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Via e-mail

Correspondent	Our reference	Your reference	Date
IAASB	SQ/IVB	ED ISQM 1- ISQM 2 & ISA 220(Revised)	28.06.2019

Dear Chairman,

Re: Exposure Drafts: Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), Proposed International Standard on Quality Management 2 and Proposed International Standard on Auditing 220 (Revised)

The Belgian Institute of Registered Auditors (IBR-IRE) welcomes the opportunity to comment:

- on the International Auditing and Assurance Standards Board's (IAASB) February 2019 Exposure Drafts ("ED"), Proposed International Standard on Quality Management 1 and Proposed International Standard on Quality Management 2; as well as
- on the IAASB's February 2019 ED, Proposed International Standard on Auditing 220 (Revised).

Please find below our reactions to the different questions.

1. Proposed International Standard on Quality Management 1

General comments

Unless mistaken the IAASB has not provided any indication on the impact of the new standard implementation. An impact analysis should be made and IBR-IRE would like to know what the burden in accordance with the benefits of this new standard would be.

Furthermore, concerning ISQM1, a clarification of what is new in comparison with ISQC 1 and what should be still done to comply with ISQM1 would be useful. A lot has already been done by audit firms applying ISQC1 but more guidance should be given on how to fit in QM's.

IBR-IRE would like to have more practical examples at least one concerning the risk assessment process included in the standard.

Considering the importance of professional judgement in the standard, it is wide open to interpretation and might create difficulties when analysed by a regulator. The standard could provide more guidance regarding this concept.

Concerning the timing, application is foreseen for December 2021. 18 months for an audit firm to adapt seems too fast. Another option would be to have at least two application dates for two phases: for example, one for audit (in 2021) and one later for the other engagements. This would also be useful for practitioners who are not doing audits. The standard could also leave open to decide at national level the criteria to determine the two application phases.

Overall Questions

1) Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:

(a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?

Yes.

(b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional skepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?

Yes. The Explanatory Memorandum (par. 23 and 24) addresses the concept of professional skepticism. However, the concept seems unclear and should be clarified. Considering the importance of professional skepticism in the standard, it is wide open to interpretation and might create difficulties when analysed by a regulator. The standard could provide more guidance regarding this concept.

(c) Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?

At first sight the proposed standard seems to address scalability. However, we believe this is quite theoretical as the amount of documentation (policies and procedures) to provide for in order to comply with the standard seems rather extensive. We understand that as the risk analysis is firm-specific, it is difficult to provide an example which would fit for all audit firms of all sizes. However, it would be useful that IAASB provides an example of policies and procedures to be applied by sole practitioners (SP) and another one by the small and medium sized practitioner (SMP) with non-complex audit clients, especially each time the terms "establishing policies and procedures" are used. This could be a

minimal/basic example. This example could also be used as benchmark for regulatory bodies.

Regarding the documentation, additional guidance should be provided because a lot now in small firms happens informally and it is not clear for small firm how documentation is to be completed. An example focusing on SPs and SMPs would be needed but we need to make sure this example could not be considered as "best practice" and thus imposed by the regulator.

There are several objectives and for each objective the firm need to wonder whether it achieved it. People seem to read it as a "tick the box". It would be necessary to rethink the scalability that is now inherent to make it more clear to the readers/users.

2) Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?

We believe that some paragraphs of the application material are too long to help the auditors. As mentioned in answer 1. c), an example for SP and SMP would be more useful. Concerning the roles and responsibilities (§A32), we are not convinced that those mentioned are well described/consistent and that the interdiction to cumulate functions is well established and clear enough in the standard.

3) Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

As previously mentioned, we believe that the application material should be reduced. A lot of A paragraphs develop too extensively things that are obvious, without added value in comparison with the corresponding requirement. They should be rationalized to avoid repetitions (without added-value) and cross references.

The following A paragraphs could for example be removed: A12 to A16, A55, A83, A85, A86, A90, A91, A94 to A97, A100, A105, A114, A115, A116. In particular, A59 is a repetition of the requirement (§10 c). A59 could be removed and A69 should be a §A linked to §10 (c).

Some A paragraphs go further than the purpose of helping to a "proper understanding" mentioned in §16: they give guidance on the implementation and therefore they could be misinterpreted by a regulator as "best practices" and be declared or applied as mandatory. We therefore also propose that the use of "may" should always be followed by a "for example" in the §A's to avoid confusion or possible misinterpretation (an explicit example can be found in A69).

Specific Questions

4) *Do you support the eight components and the structure of ED-ISQM 1?*

Paragraph 8 of the standard could be completed by an 9th component. We propose to add “the firm’s quality objectives ». between « governance and leadership » and « The firm’s risk assessment process » Consequently paragraphs 26 and 27 of the standard would then be under that title. The Explanatory Memorandum could be adjusted and we suggest to also add this in the table on p. 7 as a new bloc below « governance and leadership” and above the three blue blocs (relevant ethical requirements, acceptance and continuance, engagement performance).

5) *Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm’s role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm’s public interest role?*

See answer 6, c).

6) *Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:*

(a) *Do you agree that the firm’s risk assessment process should be applied to the other components of the system of quality management?*

No specific comment.

(b) *Do you support the approach for establishing quality objectives? In particular:*
i. *Are the required quality objectives appropriate?*

No specific comment.

ii. *Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?*

We believe that examples should be provided in order to facilitate and improve proper implementation of the standard

(c) *Do you support the process for the identification and assessment of quality risks?*

The “Firm’s risk assessment process” could identify quality risks which could have a “significant effect” on the achievement of a quality objective (par. 28 b)). However, the standard does not provide a definition of “significant effect”. In this respect it is not very clear how the failure to achieve a quality objective could influence the second general

objective of the standard (engagement report issued by the firm or engagement partners are appropriate in the circumstances) (See also question 12).

(d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:

i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?

ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?

No specific comment.

7) Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

No specific comment.

8) With respect to matters regarding relevant ethical requirements:

(a) Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?

Enough flexibility should be left to the firm. The firm should be able to choose if it is the individual or the firm who is responsible. Finally, the responsibility rests always with the top management.

(b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?

As mentioned in answer to question 2) above, concerning the roles and responsibilities (§A32), we are not convinced that those mentioned are well described/consistent and that the interdiction to cumulate functions is well established in the standard.

9) Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?

We are of the opinion that the standard should rather specify that technologies used by firms must be adapted to the system of quality management of the firm.

10) Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

In Belgium transparency reports are required for several years. They are published by the audit firms and controlled by regulatory bodies.

11) Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

All situations referred to in §37 (e) (ii) are also included (e) (iii) (b) because it is “the firm” who determine the situations. Therefore, we are not convinced about the added value of §37 (e) (ii) as long as “significant public interest” is not defined. Examples could be given to define it: banks, insurance companies, pension funds, ...

12) In your view, will the proposals for monitoring and remediation improve the robustness of firms’ monitoring and remediation? In particular:

(a) Will the proposals improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?

We agree.

(b) Do you agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?

We are not convinced that the attention points developed under 65-67 of the Explanatory Memorandum are properly introduced in the standard.

(c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?

Unless misunderstood, we do not identify clearly the relation between a deficiency and their impact on the overall objective of the standard (§18).

(d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:

i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?

See below 12), d) ii.

ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?

No. We believe that in §A's the distinction between positive findings and deficiencies should be clarified (for example, A178 addresses deficiencies but includes positive findings).

(e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?

We are not convinced that even if the evaluation defined in §56 must be done annually for certain topics, it is clear enough that components of the system of quality management could be reviewed on a risk analysis basis or a rotation basis.

13) Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

No specific comment.

14) Do you support the proposals addressing service providers?

No specific comment.

15) With respect to national standard setters and regulators, will the change in title to "ISQM" create significant difficulties in adopting the standard at a jurisdictional level?

Yes: see above answer to question 1 b) (professional skepticism at firm's level) and 3) ("may" could be considered as leading to best practices).

2. Proposed International Standard on Quality Management 2

1) Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

Form does not matter so much as the importance of having requirements that are clear and feasible.

2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

Yes.

3) Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?

Yes.

4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

Having criteria for the reviewer such as mentioned in §16 and developed in A4 and A5, might make it more difficult for smaller firms to apply it. More flexibility should be proposed for smaller firms.

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

Yes.

6) Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

As answered in question 1 (b) on ISQM 1, professional skepticism should be further defined.

7) Do you agree with the enhanced documentation requirements?

No specific comment.

8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

As mentioned in answer to question 4 (a), under certain circumstances when specific competences are needed, finding a qualified reviewer (responding to the criteria) might be an issue for smaller firms.

3. Proposed International Standard on Auditing 220 (Revised)

We find that this standard does not answer to the question of the timing of the independence disclosure. More guidance on that point would be welcome.

1) Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?

Yes. We suggest that §19 would be included in §37.

2) Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?

Yes.

3) Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)

Yes.

4) Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

Yes.

5) Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)

Yes.

6) Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?

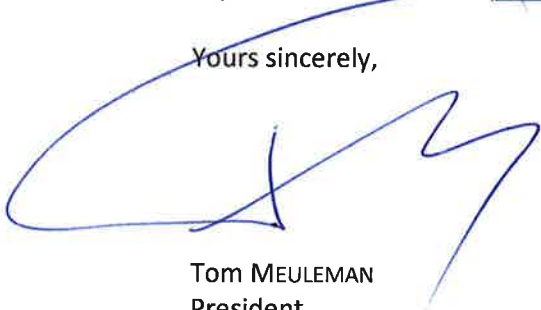
Paragraph 38 gives the impression that all documentation must be centralized in the audit file. In certain circumstances, certain elements may be kept at the firm's level.

7) Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

We believe that the scalability approach could be improved.

We hope you find our comments constructive and helpful. If you have any questions regarding these comments, please contact Ms. Inge VANBEVEREN, Head of Professional Expertise and Standards (i.vanbeveren@ibr-ire.be).

Yours sincerely,



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President