



Federation of European Accountants
Fédération des Experts comptables Européens

Mr. James Gunn
Technical Director
IAASB
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

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Ref.: AUD/AKI /HBL/NRO

Dear Mr. Gunn,

Re: FEE comments on IAASB Consultation Paper “A Framework for Audit Quality”.

Introduction

- (1) FEE (Fédération des Experts-comptables Européens - the Federation of European Accountants) is pleased to provide you below with its comments in relation to the IAASB Consultation Paper “A Framework for Audit Quality” (the “Consultation Paper”, the “Paper” or the “Framework”).

General comments

- (2) FEE supports the actions of those in the financial reporting supply chain and wider that enhance audit quality. Indeed, it is not only auditors and the audit profession that have a role to play in enhancing audit quality; both parties from within and outside of the financial reporting supply chain can influence audit quality. We are committed to playing our role as the European representative of the profession and to furthering the profession's contribution to society in the wider sense.

- (3) Audit quality has always been important and events of the last few years have only sought to highlight its relevance to preparers, auditors and regulators alike. Even so, it remains an elusive construct to both define and measure. In this respect the IAASB's proposed Framework could not be more relevant. With this in mind, the stated objective of the Paper, i.e.:
- Raising awareness of the key elements of audit quality;
 - Encouraging key stakeholders to explore ways to improve audit quality; and
 - Facilitating greater dialogue between key stakeholders on the topic

appear to be rather benign. We would encourage the IAASB to be bolder in its aspirations, whilst at the same time being clear that the document is non-authoritative. In our view, in order to be truly valuable, the Framework should aim to form a **common foundation** for preparers, auditors and regulators across jurisdictional and cultural divides.

- (4) There are a number of key points that we would like to highlight in addition to the responses to the specific questions, these points being as follows:
- (5) **A Global Framework**: as noted above, defining audit quality is not straightforward. The proposed framework rightly considers it to be a complex mix of drivers including objective inputs, outputs and complex interactions of these factors with legal, regulatory, professional, and cultural aspects. The objective evaluation of audit quality is further complicated, depending on the perspective from which audit quality is assessed because regulators and investors may have different perception of, and thus criteria for, such an evaluation. That is why a Framework for Audit Quality, although challenging to achieve, needs to be considered at a global rather than a national level.
- (6) **Reference to pronouncements of other independent Boards of IFAC**: We appreciate that the Paper contains references to pronouncements of other independent Boards of IFAC, but also believe the Paper ought to emphasize more the role that these pronouncements play in audit quality - perhaps the ISAs (which have an obvious impact on the audit), the education standards and ethical standards (which indirectly impact audit quality) could be discussed in a separate section - or at least all together in one place. Quality of standards (ethics, audit, education, quality control and also financial reporting frameworks and requirements) ought to be listed as a general area to explore. As a matter of consistency, the Framework should use the same principles as the ones introduced by IFAC Boards' work, and for instance the fundamental principles of the Code of Ethics. Indeed both confidentiality and professional behaviour - included in the Code of Ethics as fundamental principles - are not mentioned in the Framework. Professional scepticism, however, is mentioned, but is not a fundamental principle. In our view, the wording of paragraphs 33 to 45 should be aligned with the approach of the Code of Ethics.

- (7) **Audit as part of the reporting chain:** As an integral part of the effective operation of markets where financial institutions, public interest entities, large businesses and Small and Medium-sized Entities (SMEs) are active, the audit profession has an ongoing commitment to considering how it can enhance its contribution to the economy and to society. In the market economy, an important role of the audit profession is to bring transparency and reliability in corporate reporting. The impact of this link to corporate reporting could be explained better in the Framework.
- (8) **Integration of SME/SMP considerations:** It is crucial to have the Small and Medium Practices (SMP) community made well aware of and widely involved in this project. Indeed, we think that ultimately, the quality of all audits performed (including voluntary audits) reflects on the reputation of the profession as a whole. In many ways, a paper addressing audit quality should be capable of addressing the fundamentals of audit quality regardless of the entity's or audit firm's size. The fact that the Paper separately refers to SMEs is telling in its own right; we would rather have a broader perspective in the whole Paper that will implicitly include all users and let users utilise the Framework at different levels, depending on their environment.
- (9) **Length:** Rather than being succinct, the Paper has become increasingly lengthy over the period of its development. Some repetition could be avoided (for instance, the executive summary - integration of summary of attributes with text thereon) and some less relevant matters could be deleted or simplified. The coverage is undoubtedly thorough, but, in part the Paper seems to give excessive detail on areas that are audit environment matters rather than direct audit matters which begs the question whether such degree of detail is "necessary" (e.g., Sections 3 and 4) or whether these could be more succinct.
- (10) **Role and Authority:** Whilst we recognize that this is a Consultation Paper, the role and authority of the final pronouncement by the IAASB needs to be clarified. Neither the Chairman's foreword nor the Paper itself sheds light on this aspect. The IAASB will need to address this in finalizing the Paper, explicitly stating why this Framework would help auditors, policy makers and other relevant parties to enhance quality and why this Framework would be useful for stakeholders, such as audit committees and investors. In our views, there should be a clear and prominent statement that the Paper is not a call for more regulation, but better regulation. In addition, with regard to the scope of the Paper, the document seems to overly concentrate on reporting by the auditor and may need to be more balanced.
- (11) **Relevance to all stakeholders:** linked to the previous paragraph on the role and authority of the Paper, we understand that the Audit Quality Framework is intended to be of use to all stakeholders. Currently, the Paper quite rightly has a sharp focus on matters relating to the auditor as the primary driver of audit quality. However, if this Framework is to be successful, its relevance needs to be increased in relation to certain stakeholder groups. In particular, there is relatively little included in relation to good governance and management behaviour, good standard setting, and even less included with regards to factors contributing to good regulation and the way in which poor and jurisdictionally inconsistent regulation is a threat to audit quality.

- (12) **Objective and Subjective Aspects of Audit Quality**: We also believe the Paper should better stress the value of the audit. The value of an audit is in enhancing the confidence in the financial statements and as such is subservient to the intrinsic value in the underlying financial statements, which is heavily impacted by matters beyond the control of an auditor: appropriateness of the financial reporting framework, adequacy of the governance of an entity etc. As such, if the financial reporting framework is deficient and governance measures inadequate, an audit performed to the highest quality benchmark cannot be expected to significantly enhance the credibility and reliability of the financial statements being audited. It is essential that the Framework clearly states this interrelation.
- (13) **Deviation from a framework document**: We believe that there are inclusions within the document that go beyond what one might expect from a pure framework. Therefore, these inclusions start to encroach on application-type aspects that are qualitative in nature and which should be properly left to a discussion document, or to stakeholder-inclusive debates. Inclusion of such statements cannot portray a balanced analysis and appear to over-simplify the complexity of certain aspects. This threatens the success of both initial acceptance and longevity of the Framework. We recommend they be removed from the final Paper. For instance:
- ✓ The debate on audit firm rotation as succinctly described in paragraph 41 does not give the whole picture of selecting and appointment an auditor. For instance audit committee's involvement, tendering process, joint audit and/or auditor assessment, which are other possible mechanisms to address threats to auditor independence, are similar concepts that many stakeholders have views on but are not included;
 - ✓ The description of the internal accountability of audit partners within the firm (paragraph 82) is a very one-dimensional view and must be questioned. The system as described may not be acceptable in relation to the requirements as stated in the ISAs, should this description lead to non-performance of the required audit procedures;
 - ✓ Paragraph 85 is a very narrow view on time pressure, addressing that relating to commerciality of the audit firm only. It does not tackle issues which arise when extra audit time is necessary in the course of the audit, when the audited entity has internal reporting issues, when there is high client staff absenteeism, or indeed a myriad of different reasons that relate to the threat of 'insufficient time';
 - ✓ The vision that is given with regard to off-site review and audit software usage may need to be redefined (reference is made to paragraphs 109 and 122 to 124). Today's work environment should be taken into account more carefully. Indeed, the IAASB Paper should not be seen as a discouragement to innovation, or efficiency improvements to a larger extent. Currently, this paragraph seems unduly weighted to the negative aspects of audit IT platforms whilst only giving a passing mention to the positives. Indeed without these IT platforms, it would likely be impossible to perform audits on a number of the more complex Public Interest Entities;
 - ✓ In relation to paragraph 115, we think that the Framework should not promote one firm or network doing the whole of a group audit. FEE suggests keeping the first sentence of the paragraph only;
 - ✓ In the second Chapter 'Output factors', and especially in paragraph 148, the communication of the auditor to Those Charged with Governance does not seem to be taken into account.

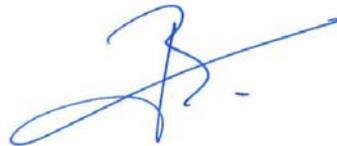
Conclusion

- (14) We welcome the subject matter dealt with in the Framework and are pleased to participate, by responding to the consultation in particular, in the growing debate that will lead to improvements in audit quality. We believe that the Framework will help increasing shared understanding of audit quality amongst those in the financial reporting supply chain and promoting actions to meet the needs of society.
- (15) For further information on this FEE¹ letter, please contact Hilde Blomme on +32 2 285 40 77 or via email at hilde.blomme@fee.be or Noémi Robert on +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE Secretariat.

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

Appendix- Specific Comments in regard to the Invitation to comment to the questions posed in the IAASB Consultation Paper “A Framework for Audit Quality”

1. Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?

- (16) The relevant factors for audit quality are mentioned, but the weighting of these factors is lacking. If, for example, one of the factors is missing or inadequate, what influence on audit quality and the audit will this have?
- (17) As stated in the cover letter, FEE would have expected more balanced considerations pertaining to SMEs and SMPs throughout the Paper. The Framework would benefit from a broader perspective that would permit proportional adoption of the Framework for this segment of the market. FEE considered the possibility to develop a separate section on SME and SMP specificities, but finally thought that a better overall tone including SME and SMP views would be more beneficial for the whole paper's usefulness.
- (18) The structure of the paper also seems to imply that SMPs and SMEs are indelibly linked and that only SMPs audit SMEs. SMPs and SMEs warrant separate considerations and this should be made clear.

2. Does the Framework reflect the appropriate balance in the responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders? If not, which areas of the Framework should be revised and how?

- (19) FEE agrees that the IAASB appropriately reflects the balance in the responsibility for audit quality. The auditor (including the engagement team and the firm) is but one part of the whole 'audit quality ecosystem', it is indeed clear in the Paper that the auditor cannot manage by himself/herself a high quality of an audit without key interactions and good cooperation with other stakeholders (reference is made to the diagram on page 48, paragraph 176). Nevertheless, the auditor is responsible for delivering sufficient audit quality, even if the entity does not have optimal procedures. To address this, the auditor may then perform more audit procedures in order to obtain sufficient appropriate audit evidence to form his/her opinion. This 'flexibility' should be stated clearly in the Framework.

- (20) All various actors, as well as their roles in the supply chain are correctly depicted in the Paper, in particular in the section on 'key interactions' (from page 48 to 52). FEE agrees that each mentioned stakeholder has a role to play. Nevertheless, no distinction is made between interactions, and according to FEE, some interactions are of utmost importance and very objective parts of the chain whereas others are more subjective and/or less crucial. For instance, interactions 3.1 to 3.5 on pages 48 to 52 are crucial for maintaining and improving audit quality, whereas interactions 3.6 to 3.10 may be less developed as less important. Two levels of more or less important interactions might be defined in the third Chapter 'Key Interactions within the Financial Reporting Supply Chain Influencing Audit Quality'.
- (21) FEE is pleased that the Framework includes regulators as part of the supply chain influencing audit quality and looks forward to continuing the discussion with regulators and other stakeholders. The aim is not to have more regulation, but better regulation, trying to engage the whole reporting supply chain in influencing audit quality in the same direction. This statement could be clearer in the Paper.

3. How do you intend to use the Framework? Are there changes that need to be made to the form or content of the Framework to maximize its value to you?

- (22) As a representative body, FEE envisages using the Framework to underpin our interactions with other stakeholders. As a public document, it will promote a common understanding of the factors that contribute to audit quality and facilitate discussion and agreement in relation to policy areas. FEE will also seek to help stakeholders understand the Framework and the uses that may be made of it. For example, we will seek to dissuade those who attempt to use the Framework to justify a tick box approach to auditing, or to develop a two-tier audit.
- (23) In our opinion, in order to enhance the use of the Framework, the document should be shortened. In particular, the area about input factors is very detailed and contains overlaps between the various levels (e.g. client acceptance and documentation is mentioned various times). A shorter Framework would be easier to read and would enhance its value to users.

4. What are your views on the suggested Areas to Explore? Which, if any, should be given priority and by whom? Are there additional Areas to Explore?

- (24) As an actor in the current debate, FEE is interested in all areas to be explored as mentioned in the Paper. We agree that the Framework should be considered as a 'nearly finished product' that should evolve in parallel to the IAASB projects exploring these suggested areas.

- (25) We suggest as an additional 'Area to Explore' a matter that deserves more emphasis: the general lack of financial reporting framework requirements for preparers to evidence accounting treatments properly. If preparers were required to gather suitable evidence and documentation to justify their accounting treatments and disclosures adequately, auditors would have a basis for verifying the entity's accounting treatments. This relates to all entities, especially where management makes estimates involving significant judgements, as a lack of satisfactory evidence and documentation to support specific accounting treatments may often be an accountability issue for management.