Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

29th SESSION
31 October – 2 November 2012
Room XIX, Palais des Nations, Geneva

Thursday, 1 November 2012
Afternoon Session

Regulatory and institutional foundations for high-quality corporate reporting

Presented by

Paul Hurks

Director, International Accountancy Education and Development, Royal Netherlands Institute for Registered Accountants

Quality Assurance
Building Effective Oversight Systems

Paul F.M. Hurks

Director NBA International Accountancy (Royal NIVRA)

Nederlandse
Beroepsorganisatie
van Accountants

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Quality Control & Quality Assurance

For high quality FR, why do we need
- *Quality Control (QC), and*
- *Quality Assurance (QA)?*

(Pillar A2, A4, A7, B1, B4)

- Specific responsibility of the profession (A7)
  - 'public interest'
- Principle based standards (A2/A4))
  - ethics, ISAs, ISQC1 (QC), SMO1 (QA)
- Assessments are highly judgmental (A7)
  - concepts, values, substance over form
- Human behavioural characteristics (A7)
  - threats, pressures, bias

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ISQC1 (IAASB) (1)

Standards for Quality Control (A2/A4)

<u>Control</u>: firms are required to design and implement a system of Quality Control, tailor made, according to the following concept:

All assessments are highly judgmental

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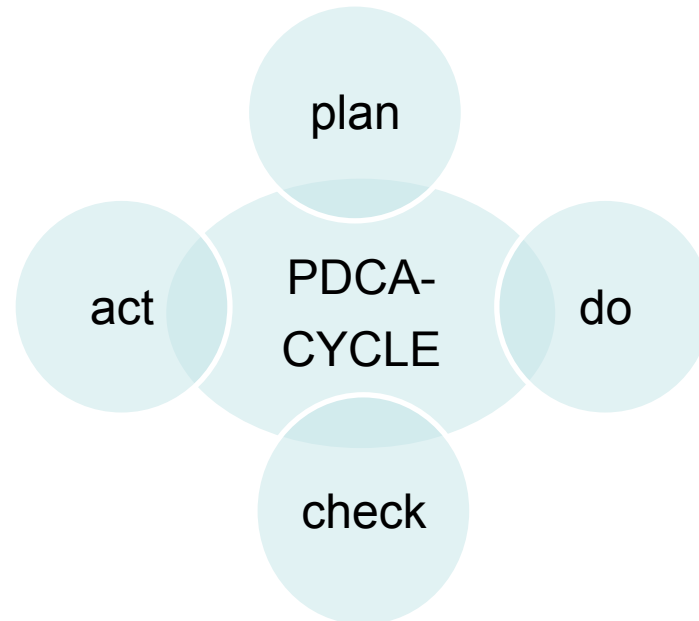
ISQC1 (IAASB) (2)

Obligations for Quality Control (A2/A4)

- Leadership responsibility

- Client relationships and assignments

- Human resources

- Engagement performance

- Monitoring

- Documentation

All assessments are highly judgmental

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SMO1 Quality Assurance (IFAC)

Obligations for Quality Assurance (B1/B4)

- Implementation by the **PAO** of a Quality Assurance Review Program for Audit Engagements (minimum) of Financial Statements: "enforcement"

- For audits of listed entities (minimum)

- Best endeavours to encourage and assist other responsible authorities (**government, regulators**);

- Publish QC-standards and guidance (ISQC1) requiring **firms** safeguarding compliance with ISA 220 for **audit professionals**

3 or 4? levels

All assessments are highly judgmental

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When high quality FR is safeguarded? (1)

Cascade effect of IFAC development program influencing attitude

- IFAC: SMO's, CAP
- PAO: QA, CPD, including Regulator
- Firm: QC, daily practice
- Client: ethical behaviour, CSR

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When high quality FR is safeguarded? (2)

Founded in Agency-theory

	Client	Auditor	PAO	Regulator	Public
Legal & Regulatory Framework	√	√	√	√	√
Institutional Framework	√	√	√	√	√
Human Resources	√	√	√	√	√

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Challenges for PAO development (1)

Development categories towards
"Center of Excellence" (Pillar D)

– <u>Managerial support</u>

(business model, governance, practices)

– <u>Technical support</u>

(rules, regulation, tools, guidance)

– <u>Intellectual support</u>

(ethics, values, mindset, principles, attitude, concepts, judgment)

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Challenges for PAO development (2)

- **Quality Control (firm)**

  - Concept of 'Public Interest', 'Quality' and 'Control'
  - Mindset, ethics & attitude, transparency
  - Nature of clients
  - Sole Practitioners
  - Judments: competence and practical experience
  - Availability of tools (IT, language)

- **Quality Assurance (PAO)**

  - Status of PAO (legal foundation, government support)
  - Size of the profession (language)
  - Competition (clients/tools)
  - Quality of reviewers (competence, independence, authority, judgments)
  - QA business model
  - More PAOs
  - Reporting (transparency)

Challenges for PAO development (3)

What can we do improve QC and QA practices?

Step by step approach: 5 years (usually it will take at least double time):

Year 1: legal framework and regulation (international)   Pillar A/B

Year 2: education & CPD (QC, QA, auditing)   Pillar C

Year 3: design of Firm's QC manual (customized)   Pillar A

Year 4: perform assignments accordingly (documentation)   Pillar A

Year 5: first time availability of audit files for review*)   Pillar B

*) recommendation to start reviews earlier for the learning process   Pillar D

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Lessons Learned

What can be done to implement QC and QA?

– Step by step approach: the 5 year strategy, make available (IT)-tools, start easy, postpone perfection, manage expectations

– Accept learning process (self assessments and early QA-reviews, postpone naming and shaming), train trainers, members and reviewers, focus on audit practice and documentation

– Liaison with government / regulator (joint effort for competence and authority)

– Share experience and /or collaborate cross border (language / size)

– Design proper (country-) business model for QA (viability)

– Include assurance and related services in the reviews (learning, viability)

– No one size fits all > customized solutions

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Conclusions

1. **Elements are essential for accountants/auditors in a large variety of roles and environment:**

–In all roles and services: Preparer, Assurance provider and Oversight;

–In all environments and sectors: from PIE to SME environment; in Private Sector and Public Sector

–Joint effort: Government support in PAO development facilitates donor support

2. *PROFESSIONALS* **are responsible to contribute to reliable FR; then the PROFESSION is responsible to contribute to effective and efficient markets.**

"High quality financial reporting will not create economic growth, but for creating economic growth you cannot do without it*)"

*) quote Ian Ball IFAC CEO

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Thank you for your attention
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Q&A?

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