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1 July 2019

Mr. Willie Botha  
IAASB Technical Director  
International Auditing and Assurance Standards Board

International Federation of Accountants  
529 5<sup>th</sup> Avenue  
New York 10017  
USA

**RE: *Explanatory Memorandum - The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews***

Dear Mr. Botha,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Auditing & Assurance Standards Board (IAASB) exposure drafts (EDs) for *Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews*. In our view, the proposed new and revised requirements, and accompanying explanatory memoranda, set out an ambitious set of proposed changes which have the potential to improve the quality of engagements and management of quality at firm and engagement levels. As a globally diverse organisation consisting of many firms, BDO recognises the value proposition of having a quality management approach that is fit for purpose and is substantively able to enhance firm's management of engagement quality. We also welcome the extent of outreach undertaken by the IAASB through use of webinars and presentations and other engagement with BDO colleagues during the exposure draft period.

Within our responses to each of the specific exposure drafts, we have expressed our support for much of the IAASB's proposed approach. We acknowledge that the IAASB has identified an approach to quality management that has the potential to strengthen the focus of quality management within firms. Notwithstanding our comments made in each response letter, in our view there are improvements that can be made to the proposed suite of EDs to ensure a positive impact on firms' quality management processes and, most importantly, a successful implementation. These suggestions include:

- **Streamlining the standards to improve implementation:** while the IAASB has done a good job of ensuring interdependent changes have been reflected across all three EDs, the volume of content, when combined with a prescriptive quality management framework outlined in ED-ISQM 1, has the potential to result in an over-complicated approach to quality management. This may be further

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exacerbated by some drafting issues and changes in terminology which we have highlighted in our responses. Taken together, these issues could affect how firms implement the standards and highlight the need for sufficient lead-in time to enable successful evaluation of the impact through piloted use of the new framework in firm or network-specific scenarios. From an audit quality perspective, this has the potential to result in a distraction for firm management - moving their focus away from other aspects of audit quality and resulting in a compliance-based mapping exercise solely to satisfy the requirements of the EDs.

- **Promoting a more consistent approach:** as we note in our individual responses, we are supportive of the IAASB's intent to ensure that the suite of quality management EDs provide flexibility to firms of all shapes and sizes. Even though the approach adopted in ED-ISQM 1 enables firms to *add* to the quality objectives and risk responses, the inconsistent provision of objectives and responses across all components could generate confusion on the part of key stakeholders (including divergent interpretations by regulators operating across different jurisdictions). This could also send mixed messages about the relative importance attached to all eight components.
- **Effectiveness of the proposed approach:** the proposed quality management framework may inadvertently provide false comfort about a system of quality by over-emphasising documented processes and controls (which can be more easily designed, observed and monitored directly by firms) but providing less focus on the 'softer' (and arguably more impactful) behavioural outcomes associated with quality systems. Areas such as coping with the pace of change, ongoing automation, continuing to meet stakeholder needs and reflecting how people actually apply these quality management systems, may need an increased emphasis within the quality management framework and implementation materials. While the proposed framework may lead to an improved flow of documentation, it could also result in excessive documentation which may detract from other more effective ways to boost audit quality.
- **Providing for successful implementation:** We ask that the IAASB consider the timing and planned effective date for this suite of standards to enable firms to thoughtfully apply the new standards, conduct pilots, further develop and improve monitoring systems and deliver additional training. As we note in our responses below, to provide for successful implementation, firms need time to fully implement the standards to ensure the desired improvements in audit quality are achieved (i.e. reflecting the importance of behavioural and cultural changes which often take longer to implement within firms). Additional time would allow further development of implementation support by the IAASB and provide time for firms to transition to implementation. To do otherwise with an aggressive effective date and timeline could lead to unnecessary inconsistency within jurisdictions, across networks, by regulators and severely impact firms of all shapes and sizes - none of which would be in the public interest. One further option could be to provide more transition-focused implementation support (such as developing example timelines, sharing how firms could plan or pilot different elements before full implementation, suggesting the types of resources that firms should start to identify) to encourage a planned approach to implementation.

To assist the IAASB with their deliberation of comments received on ED-ISQM 1, ED-ISQM 2 and ED-220 we present below our responses to the overall questions asked in the Covering Explanatory Memorandum and provide by way of separate letters our comments for each of the proposed standards individually. For ease of analysis, we have retained the IAASB's question numbers as presented in the individual exposure draft (ED) documents and explanatory memoranda.

## Overall Questions - Covering Explanatory Memo

### 1. Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?

As noted in our introductory comments, we acknowledge that for many firms (large or small, network- or non-network, complex or non-complex clients), ED-ISQM 1, ED-ISQM 2 and ED-220, and specifically the proposed adoption of a Quality Management Framework (QMF) alongside other changes proposed in the EDs, are likely to result in the need for significant investment, planning and piloting of new approaches. In our view, the IAASB should consider a longer implementation period with 24 months being a starting point for further consideration. This will enable firms and networks to actively plan pilots and provide for a successful implementation through a phased approach.

Allowing a longer period of implementation may have the following benefits across audit and assurance providers; it could:

- a) Provide sufficient time for appropriate pilots and testing of any new approaches, including the ability to (i) road-test new processes over a full audit cycle, (ii) develop and release training to staff, (iii) update audit tools and guidance, and (iv) identify potential areas of remediation or further improvement.
- b) Enable firms to develop a QMF approach that is appropriate to their size and nature - including providing additional time to tailor quality objectives, identify and assess risks and design appropriate responses as well as deal with any internal re-organisation or restructuring that may be required.
- c) Provide network-based firms with additional time to enable further deployment testing and pilots across different jurisdictions.

We encourage the IAASB to perform further outreach and engagement activities with a variety of stakeholders to ascertain an appropriate effective date.

### 2. In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

BDO fully supports the IAASB's existing activities to develop video, webinar, Frequently Asked Questions (FAQs) and 'Draft Examples' implementation materials, as well as other content designed to support SMPs. We would encourage the IAASB to continue to seek views of members of the SMP Committee within IFAC to identify if there are additional implementation materials that would benefit this particular group. We also note and support the 'Theme A' strategic action set out in the IAASB's Proposed Strategy for 2020-2023.

While the EDs provide for scalability considerations, having implementation materials which look at these standards specifically through the lens of an SMP would be particularly helpful.

We encourage the IAASB - especially during the run up to the effective date - to consider sharing videos, scenarios and personal insights from SMP and sole practitioners to explain how they themselves plan to respond to the proposed requirements, in order to help inform this particular set of users. A specific area of focus for SMPs may be the extent to which they have or may need to develop additional quality objectives in certain areas. Having some sample FAQs which address

SMP concerns in these areas may also be a helpful addition to the draft FAQs document (dated February 2019).

### General Questions

In addition, the IAASB is also seeking comments on the general matters set out below for all three EDs:

3. ***Developing Nations***—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.
4. ***Translations***—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.

**Developing Nations:** As acknowledged by the IAASB, many developing nations are still in the process of adopting the International Standards. Given the need to ensure that the public interest is not impacted by a patch-work take up of these standards across the globe, we would strongly support IAASB (and ultimately IFAC) efforts to improve capacity building in developing nations. Options could include the IAASB partnering with others (such as the World Bank or via the MOSAIC initiative) to provide adoption and implementation support to specific nations.

**Translations:** We have long supported IFAC efforts to make ISAs and other IFAC pronouncements accessible to users through effective and timely translation. We question whether the term ‘quality risk’ will translate well into other languages or if a ‘risk to quality’ would better convey the intention. Our concern is that ‘quality’ is often used to mean excellence, or of high value and could be misinterpreted. Notwithstanding our comments in relation to use of the term ‘Quality Management’ (as opposed to ‘Quality Control’ - see Q15, ED-ISQM 1) our comments regarding ‘quality risk’ or other specific drafting comments below, in our view the proposed standards do not on the whole present any immediate translation concerns.

We hope that our comments and suggestions will be helpful to you in your deliberations and finalisation of the suite of quality management standards.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited

Chris Smith

Global Head of Audit and Accounting