BAOB BELGIAN AUDIT OVERSIGHT BOARD

Insights

31 March 2025

Thematic report – results of the 'ISQM Survey' on the implementation of ISQM1 by the non-PIE sector

The consistent performance of high-quality engagements serves the public interest. The design, implementation and operation of the quality management system as required by the International Standard on Quality Management (ISQM) 1 make this possible within reason.

As part of its pedagogical approach, the Belgian Audit Oversight Board conducted a survey of the implementation of ISQM1 ("**ISQM Survey**") during the summer months of 2024. The results are based on the 156 non-PIE auditors' own answers[1].

This publication allows the sector to gain greater insight and provides a potentially useful benchmark. Audit committees will also find useful information on how the sector is making efforts that contribute to strengthening their organization and audit quality.

For reasons of simplicity, in this publication we use the term "**firm**" to refer to both the natural person auditor (A-number) and the audit firm (B-number)[2].

1 12 natural person auditors and 144 audit firms.

2 This is in line with ISQM1.16.(i) which defines a 'firm' as "*A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent".*

1. Design of ISQM1 and the BAOB's review approach

Firms were required to design and implement a system of quality management in compliance with ISQM1 by 15 December 2023 at the latest. They were required to perform a first monitoring and evaluation of this system of quality management by 15 December 2024 at the latest[3].

They are required to design, implement and operate a system of quality management for audits or reviews of financial statements, or for other engagements in respect of assurance or related services that they perform. This provides the firm with reasonable assurance that the objectives of the system of quality management, as set out in ISQM1.14 (a) and (b), are being achieved, namely that[4]:

- the firm and its personnel fulfil their responsibilities and perform their audit engagements in accordance with professional standards and the applicable legal and regulatory requirements;
- the signed engagement reports are appropriate in the circumstances.

A system of quality management operates on a continuous and interactive basis and responds to changes in the nature and circumstances of the firm and its engagements. The ISQM1 standard requires firms to apply a risk-based approach when designing, implementing and operating the components of the system of quality management. For the purposes of ISQM1, a system of quality management contains the following components[5]:

- the firm's risk assessment process[6];
- governance and leadership[7];
- relevant ethical requirements;
- acceptance and continuation of client relationships and specific engagements;
- engagement performance;
- resources[8];
- information and communication; and
- monitor and remediation process[9].

In its Action Plan 2024[10], the Belgian Audit Oversight Board (BAOB) states that it will monitor the implementation of ISQM1 using a pedagogical approach in the operational year 2024. The BAOB organizes these inspections as thematic quality controls for audit firms that perform statutory audit

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3 Standard on the application of the International Standards on Quality Management 1 and 2 (ISQM 1 and 2) and ISA 220 (Revised) in Belgium, Belgian Official Gazette 27 November 2023. See the website of the Institute of Registered Auditors (IBR-IRE): available in Dutch and French.

4 ISQM1.14.

5 ISQM1.6.

6 The firm's risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management (ISQM1, A4).

7 The governance and leadership component establishes the environment that supports the system of quality management (ISQM1, A4).

8 The resources and information and communication components enable the design, implementation and operation of the system of quality management (ISQM1, A4).

9 The monitoring and remediation process is designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm's risk assessment process (ISQM1, A4).

10 The Action Plan 2024 has been published on the website of the Audit Oversight Board on 25 March 2024.

engagements for PIEs ("**PIE auditors**") and incorporates these controls into the regular quality controls for audit firms that do not perform statutory audit engagements for PIEs ("**non-PIE auditors**").

As part of the pedagogical approach, the BAOB conducted an ISQM Survey to gain insight into the maturity of the implementation by the non-PIE sector[11].

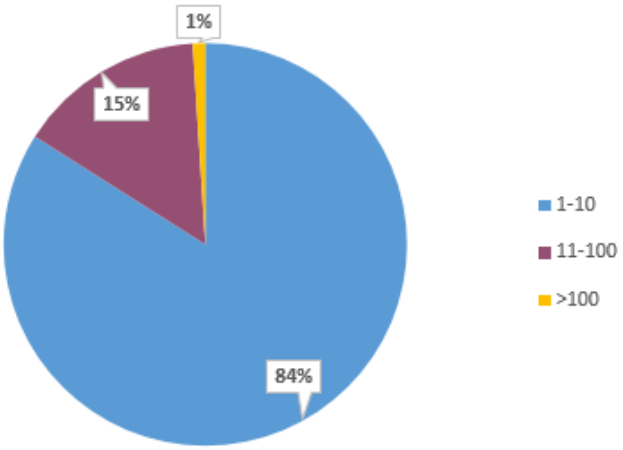
2. Results of the ISQM Survey

These data must be interpreted with caution, as they are based on the participants' own declarations.

A. Profile of the respondents and membership of a network

54% of the respondents to the ISQM Survey are sole practitioners.

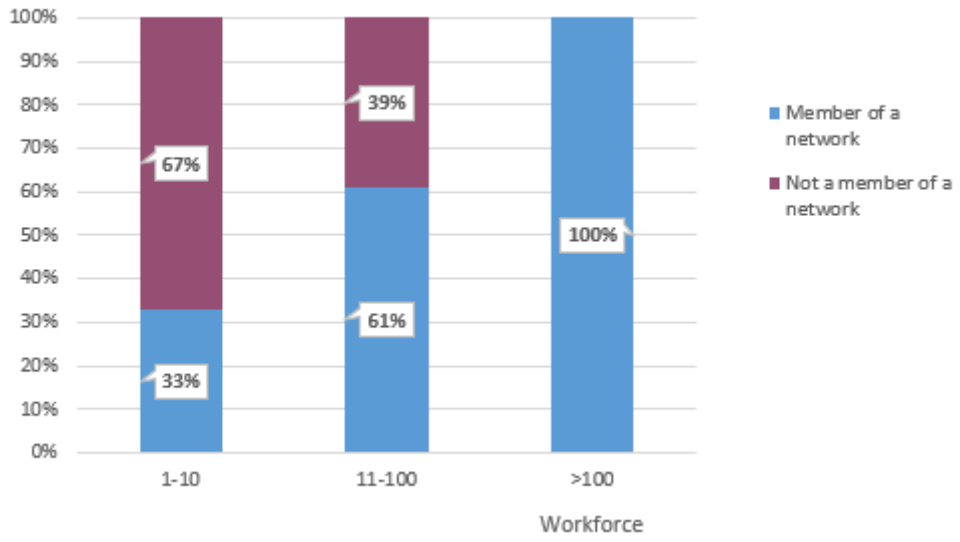
The large majority of the respondents (84%) has between 1 and 10 employees. Less numerous are the firms with either between 11 and 100 employees or more than 100 employees (15% and 1% respectively).



Graph 1: Size of respondents' workforce

The graph below shows that the larger the firm's workforce, the more likely it belongs to a network.

[11] Selected non-PIE registered auditors who carried out auditing tasks during the 2023 calendar year were required to complete the ISQM Survey. This publication takes into account only the responses submitted by those who were active in the public register at the time of the deadline for completing the ISQM Survey.



Graph 2: Membership of a network

In total, 10% of the respondents are part of a network. This corresponds to 59 of the 156 respondents. 40% of the respondents that are part of a network have had specific requirements imposed on them by the network with regard to the implementation of ISQM1.

32% of the respondents that are part of a network use resources or services provided by that network in their system of quality management or when conducting engagements. When looking at the total population of respondents, this represents 12% (i.e., 19 of the 156 firms).

B. Use of service providers

In certain circumstances, the firm may use resources made available by a service provider, especially when, internally, it lacks[12] the appropriate means [ISQM1, A6].

ISQM1.16.v defines a service provider (in the context of ISQM1) as *"*An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm's network, other network firms or other structures or organizations in the network."[13]

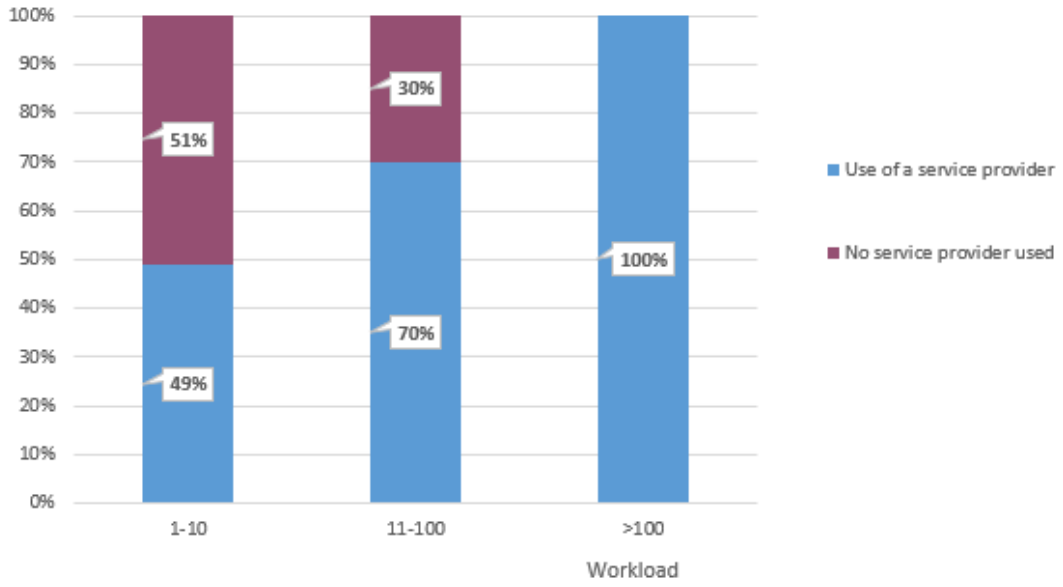
Even when a firm uses resources from a service provider, the firm is responsible for its system of quality management[14].

[12] "In addition to personnel (i.e., individuals in the firm), the … firm may use individuals external to the firm in performing activities in the system of quality management or in the performance of engagements. For example, individuals external to the firm may include individuals from other network firms (e.g., individuals in a service delivery center of a network firm) or individuals employed by a service provider (e.g., a component auditor from another firm not within the firm's network)." [ISQM1, A20]

[13] Examples of service providers: individuals engaged to perform the firm's monitoring activities or engagement quality reviews, or to provide consultation on technical matters, a commercial IT application used to perform audit engagements, an auditor's external expert used by the firm to assist the engagement team in obtaining audit evidence, component auditors from other firms not within the firm's network [ISQM1, A105].

[14] ISQM1.11 *in fine*.

53% of the respondents use the services of a service provider.



Graph 3: Use of service providers

The graph above shows that firms with a smaller workforce make less frequent use of a service provider than a firm with a larger workforce does.

A possible contributing factor may be that the cost of the services of a service provider weighs relatively more heavily on smaller firms.

The graph below gives an overview of the components of the system of quality management for which the respondents use the services of a service provider.

In order of importance, the firms most frequently call on service providers for the components (1) 'Resources' tied with 'Engagement performance', (2) 'Monitoring and remediation process' and (3) 'The firm's risk assessment process', and least frequently for 'Relevant ethical requirements' and 'Governance and leadership'.

Graph 4: Use of service providers in the system of quality management

The high score for the 'Monitoring and remediation process' component is probably the consequence of the high proportion of smaller firms (between 1 and 10 employees) that have responded to the ISQM Survey. For the monitoring of their audit engagements, sole practitioners must call on the services of an individual external to the firm to guarantee the objectivity of the monitoring.

C. Responsibilities for the system of quality management

ISQM 1 requires the firm to assign[15] the following responsibilities[16]:

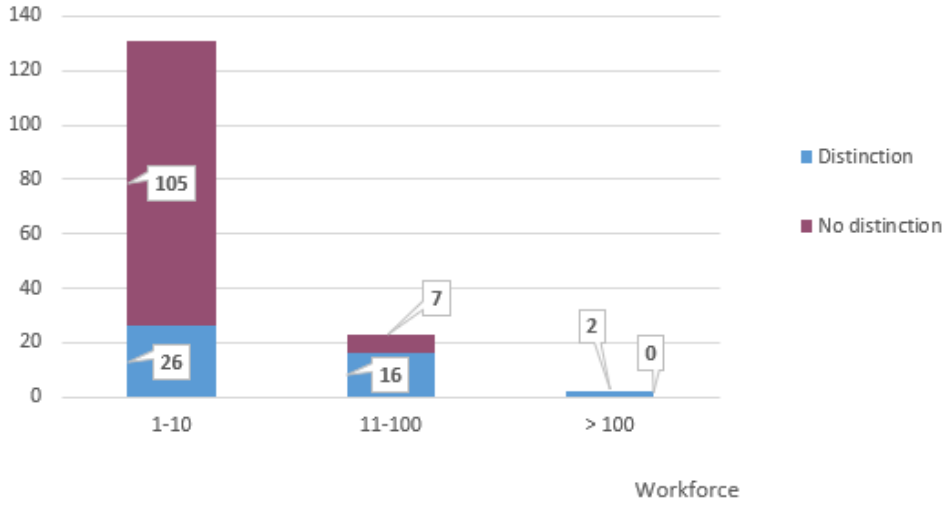
- ultimate responsibility and accountability for the system of quality management must be assigned to the firm's chief executive officer or managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent);
- operational responsibility for the system of quality management;
- the operational responsibility for specific aspects of the system of quality management, including:
    - compliance with independence requirements; and
    - the monitoring and remediation process.

The way in which the firm assigns the responsibilities varies. Logically, the size of the firm is a determining factor in that respect. The larger the workforce, the more the firms create (and in practice

[15] ISQM1.20-22.

[16] Despite the assignment of responsibilites [ISQM1.29] as regards the system of quality management, the ultimate responsibility [ISQM1.46] for the system of quality management remains with the firm.

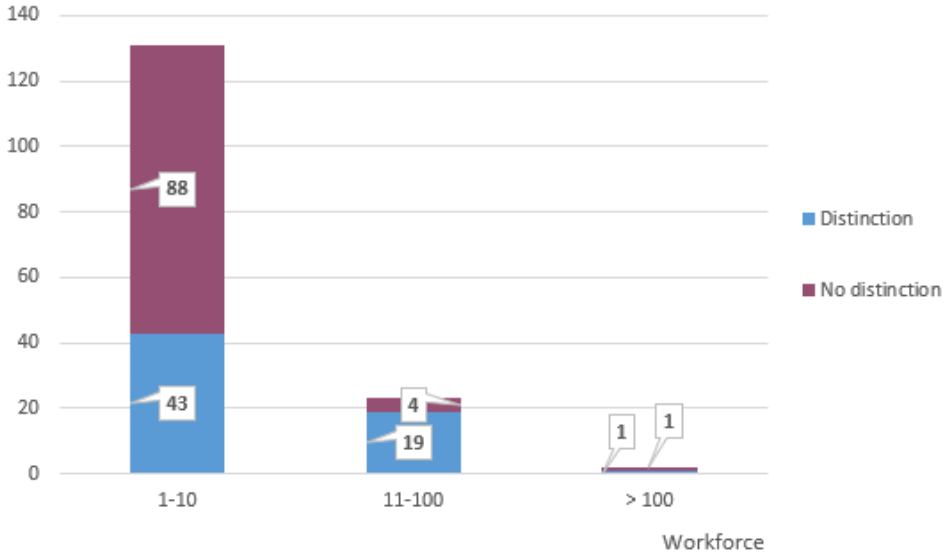
are capable of creating) a clear separation of responsibilities by designating different persons to fulfil them. This is illustrated in the graph below.



Graph 5: Distinction between individuals assigned ultimate responsibility and individuals assigned operational responsibility for the system of quality management

Not surprisingly, the graph shows that firms with a larger workforce, compared to firms with a smaller workforce, often designate different persons for ultimate responsibility and for operational responsibility for the system of quality management.

The ISQM Survey results show that 40% of the respondents make a distinction between the individual assigned operational responsibility for the system of quality management, and the individual assigned ultimate responsibility for the monitoring and remediation process, while 60% said they did not.



Graph 6: Distinction between the individual assigned operational responsibility for the system of quality management and the individual assigned responsibility for the monitoring and remediation process

The graph shows that unlike firms with a smaller workforce, the majority of firms with a larger workforce designate different individuals when assigning the operational responsibility for the system of quality management and the responsibility for the monitoring and remediation process.

13% of the respondents indicate that, at the time of completing the ISQM Survey, they had not concluded an agreement with an individual external to the firm to perform the firm's monitoring activities relating to the system of quality management, even though, at least in the case of sole practitioners, it is not possible for them to appoint an objective internal reviewer from within the audit firm.

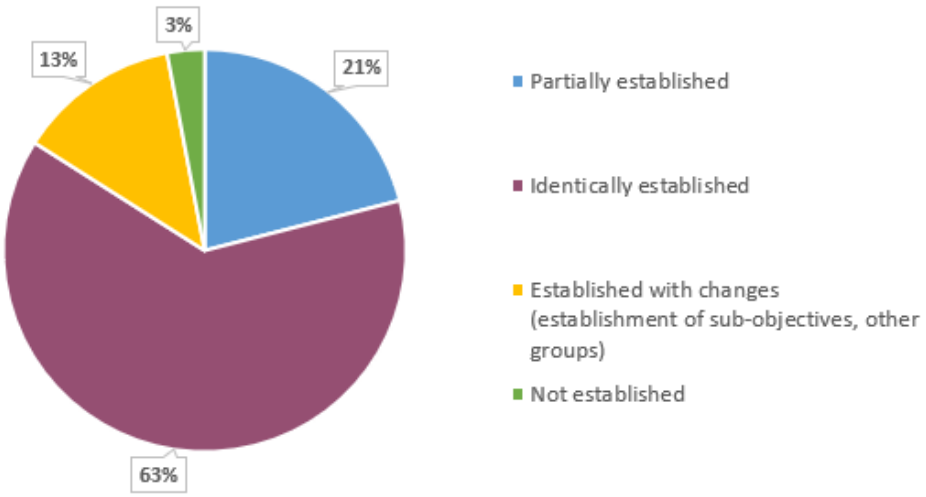
D. Establishing quality objectives

ISQM 1 requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management. The establishment of quality objectives is a first important cornerstone of this risk-based approach.

1. Establishment of quality objectives	2. Identification and assessment of the risks with a view to achieving the quality objectives (= quality risks)	3. Design and implementation of responses to address quality risks

Quality objectives are the desired outcomes in relation to the components of the system of quality management to be achieved by the firm.

ISQM1.24 reads as follows: "The firm shall establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management."



Graph 7: Quality objectives in relation to the components as required by ISQM1.28-33

The results of the ISQM Survey show that 97% of the respondents have established, at least partially, the quality objectives as required by ISQM1.28-33.

In addition to the quality objectives that ISQM1-28-33 requires firms to establish, 11% of the respondents have established additional quality objectives.
The General Data Protection Regulation (GDPR) requires, for instance, that certain organizations appoint a Data Protection Officer, and firms may consider establishing additional quality objectives necessary to meet the GDPR requirements.

E. Identification and assessment of quality risks

As a second building block in the risk assessment process the firm must identify and assess the quality risks.

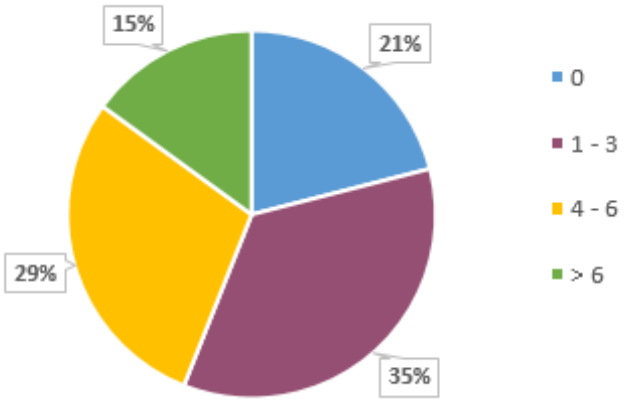
Not all risks meet the definition of quality risk. A risk arises from how, and the degree to which, a circumstance, event, action or inaction may adversely affect the achievement of a quality objective. A quality risk is a risk that has a reasonable possibility of[17]:

- occurring; and
- individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

Professional judgment assists the firm in determining whether a risk is a 'quality risk'.

The majority of the respondents (84%) have set up a risk assessment matrix for the assessment of quality risks in terms of impact and probability of their occurrence.

ISQM1 provides that the assessment of quality risks need not comprise formal ratings or scores, although firms are not precluded from using them. This is also shown in the graph below.



Graph 8: Number of risk levels

[17] ISQM1.16(r).

The above graph shows that 35% of the respondents have set between 1 and 3 risk levels (e.g. , “high”, “standard” and “low”). 29% state that they have set between 4 and 6 risk levels and 15% have set up a very detailed matrix with more than 6 different levels of identified risks.

21% of the respondents have set no risk levels.

The firm must identify and assess quality risks in order to have a base for designing and implementing responses.

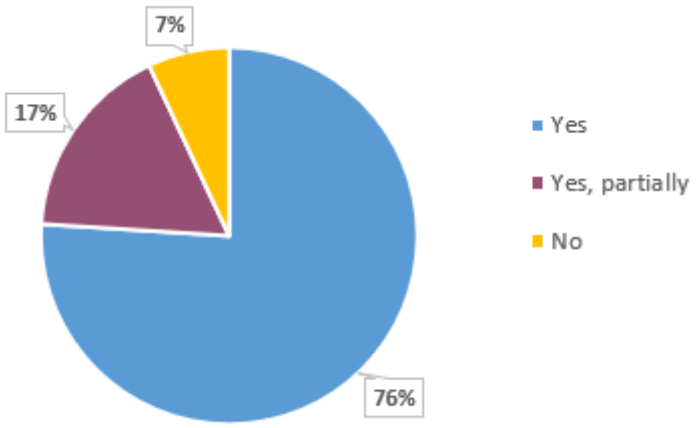
F. Implementation of specific responses

The firm shall design and implement responses[18] to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments of the quality risks[19]. In doing so, the firm should consider the reasons for the quality risk assessments and consider whether one response, or a combination of responses, is necessary.

A response may address multiple quality risks related to more than one quality objective across different components of the system of quality management. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (e.g. personnel’s commitment to quality), relevant ethical requirements and governance and leadership.

ISMQ1.26 stipulates inter alia that the firm’s responses shall also include the responses specified in paragraph 34. In addition, the firm may also design and implement additional responses.

The ISQM Survey shows that the large majority of the respondents (93%) have at least partially implemented the specific reactions of ISQM1.34. 7% did not.



Graph 9: Implementation of specific responses from ISQM1.34

[18] ISQM1.16(u) defines a “response” in relation to a system of quality management as “policies or procedures designed and implemented by the firm to address one or more quality risk(s):
- Policies are statements of what should, or should not, be done to address (a) quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
- Procedures are actions to implement policies.”

[19] ISQM1, A49.

G. Documentation of the system of quality management

ISQM1 sets out three principles that the firm must observe when preparing documentation about the system of quality management, namely that it is sufficient to [20]:

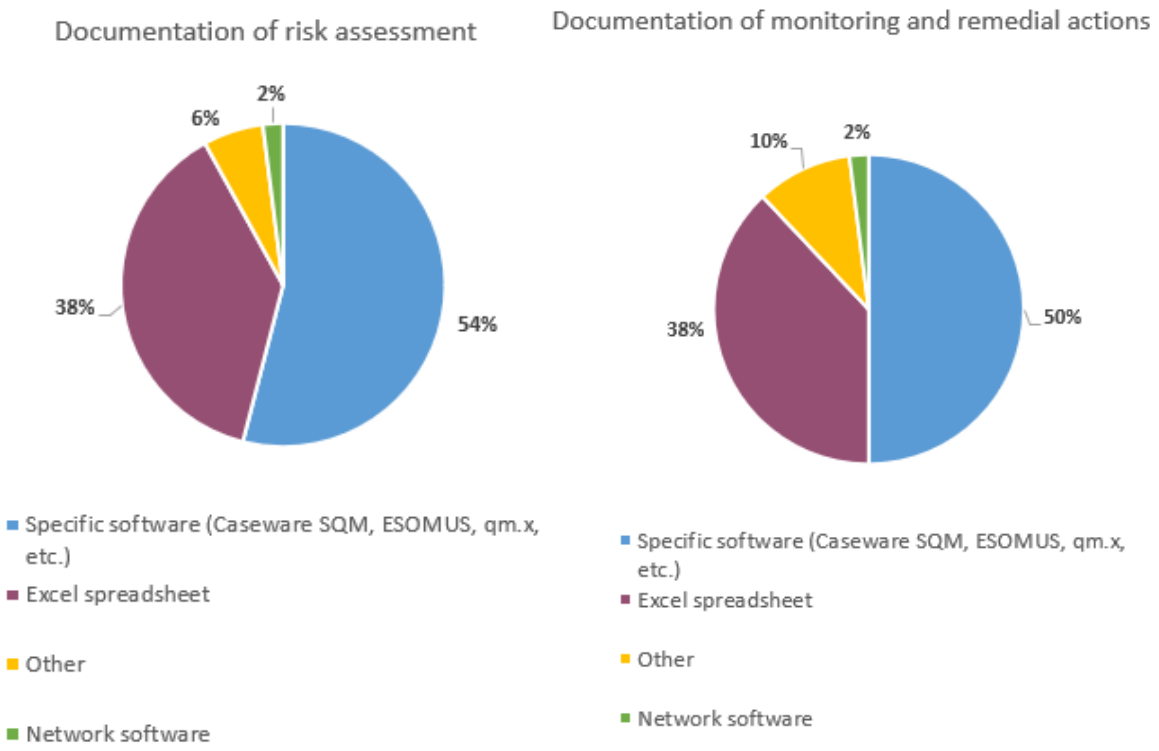
- support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and the performance of engagements;
- support the consistent implementation and operation of the responses; and
- provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

ISQM1.58 determines the minimum documentation that the firm should provide, namely[21]:

- the identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management;
- the firm's quality objectives and quality risks;
- a description of the responses and how the firm's responses address the quality risks;
- regarding the monitoring and remediation process:
  - evidence of the monitoring activities performed;
  - the evaluation of findings, and identified deficiencies and their related root cause(s);
  - remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and
  - Communications about monitoring and remediation; and
- the basis for the conclusion reached on whether or not the objectives of the system of quality management have been achieved.

The ISQM Survey shows that specific software (e.g. Caseware SQM, Esomus, qm.x, etc.) is the most popular for the documentation about the risk assessment process (54%) and for the documentation of the monitoring and remedial actions (50%).
The second most commonly used tool is the classic Microsoft Excel. 38% of the respondents document the risk assessment and the monitoring with Excel spreadsheets.
Other tools are used to a lesser extent. The category "other" refers to the use of checklists, Microsoft Word or software developed in-house.
Finally, some firms use the software of the network in order to document their risk assessment (2%) and monitoring and remedial actions (2%).

20 ISQM1.57.
21 ISQM1.58.



Graphs 10 and 11: Documentation of risk assessment and documentation of monitoring and remedial actions

H. Internal communication

62% of the respondents have trained their staff or raised their awareness regarding their system of quality management. For 99% of those firms the documentation about the system of quality management is accessible for all employees. This increases their awareness.

The firms retain the documentation about their system of quality management by using (a combination of) special folders on their internal IT system, special folders on the IT server of the (inter)national network of which the firm is part, software, internal training sessions/presentations, Intranet/SharePoint, procedures and quality manual, specific communication and/of on the job training/periodic internal consultation.

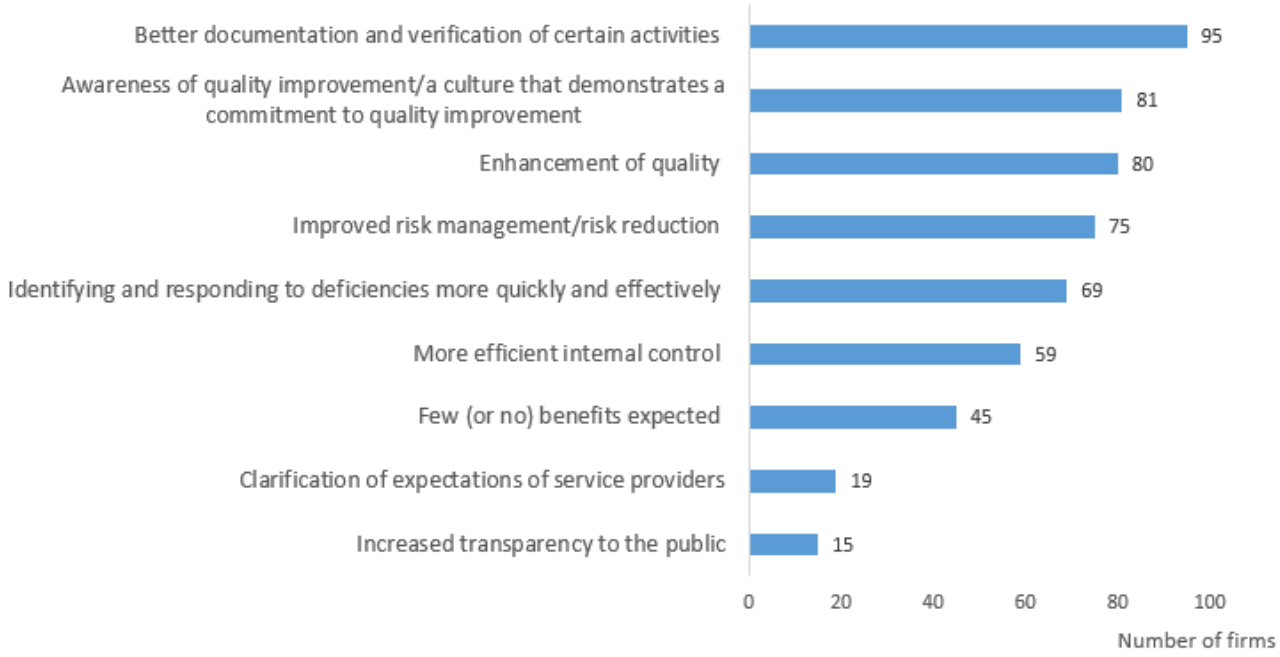
The most frequently used means are (in order of occurrence):

- procedures and quality manual;
- internal training sessions/presentations;
- special folder(s) on the firm's internal IT system.

I. Expected benefits and difficulties encountered

The following graph shows the benefits that firms most expect to gain from implementing ISQM1, namely:

- better documentation and verification of certain activities;
- greater awareness of quality improvement/a culture that demonstrates a commitment to quality improvement;
- quality improvement of the engagements performed; and
- better risk management, even risk reduction.



Graph 12: Expected benefits of the implementation of ISQM1

When setting up and implementing ISQM1, many respondents, except for 14 respondents who did not report any difficulties, encountered the following difficulties or challenges:

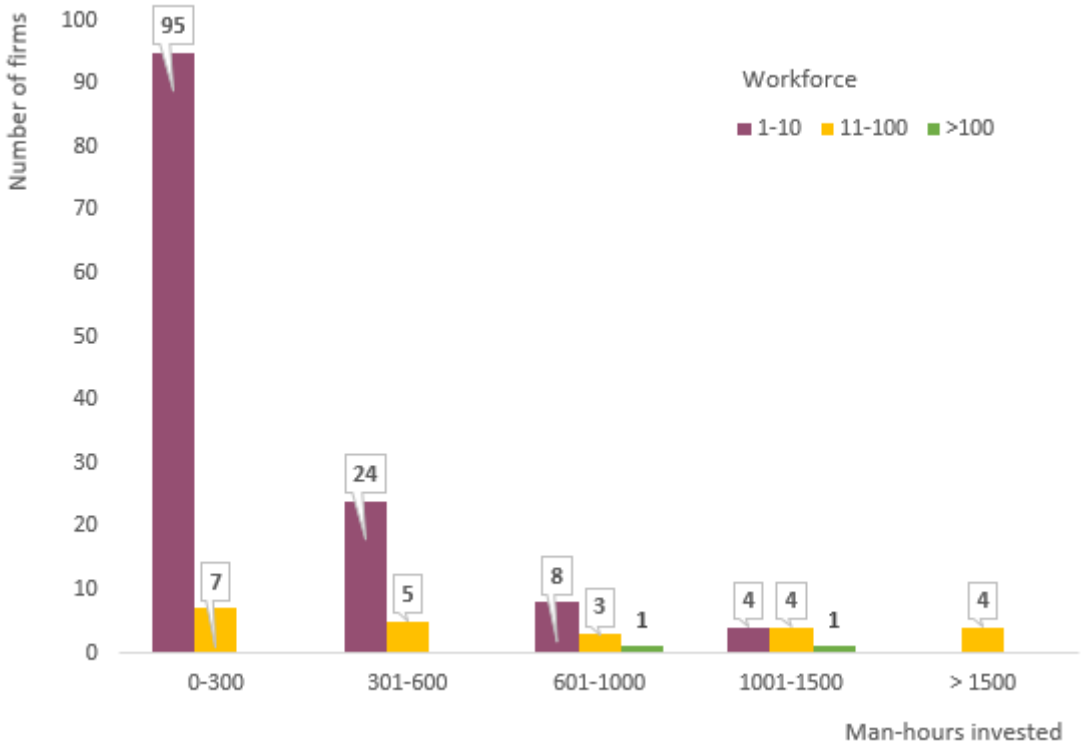
- **Scope of the ISQM1 standard to be implemented, considering the size of the firm:** one of the most frequently mentioned difficulties relates to the application of proportionality. ISQM1 is said to be insufficiently adapted to smaller firms given the large number of requirements that, according to smaller firms, are more difficult to fit within their operating environment. For smaller firms, the challenge lies in finding the right balance for a proportional approach (scalability) taking into account the nature and circumstances of the firm and its engagements.
- **Time investment**: the time firms must necessarily spend to implement ISQM1 proves to be a major challenge.
- **Search for and implementation of suitable software**: another frequently mentioned challenge cited by respondents concerns finding the appropriate tool to design and implement their system of quality management, learning about and implementing the (stand-alone) software,

working the details of the software and dealing with deficiencies within the software in the initial phase of development.

- **Setting up the risk assessment matrix and assigning appropriate responses to the various quality risks, taking into account the characteristics of the firm**, proved to be a difficult exercise for many firms.

J. Time investment

The Belgian Audit Oversight Board asked the firms to provide, to the best of their ability, an estimate of the man-hours of all persons, both internal and external, involved in the implementation of ISQM1.



Graph 13: Time investment for the implementation of ISQM1 and staff

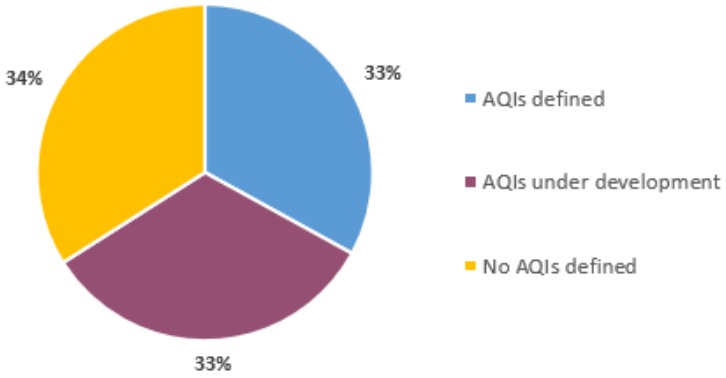
Most firms (65%) spent up to 300 man-hours designing and implementing the system of quality management as prescribed by ISQM1. The range of time spent by dedicated personnel varies strongly, with a maximum exceeding 1,500 man-hours.

The above graph also shows that the time spent increases according to larger staff numbers, and this increase is significantly higher than for firms with a staff between 1 and 10 employees.
This is not surprising. Presumably, because of the size and complexity of their organization, firms with a larger staff have a higher number of quality risks than firms with a smaller staff. In turn, a greater number of quality risks requires a greater number of responses that the firm has to set up and implement and a more extensive monitoring of the system of quality management.

K. Audit Quality Indicators

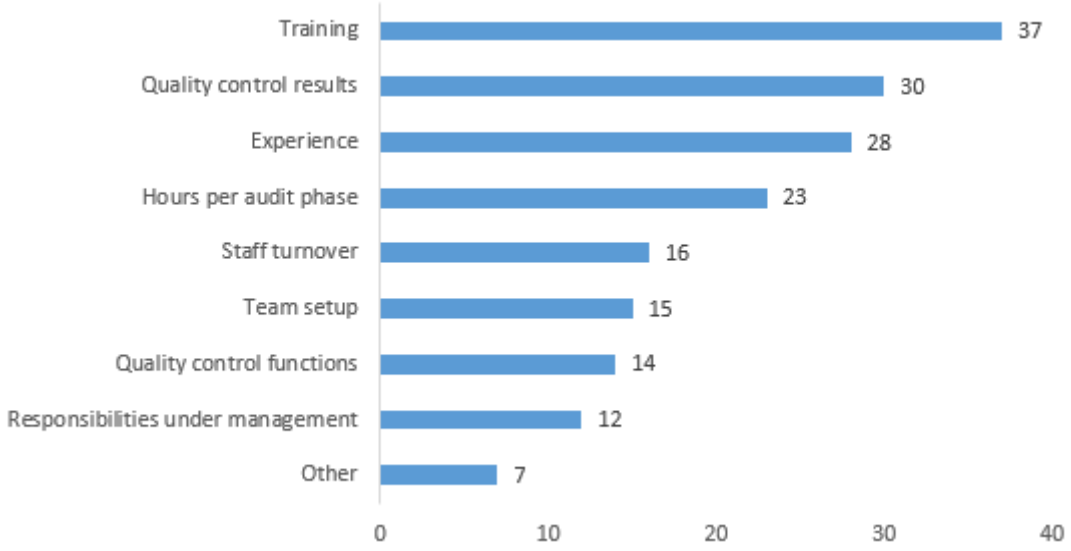
Audit Quality Indicators (AQIs) are quantitative measures for the external audit process. Together with relevant qualitative information, they provide insight into factors that may affect the audit quality.

33% of the respondents have defined AQIs within their firms. The same percentage stated that they are in the process of developing AQIs, and 34% of the firms reported that they have not developed AQIs.



Graph 14: AQIs within the firm

Subsequently, the firms that have already defined AQIs were asked to indicate with which of the following topics the AQIs are most closely aligned.



Graph 15: AQIs - topics

As shown in the graph, the topics “Training”, “Quality control results” and “Experience” are the most popular quality indicators.

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