

Response Template: Quality Management Covering Explanatory Memorandum

Note to Respondents:

- The questions below are from the covering explanatory memorandum of the IAASB's exposure drafts related to quality management, which is available at www.iaasb.org/quality-management. These questions address key issues pervasive to the three standards.
- Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

Overall Questions

- 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?

Response: This seems to be a bit short. The Belgian Institute of Accountants and Tax Consultants (IAB-IEC), that is currently merging with the Belgian Professional Institute of accredited Bookkeepers and Tax specialists (BIBF-IPCF) to become the Belgian Institute for Tax Advisors and Accountants, is one of two members of IFAC in Belgium (the other being the Belgian Institute of Auditors, IBR-IRE).

Belgium is a member of the European Union (EU). Currently, ISQC 1 has not been adopted on EU-level. Even though the Commission of the EU had the possibility to adopt ISQC 1 from the entry into force of the Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (hereafter: Audit directive), it did not yet do so.

The cause of this is the European legal culture. The goal of ISQC 1 is a normalization based on the most complex situations ('*Think big first*'). This leads to a top-down concept, where ISQC 1 needs to be simplified, by additional guidance or other means to meet the needs of SMPs.

In the Anglo-American tradition, it is preferred to enter into the details of the procedures to be implemented. This is reinforced by the pyramidal model of large audit firms, *i.e.* a model for large companies that are organized internationally and that contain many requirements.

Opposite of this Anglo-American tradition is the European-continental tradition, that is based upon the principle '*Think small first*'. The EU and Member States should design rules according to the "*Think Small First*" principle by taking into account SMEs' characteristics when designing legislation, and simplify the existing regulatory environment.¹

¹ [4.III, Small Business Act, 25th of June 2008.](#)

For this reason, a bottom-up concept is required. It is about starting with requirements designed for SMPs and then adding requirements for larger, more complex firms or networks. Preferably, the more complex standards would be built or based on the less complex ones.

These new standards aim to remedy this. But an early adoption of all three standards as a package, is difficult from a legal-technical perspective. Although ISQM 1, ISQM 2 and ISA 220 aren't drafted from a legislative point of view, by adopting them they will become part of the European legal system.² They cannot be adopted in their entirety ('*en bloc*'). Every standard needs to be adopted separately. The quality test of article 26, 3° of the Audit directive³ and a cost-benefit analysis must be passed for each separate standard.⁴

The Audit directive thus prohibits the early adoption as a package of all three standards, as described in section 3, marginal 26. The three standards can only be adopted as a package when all three standards have passed the quality test and cost-benefit analysis. Adoption on EU-level within a period of 18 months, seems to be unlikely.

This doesn't prevent the future Belgian Institute for Tax Advisors and Accountants to adopt these standards on a national level. However, it is possible that the adoption would follow a common procedure between the Belgian Institute for Tax Advisors and Accountants and the Belgian Institute of Auditors, with a public consultation of 3 months and a period of 3 months for the High Council for the Economic Professions to give an advice.

Before the adoption process can begin, the standards need to be translated. The use of English standards is prohibited by the Belgian legislation on the use of languages.⁵ Because of the bilingual nature of the Belgian profession, the standards need to be translated both in Dutch and French.

This translation process will probably be a cooperation between the future Belgian Institute for Tax Advisors and Accountants, IBR-IRE and the Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA) for the Dutch translation, and between the future Belgian Institute for Tax Advisors and Accountants, IBR-IRE and the Conseil Supérieur de l'Ordre des Experts Comptables (CSOEC) for the French translation.

Even an adoption at national level within an 18-month period, seems difficult. IAB-IEC proposes a period of at least 24 months.

² D. SCHOCKAERT, N. HOUYOUX, "International Standards on Auditing within the European Union", *Forum Financier / Revue Bancaire et Financière* 2007/8, 528.

³ "Art. 26, 3. The Commission shall be empowered to adopt, by means of delegated acts in accordance with Article 48a, the international auditing standards referred to in paragraph 1 in the area of audit practice, independence and internal quality controls of statutory auditors and audit firms for the purposes of the application of those standards within the Union. The Commission may adopt the international auditing standards only if they:

(a) have been developed with proper due process, public oversight and transparency, and are generally accepted internationally;

(b) contribute a high level of credibility and quality to the annual or consolidated financial statements in conformity with the principles set out in Article 4(3) of Directive 2013/34/EC;

(c) are conducive to the Union public good; and

(d) do not amend any of the requirements of this Directive or supplement any of its requirements apart from those set out in Chapter IV and Articles 27 and 28."

⁴ [H. VAN DAMME, "Common auditing standards in Europe", *Tax, Audit & Accountancy* nr. 25, November 2010, 5.](#)

⁵ [Annual Report High Council for the Economic Professions, 2009, 12.](#)

- 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?

Response: Before considering implementation materials, a fundamental change in standard setting mind-set and approach is needed. That is, to start drafting standards for the simplest situations, and then providing additional detail for more complex situations when these apply. This needs to be done first. Only after this, the drafting of implementation materials such as SMP-packages, guidelines, Q&A's, examples, technical notes or other means should be considered.

The quality standards should be drafted by beginning with the definitions and general principles that are applicable to all practitioners, from sole practitioners to practitioners working in a network firm. From this, the standard should expand to principles that are not applicable to sole practitioners, but only to practitioners from SMPs to those working in a network firm. And last, the standard should have a section with principles that are applicable only to network firms. This is the reversal of the extant ISQC 1, that has separate sections titled "Considerations Specific to Smaller Firms".

The Restructured Code of Ethics is an example of how a separate section covers the principles for firms providing assurance engagements. That way, the standard considers the fact that there are firms that do not provide assurance engagements, but for example do provide assurance related engagements.

As stated in paragraph 5 of ISQM 1, the complexity and formality of a system of quality management of a firm that performs only compilation engagements or even reviews of financial statements, will be far less than that of a firm that performs audits for public interest or listed entities. The standard should be drafted accordingly.

It is regrettable that the draft examples of ISQM 1 follow this logic, but the draft standard itself doesn't. The draft examples distinguish three scenarios:

1. A small firm that performs only compilation engagements
2. A small firm that firm that performs compilation and review engagements
3. A larger firm with multiple locations that is part of a network and performs multiple engagements

If the standard would be drafted in such a way (with more nuances, as stated above), the practitioner wouldn't need to wade through the entire standard, and then discard those sections which aren't applicable to his situation. This is necessary because the new quality management approach together with the various new requirements have added to the overall length of ISQM 1 compared to the extant ISQC 1.

However, the fact that the new standards follow a risk-based approach, the increased emphasis on professional judgment, the fact that the quality objectives are outcome-based rather than input based to prevent a checklist approach, and the considerations of the nature and circumstances of the firm and the engagements it performs, are steps in the direction of more scalability. The development of practical examples is also preferred to theoretical guidance. IAB-IEC also supports the fact that ISQM 2 is a separate standard, because it will in most cases not apply to its members. Audits or reviews of financial statements of listed entities or public interest entities are, according to Belgian law, preserved for members of IBR-IRE.

General Questions

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

- (a) 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.

Response: Does not apply to IAB-IEC.

- (b) Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.

Response: Does not apply to IAB-IEC.

- (c) 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.

Response: As stated above, the translation process will probably be a cooperation between the future Belgian Institute for Tax Advisors and Accountants, IBR-IRE and the Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA) for the Dutch translation, and between the future Belgian Institute for Tax Advisors and Accountants, IBR-IRE and the Conseil Supérieur de l'Ordre des Experts Comptables (CSOEC) for the French translation.