

ROOT CAUSE ANALYSIS GUIDANCE FOR AUDITORS

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TABLE OF CONTENTS

1.0 INTRODUCTION	5
2.0 BACKGROUND	5
3.0 THE PURPOSE OF RCA	6
4.0 THE ROOT CAUSE ANALYSIS PROCESS	6
4.1 THE RCA PROCESS FLOW	6
4.2 AREAS OF FOCUS DURING THE RCA PROCESS	11
4.3 BENEFITS OF RCA	12
4.4 COMMON PROBLEMS ASSOCIATED WITH THE RCA TECHNIQUE.....	12
5.0 CONCLUSION	13

ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by the Accountants Act, Cap 266. This has now been repealed and replaced by the Accountants Act, 2013.

The functions of the Institute as prescribed by the Act are to regulate and maintain the Standard of Accountancy in Uganda and to prescribe and regulate the conduct of accountants and practising accountants in Uganda. Under its legal mandate, the Institute prescribes professional standards to be applied in the preparation and auditing of financial reports in Uganda.

Vision

To be a world-class professional accountancy institute.

Mission

To develop and promote the accountancy profession in Uganda and beyond.

Core Values

- 1) Professional Excellence
- 2) Accountability
- 3) Integrity
- 4) Innovation

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA).

DISCLAIMER

This guide is intended as non-authoritative guidance to inform practitioners about Root Cause Analysis and how it can be used to identify and address the root causes of audit quality concerns. Practitioners should utilize the guide in light of their professional judgment and the facts and circumstances in their firms and each particular engagement.

ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this Guide.

1.0 INTRODUCTION

Root Cause Analysis (RCA) is a process for identifying the causes of problems or events to prevent them from recurring¹. It is a technique for identifying the underlying key cause(s) of review findings, whether specific to one audit engagement or the firm in general, so that appropriate actions can be taken to prevent the recurrence of negative outcomes and to promote the recurrence of positive ones. While mostly used in connection with negative review findings, RCA can also be useful as a means of identifying and nurturing positive outcomes and aspects identified in individual audit engagements or firm structures and systems. This Guide is developed specifically to educate practitioners about the use of Root Cause Analysis in identifying and addressing audit quality concerns. With the new International Standard on Quality Management (ISQM) 1, practitioners need to embrace and/or enhance the use of RCA to facilitate continuous improvements in audit quality by identifying the good practices that drive high audit quality and avoiding any deficiencies that may arise therein.

2.0 BACKGROUND

RCA is generally a tool designed to identify not only what and how an event occurred but also why it happened. It is a problem-solving technique that originated in the engineering industry and was widely adopted in other sectors such as manufacturing. The technique was devised as a means of identifying fundamental causes (as opposed to the symptoms) for process failures, problems, and deficiencies. RCA is widely used as a powerful Total Quality Management (TQM) tool to improve the quality of output in sectors such as engineering, manufacturing, supply chain, and construction.

RCA has become so versatile that it has been adopted in service sectors such as banking, insurance, and accountancy firms, as an avenue for the identification of systematic faults and barriers to growth. In the Audit profession, in particular, RCA is increasingly being used as a tool for understanding deficiencies in audits and to facilitate continuous improvement in audit quality. Not only does it provide audit firms, regulators, policymakers, and practitioners the opportunity to learn from past adverse events and prevent them from reoccurring in the future, but also augments and enhances those ideal events thereby leading to better audit quality.

With the introduction of the Quality Management standards, it will become mandatory for firms to conduct RCA since they will be required to continuously identify remedial actions to prevent root causes of poor audit quality from reoccurring. The International

¹ Financial Reporting Council (2016): Audit Quality Thematic Review, Root Cause Analysis- A Review of the Six Largest UK Audit Firms, <https://www.frc.org.uk/getattachment/dc0bba94-d4cd-447c-b964-bad1260950ec/Root-Cause-Analysis-audit-quality-thematic-report-Sept-2016.pdf>

Standard on Quality Management (ISQM) 1 describes the main objective of RCA as understanding the underlying circumstances or attributes causing poor audit quality.

Therefore, as audit firms transition to the new Quality Management standards, they will need to embrace RCA to help them deal with any deficiencies in their systems of quality management. This will enable firms to have a timely, thorough assessment to identify recurring root cause issues- whether positive or negative- and to take appropriate actions.

3.0 THE PURPOSE OF RCA

RCA is a well-established quality management technique in many industries and it is being increasingly adopted in the world of audit and accounting. Today RCA is now the go-to problem-solving technology in many industries and professions that facilitates the identification and implementation of actions fundamental to improving product and service delivery. There is a growing demand for the accountancy profession to embrace RCA as a way to improve overall audit quality and meet the expectations of stakeholders and regulators². The key objective of embracing RCA in auditing is to improve audit quality by having a better understanding of the root causes of audit quality concerns and possible recommendations to improve audit quality.

As practicing firms implement the new quality management standards, RCA will play a significant role. It will become instrumental in continuous improvement efforts to ensure audit quality and as such instrumental in the setting up of the monitoring and remediation process as mandated by ISQM 1. Since RCA is about identifying the cause of an issue rather than just looking at the symptoms of audit quality issues, RCA will become part of a continuous improvement cycle of inspecting audits, investigating the root causes for inspection results, and improving audit quality through the implementation of effective actions.

4.0 THE ROOT CAUSE ANALYSIS PROCESS

4.1 THE RCA PROCESS FLOW

The RCA process typically involves the following stages:

4.1.1 Planning

Practicing accountants need to establish a plan and timetable to ensure that the RCA process is performed in line with the highlighted objectives. This will involve

² Batchelor, J. (2017): Root Cause Analysis is transforming Audit Quality, <https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/root-cause-analysis-transforming-audit-quality>

determining the activities and resources required to effectively execute the process. The activities during this planning of the RCA process include:

a) Determining the events for which the RCA process will be performed

RCA is a reactive process that is performed after the occurrence of a specific event. The selection of events for which RCA will be performed is dependent on the firm's circumstances. However, some of the criteria that may be used for the selection of events for the RCA process could include:

- High-risk jobs for example, big (based on certain criteria say turnover or asset base) and public interest entities)
- Particular types of reviews (for example, cold reviews, EQCRs, regulatory reviews)
- Reviews with disappointing results or successful results
- Reviews highlighting themes that seem common to several engagements

The ultimate goal of the RCA process should be set to determine why the selected event occurred and how to prevent it from happening again.

b) Identification of the people who will perform the RCA

This could be the audit team itself, members of the management function, the reviewers, or a third party. The person or team selected to perform the RCA must possess the necessary technical knowledge, skill, objectivity, and authority to understand the issues and where applicable the experience to identify suggested solutions.

c) Timing of the RCA Process

The time required for the RCA exercise depends on:

- The complexity of the incident being investigated
- Complexity of the data collection methods used
- The level of proof needed to support the conclusions reached
- The level of cooperation from the participants
- The level of regulatory interference
- How much do you desire to dig into the causes.

RCAs can therefore be completed in a couple of weeks or a few months. However, it is important to take into consideration the availability of all personnel intended to be involved in the RCA. Where the audit team whose audit file is subject to the RCA is involved in RCA interviews and contributes to actions, the firm's leadership may wish to consider the timing of the RCA and the audit team's workload. A busy season audit,

followed by an external or internal inspection, followed directly by root cause analysis interviews and action planning, may make the audit team feel as though the audit is never-ending. Audit fatigue and possibly staff attrition could negatively impact learnings and actions. This does, however, need to be balanced against audit testing being fresh in the audit team's memory.³

d) The approach to use in the performance of the RCA

There are several ways in which RCA might be performed. These include combinations of the following procedures:

- Discussions with the individual(s) who identified the issue. These discussions would aim to understand the specifics of the matter raised or to get their views on whether it related to guidance, execution, or another cause.
- Asking engagement teams to complete a questionnaire. This could include obtaining their perspective on possible root causes as well as gathering data about the engagement which can be used for subsequent analysis.
- Discussions with individuals involved in the engagement. Discussions may cover issues that gave rise to either the specific or thematic actions or a combination of both.
- Review of working papers in the engagement file to understand whether the engagement teams appropriately executed the required procedures or whether documented procedures are clear.
- Review supporting documents such as the guidance papers, work plans, or templates used by the engagement teams.
- Discussions with those responsible for methodology and training to identify whether any gaps in the guidance or training could have contributed to the issue.
- Analysis of data collected to consider whether there are correlations with the findings.
- Discussion with any specialists or experts who contributed to the review findings to understand their perspective.

4.1.2 Execution (Data Collection)

Once the plans are in place, the actual RCA can be performed. This can be done using different methods such as surveys or interviews to establish the audit-related issues as well as their causes. This should be done to collect all available data related to the incident.

Data collection during the RCA process may be performed using the following tools and methods:

³ ICAEW. 2016. Improving audit quality using root cause analysis What, why, how, who and when?

- Interviews - Group and individual interviews are used to help in the identification of the root causes of audit quality issues or successes. In RCA, interviews are used in conjunction with other methods such as surveys and focus groups to identify and prioritize the primary causes of audit quality issues where multiple causes are identified.
- Behaviour surveys - Behaviour surveys or questionnaires can be used to gather insight from audit professionals on various common root causes such as the culture or environment at the firm, workload, team culture, or reward and recognition. The survey questions should be designed to help in the identification of factors that are impacting audit quality. The surveys should be designed to obtain a wide range of information and perspectives from various levels of audit professionals (partners, managers, and associates). Information obtained is then correlated with information obtained through other RCA activities to provide a comprehensive understanding of the significant or pervasive causes of audit quality deficiencies. Surveys can also be used to identify areas of focus during interviews with audit teams to drill down and understand the occurrence of certain audit quality trends.
- Focus groups - Focus groups can provide an opportunity to brainstorm or explore a particular quality issue across multiple audit teams and gain different perspectives on the causes that contribute to issues arising or prevent them from occurring. The Focus Groups can be focused on common areas of findings or thematic issues across an industry or portfolio rather than on individual engagement issues. They are most effective when they include team members from audit engagements, technical directors, and staff from the risk function.
- Fishbone diagrams - sometimes called cause and effect diagrams, Fishbone diagrams of RCA involve describing the problem or concern, collecting and analysing data, and then identifying potential causes through avenues such as brainstorming⁴. Fishbone diagrams are therefore helpful in sorting possible causes linked to a particular audit concern. The analysis is done by assessing the link of each of the entity's resources (people, systems, process, tasks, and culture) to the audit quality concern or issue under investigation.
- 5 Whys method - this method involves the use of a curious mind whereby the person conducting the RCA exercise continuously asks "why" until he receives a satisfactory answer to uncover the root cause of the issue under investigation. The answer to each "why" produces another "why" question. This method is very simplistic and as such should not be used for complex problems. It is most useful when used together with other methods such as the Fault tree analysis
- Fault tree analysis - Fault tree analysis is a top-down approach that is used in the identification of potential causes of audit quality concerns and recommendations of solutions. It is a graphical model of pathways within a

⁴ Chartered Institute of Internal Auditors (2020): Root Cause Analysis

system that can lead to a foreseeable failure⁵. Fault tree analysis is a deductive process that starts with a general conclusion and attempts to figure out the causes of the conclusion by making a logic diagram called a fault tree.

4.1.3 Identification of the root causes

The root causes of audit-related issues will then be identified based on evidence of causal relationships in the data obtained during the RCA process. The identification of root causes is a matter of judgment and an iterative process that may result in several causes being identified for a particular issue.

4.1.4 Development of action plans

Action plans taken by the firms have a direct impact on the quality of the audits. It is therefore important that they are effective in addressing the identified root causes of audit concerns. The action plans should involve monitoring aspects as well to ensure that the root causes are adequately addressed. The key objective should be for the RCA exercise to lead to proactive approach that identifies and resolves audit quality concerns as soon as they are identified. For example, the firms could use results of the RCA exercise to develop a checklist that can then be used to ensure subsequent engagements pass the identified audit quality concerns. This checklist can then be amended to include new and emerging concerns each time the RCA exercise is conducted.

The nature of the audit quality concerns identified during the RCA process will inform whether the firms need to update internal policies, change routine activities to resolve commonly identified concerns once and for all or conduct periodic assessments (say quarterly, half yearly or annually) of subsequent engagements to confirm that the concerns were resolved.

4.1.5 Consideration and communication of the results of the RCA

A successful RCA process should be concluded with effective reporting of the identified causes of audit concerns to help ensure that they are understood at a firmwide level. This will increase awareness which eventually influences the auditors to be mindful of these concerns during the execution of their duties.

This could be done individually, together, or in combination. It is important to note that review findings may have multiple contributing causes while some prime issues may be the root cause of more than one review finding.

⁵ Chartered Institute of Internal Auditors (2020): Root Cause Analysis

4.2 AREAS OF FOCUS DURING THE RCA PROCESS

The actual RCA exercise should involve a critical analysis of all issues that have the potential to impact audit quality in the firm. These need to be considered in connection with the specific nature, type, and complexity of the audits performed by the firm. Some of the possible root causes to explore during the RCA include:

- a) Resource issues
 - Competence and experience of staff
 - Engagement team dynamics
 - Time available for the engagement
 - Adequacy of staff for a particular engagement
- b) Personal, ethical, and attitude issues
 - Mindset to perform procedures according to audit plans
 - Willingness to learn from mistakes
 - Willingness to direct, supervise or review effectively
- c) Process issues
 - Whether firm policies and procedures are well documented, understood, and complied with.
 - Whether job mentoring and reviewing happens in the way they should
 - Whether staff performance system drives improvement
- d) Leadership issues
 - Whether staff receive appropriate leadership (evidence of direction, supervision and review on engagements)
 - Whether the change is effected when required
- e) Client issues
 - Lack of cooperation from client employees and management during the audit exercise. If the client employees and management don't understand the importance of the audit and provide sufficient information, then the audit processes are compromised.
 - Audit quality issues resulting from difficulties with client interaction, for example, fee pressure, unreasonable client-imposed deadlines to complete the audit, or information coming in late from the client.
- f) Key Audit Quality Indicators
 - Adequacy of intellectual and technological resources to enable the engagement team members to perform the necessary procedures on a particular engagement.
 - The extent of audit documentation.
 - Sufficiency and appropriateness of audit evidence

- Extent of adherence of the procedures performed on engagements with the relevant standards such as the International Standards on Auditing (ISAs).
- Demonstration of proper exercise of professional judgment and professional scepticism
- Whether quality control checks are conducted on engagements.

4.3 BENEFITS OF RCA

RCA helps in the determination and identification of root causes and not symptoms of audit quality concerns. Identification of root causes helps in the identification of permanent solutions so that possibility of future re-occurrence of those root causes can be reduced or eliminated. RCA is instrumental in developing a logical approach to solving audit quality concerns because identifying root causes of audit quality concerns leads to the development of approaches with the data obtained during the RCA process

RCA promotes a culture that embraces continuous improvement because it empowers and engages the workforce through structured methods and a reduction in a blame culture. This is because RCA encourages evidence-based thinking which removes reliance on outdated solutions resulting in an entity-wide culture of success.

RCA enhances efficiency since it not only identifies and deals with root causes of audit quality deficiencies but also identifies the positive aspects if any that may promote audit quality. This when done successfully eventually leads to practicing accountants spending less time delivering quality audits.

RCA leads to practicing accountants having more robust systems, policies, and procedures which is a critical requirement of the new Quality Management standards, especially ISQM 1.

RCA leads to reduced costs especially those associated with audit failures and the resultant costs such as sanctions by regulators.

4.4 COMMON PROBLEMS ASSOCIATED WITH THE RCA TECHNIQUE

The major problem with RCA is that it only presupposes one root cause of audit quality concerns. However, in reality, audit quality concerns can be very complex. There might be more than one root cause of audit quality concerns. RCA should therefore be focused on all aspects related to the audit quality concerns.

In most cases, RCA is limited to identifying negative aspects. However, effective RCA should also be used to identify positive aspects that should be promoted. Identifying positive aspects gives another opportunity for continuous improvement.

RCA is a very consuming activity in terms of time and resources and it is possible that many practicing accountants will not have the required resources to successfully implement the technique.

RCA is an analytical process that calls for rigorous critical thinking about cause-and-effect relationships within the audit process. This determines the true root cause of an audit quality concern may be difficult and subjective. Some audit issues are very complex and may have more than one root cause. In such circumstances, it becomes challenging to find the true root cause of such issues.

5.0 CONCLUSION

There is no one size fits all approach when addressing the root causes of audit quality concerns., therefore, is the most ideal approach to use because it creates a continuous journey of audit quality improvement. If successfully implemented, RCA can be a positive experience for practicing accountants, both when reflecting on lessons learned or sharing successes that result in the development of effective recommendations.

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