Designing and implementing a modern system of quality management

Part 2: Inflo's technology-driven approach for designing your quality management system

March 2022

Overview

As covered in Part 1 of this briefing paper, The Changes That Are Coming and How They Will Impact Audit Firms, the International Auditing and Assurance Standards Board recently issued a set of quality management standards which will require significant changes in how audit firms approach audit quality.

Here in Part 2, we introduce Inflo's practical approach for using technology to enable a modernized quality management system, providing firms the opportunity to turn a 'standards compliance' exercise into something that delivers new levels of value to the firm's audit practice.

Traditional quality control relied on policies and procedures implemented using a 'documents and spreadsheets' approach. This often led to fragmented activities which were not melded into the audit workflow, impairing their timeliness and value. As audit firms transition from quality control to quality management, greater emphasis will be placed on defining objectives, mitigating risk, and improving quality monitoring activities.

The new standards require firms to now place greater focus on their technology resources. In fact, modernization is one of the key changes in the new standards, making them more relevant and compatible with technological innovations taking place in the profession.

As we will discuss, technology has a great deal to offer in supporting the design of a modern quality management system. Adopting a more progressive mindset and approach will reap both short and long-term rewards.

Inflo’s quality management vision

A quality management system is only as strong as the people it supports and the work they perform. The firm’s culture plays a key part.

But the firm’s quality management technology also plays a critical role in supporting staff behaviors that reflect and align with the firm's culture.

Firms across the globe are moving into the modern digital age, applying progressive technologies throughout their audit processes to drive more efficient and higher quality audits.

At Inflo, we believe the implementation of these new standards should be approached with this same mindset.

With the new standards' emphasis on technological innovations taking place in the profession, firms have an opportunity to design a modern quality management system. This will differ substantially from the traditional approach of using static forms, checklists, and spreadsheets to achieve basic levels of quality control.

Instead, a modern quality management system leverages digital technology to provide firms with practice-wide insights which were previously unattainable.

Inflo’s Quality Management System (Inflo QMS) offers a unique approach built for the new era of auditing – a data driven solution designed to make compliance with standards and high-quality audits a byproduct of intelligent, modern working. With its emphasis on data harvesting and digital technologies, Inflo QMS offers an entirely new way to think about quality management.

By utilizing a comprehensive, cloud-native, risk-based quality management system, all audit activities and results are digitized, meaning the possibilities for real-time data harvesting are endless. Plus, this same secure environment can support workflows for oversight activities such as internal inspections and external practice monitoring programs.

Available stand alone or as an integrated part of Inflo’s Digital Audit methodology, Inflo QMS utilizes Hybrid Intelligence to efficiently design and implement a comprehensive risk-based quality management system.

Drafting your quality management system

With Inflo QMS, establishing a modernized Quality Management System (QMS) is an efficient and streamlined process. From initially drafting your QMS, to tailoring and implementing it, and then continually evolving and improving it.

01 First, Inflo QMS presents you with simple configuration questions covering the eight QMS components

- FIRM'S RISK ASSESSMENT PROCESS
- RELEVANT ETHICAL REQUIREMENTS
- GOVERNANCE AND LEADERSHIP
- ACCEPTANCE AND CONTINUANCE
- ENGAGEMENT PERFORMANCE
- INFORMATION & COMMUNICATION
- RESOURCES
- MONITORING AND REMEDIATION PROCESS

02 Inflo's Hybrid Intelligence engine then suggests Quality Objectives

InfloHI applies proprietary recommendation algorithms to analyze your configuration responses and suggest suitable Quality Objectives.

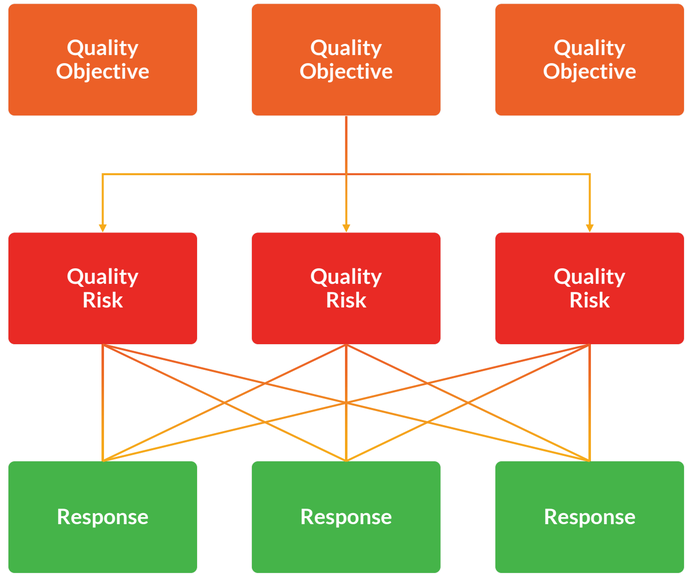
Responses suggested by InfloHI are scaled to your firm's size, complexity, and engagement types as required by the new standards.

This helps small and medium sized firms design simpler and more streamlined systems while still meeting required quality standards.

InfloHI saves you time and adds confidence. You also have the option of designing your QMS by independently creating your own, Risks and Responses or pulling from Inflo's Quality Risks and Quality Responses Libraries.

03 Suggested Risks and related Responses are then automatically linked to each Quality Objective

Although defining a Response for each Risk may seem simple, in a real world setting this may require more thought. To help firms manage this potential complexity, Inflo QMS allows for both one to one and one to many associations between Risks and Responses.



Drafting your quality management system

04 Additional details can then be added to drive accountability and review

The Inflo QMS configuration process also allows you to -

- **Assign Responsibilities** for the overall QMS as well as for specific aspects of the system.

  Operational responsibilities can be assigned for the testing and evaluation of each Risk and Response, and where needed, designated responsibilities can be shared across your team in a transparent and efficient manner.

- **Set Reassessment Dates** defining the timeframe within which each Risk and Response must be assessed.

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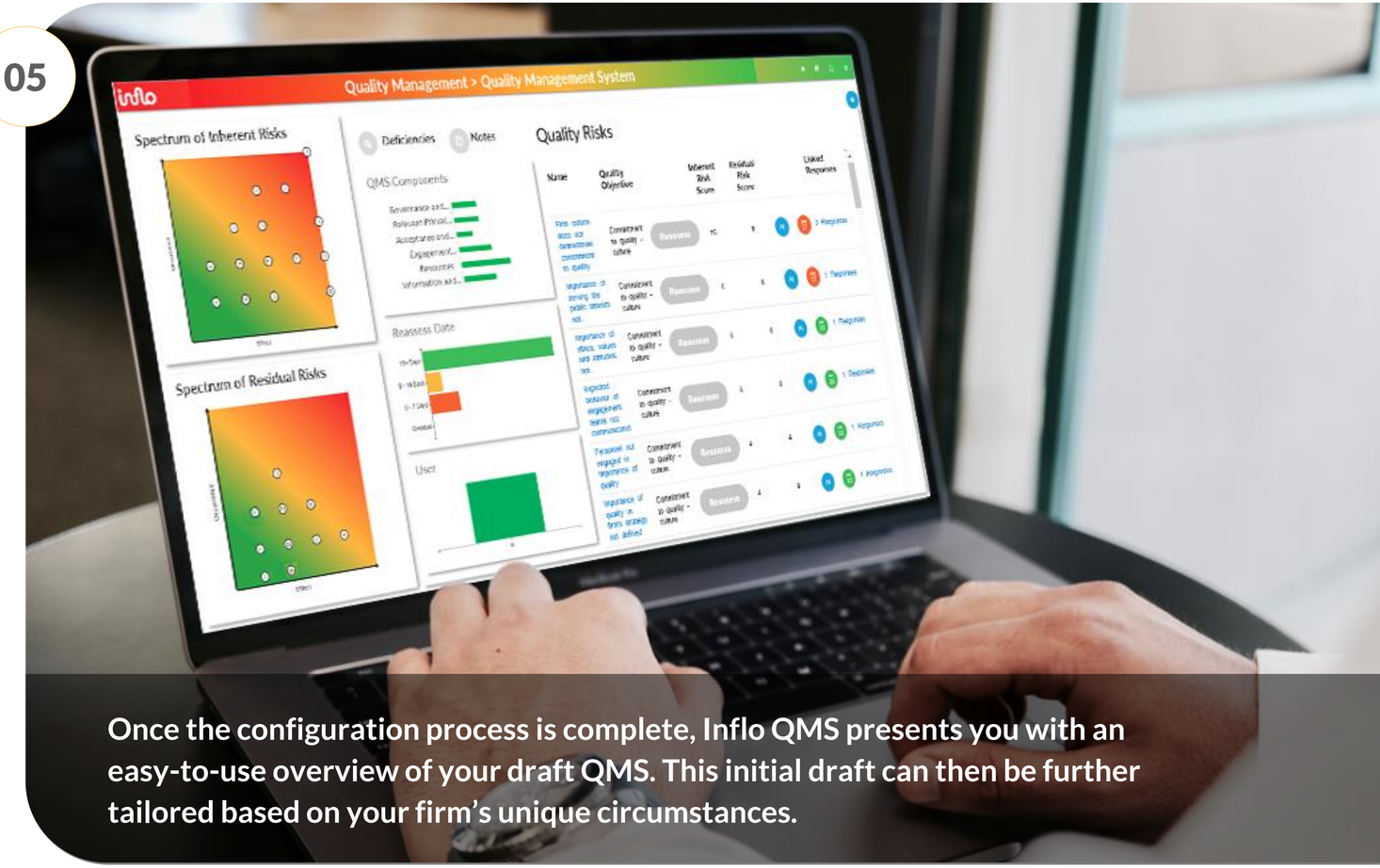

Once the configuration process is complete, Inflo QMS presents you with an easy-to-use overview of your draft QMS. This initial draft can then be further tailored based on your firm's unique circumstances.

Tailoring your quality management system

The flexibility built into Inflo QMS allows you to easily tailor your QMS to meet your firm's precise needs. Individuals assigned quality management roles and permissions can tailor the system by -

- Adding **Quality Objectives** unique to your firm.
- Revising or deleting **Risks** and/or **Responses**, adding further custom **Risks** and **Responses**, or importing from **Inflo's Quality Risks and Quality Responses Libraries.**
- Adjusting **Reassessment Dates** for individual **Risks** and **Responses**.
- Changing or updating **User Responsibility** assignments.

Assessing and scoring risks and responses

Next is the risk scoring process, which includes -

01

Assessing **Risks** by scoring them based on their inherent likelihood of 'occurrence' and magnitude of 'effect' on applicable **Quality Objectives**. These are referred to as **Inherent Risk Scores.**

02

Assigning mitigation scores to **Responses** indicating the extent to which the **Responses** reduce the occurrence and effect of the applicable **Risks**. These are referred to as **Risk Reduction Scores**.

Navigating your quality management system

Once your risk scoring is complete, an overview of your QMS is presented with the following major sections -

Two Risk Spectrums showing **Inherent Risk** and **Residual Risk** scores plotted for each **Risk**.

- **Residual Risk Scores** are calculated by netting Inherent Risk and Risk Reduction scores.
- These scores present a quantified indication of your firm's **Risk** of noncompliance and, conversely, your ability to achieve your **Quality Objectives**.

This unique and flexible scoring system allows your firm to document your risk assessment reasoning easily and clearly, which in turn helps ensure consistent implementation and operation of Responses.

Graphical presentations of –

- **QMS Components** indicating the number of **Risks** with linked **Responses** under each quality management component.
- **Reassess Dates** displaying the number of **Risks** and **Responses** due for reassessment within each defined period.
- **Users** showing the number of **Risks** and **Responses** assigned to each QMS user.

A **Quality Risks** table listing all **Risks** which you can click-through to view further information.

The QMS overview is dynamic, allowing you to navigate the view by clicking within any of the graphs or applying other filters.

Implementing your quality management system

After your firm's QMS is tailored and finalized, focus will move to implementation. This consists of ongoing **Monitoring** and **Inspection** activities, which will typically lead to continual modifications and refinements.

This is where a technology centric solution pays continuing dividends. Quality management activities and monitoring can occur in real time, with the resulting information automatically accumulated and shared so that it can be acted on quickly. This is in stark contrast to a 'documents and spreadsheets' approach which will be highly dependent on manual processes.

Subsequent editions of this briefing paper will cover additional dimensions of Inflo QMS, including implementation, inspection, and monitoring – at both the firm level and engagement level.

We'll also explore how Inflo QMS provides firms with options for more effectively coordinating their external inspection processes, such as audit quality reviews (AQRs) in the UK and peer reviews in the US.
This holds significant potential for firms to create greater value from their peer review and AQR processes.

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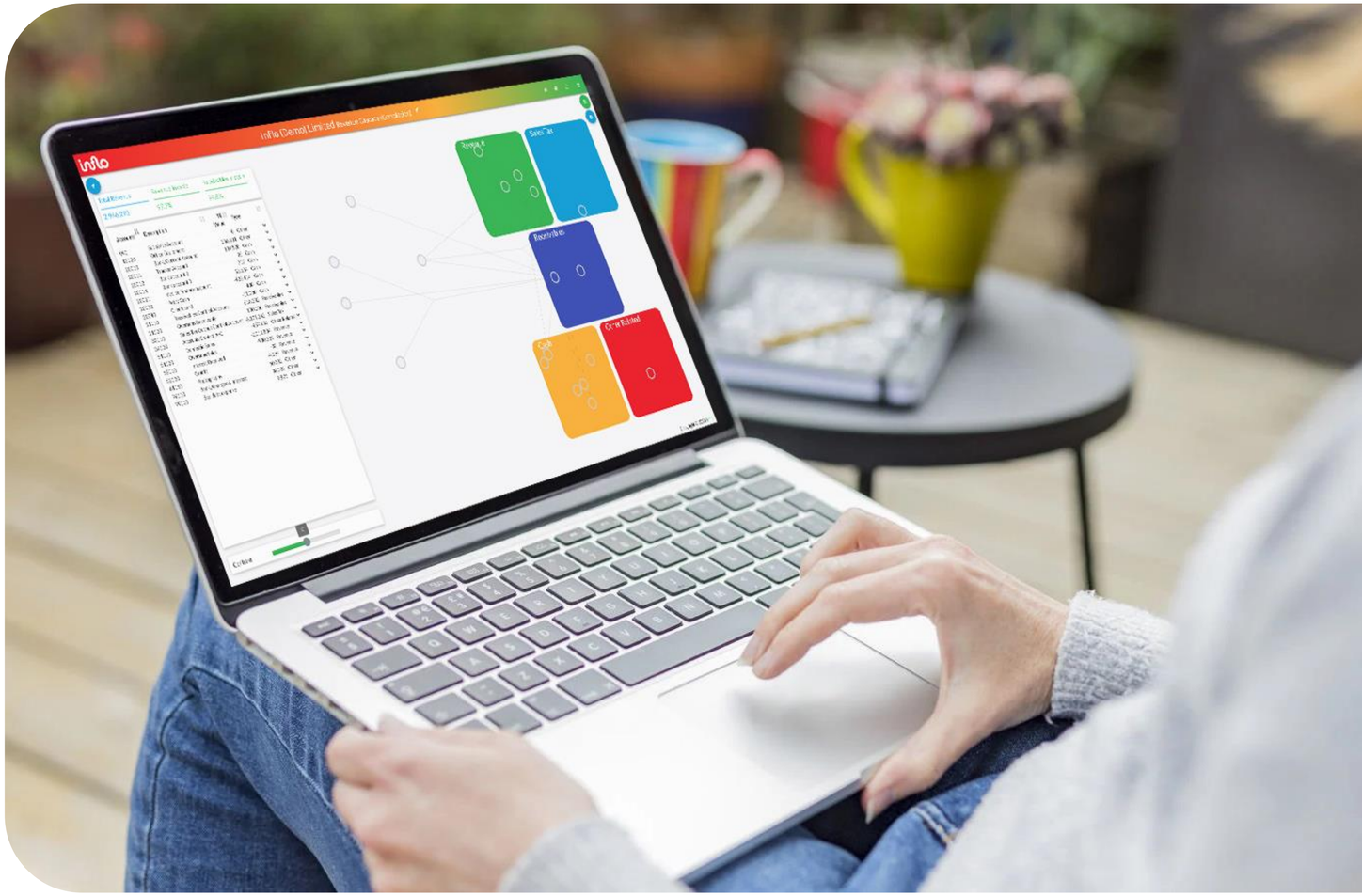

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