit executive/ head of audit	●	●	●	●	●	●
Board/ sub-committee/ non execs	-	-	●	●	●	●
Audit partners and staff	●	-	●	●	-	●
Audit Committee or other external parties (including firm's transparency report)	-	-	-	-	-	-

The communication to audit partners and staff for the relevant firms was generally provided as part of training, sometimes after the time of our review. The extent of communications varied and were not always provided to all audit partners and staff in the firm.

In relation to the reporting, one firm in particular provided a good level of detail on the process undertaken, the results and the link to the action plans, while others only considered aspects of this. Most of the reports focused on the results for external inspection results and excluded reference to the review of internal inspections.

Appendix 1 – Our approach to the review

In prior years we reviewed aspects of the firm's root cause analysis, focusing primarily on how it addressed our own inspection results.

This year we performed a more in depth review of the RCA process and the results of the process, including for the firm's internal inspection results.

The approach to the thematic review can be summarised as follows:

- Each firm was asked to complete a questionnaire based on different aspects of the RCA process and other related questions. This included questions that had been previously raised by IFIAR in discussions with the largest six global audit firms.
- The responses to the questionnaires were reviewed with follow up questions provided to the firms.
- The different responses were compared across the firms. Areas of good practice and outliers were identified and followed up.
- The link between the inspection results, RCA output and actions was reviewed in detail for the external inspection results relating to the FRC reviews.
- Discussions were held with the firms in relation to their processes and the output of the RCA.
- Supplementary questions were provided to the firms following these discussions.
- The results of our review were presented to, and discussed with, each of the firms.

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