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**Objet : Re: Comments on IAASB Consultation Paper "A Framework for Audit Quality"**

Dear Mr. Gunn,

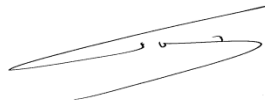
The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments in relation to the IAASB Consultation Paper "A Framework for Audit Quality" (the "Consultation Paper", the "Paper" or the "Framework").

The two French Institutes support the development by the IAASB of a Framework for Audit Quality. They consider such development to be in the public interest since it demonstrates that audit quality cannot be judged on a simple set of criteria.

We believe, however, that our comments which follow would further enhance the Framework. This letter also includes our responses to the questions set out in the proposed document.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Yves NICOLAS  
President of CNCC

Joseph ZORNIOTTI  
President of CSOEC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

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

As a preamble to answering to question 1, we have the following comments:

- Role and authority of this Paper

We consider that the role and authority of this document needs to be clarified, since the status of this document is not defined in the Paper.

IAASB's and IESBA's pronouncements already exist which provide an important foundation supporting audit quality:

- the IESBA Code of Ethics for Professional Accountants establishes ethical requirements for professional accountants, including auditors;
- the International Standard on Quality Control (ISQC 1) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements;
- other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ISA 220 – *Quality Control for an Audit of Financial Statements*, for example, deals with quality control procedures for audits of financial statements.

In this context, we wonder about the role and place of the Paper in the Structure of Pronouncements issued by the IAASB as illustrated in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* and about the interactions between this Paper and ISQC1 and ISA 220.

A framework is usually high in the hierarchy of texts. The international Framework for Assurance Engagements states, for example, in its paragraph 1 that the Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standard on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. It also states that the Framework provides a frame of reference for practitioners when performing assurance engagements, others involved with assurance engagements and the IAASB in its development of ISAs, ISREs and ISAEs.

Moreover, the Paper may seem to provide more regulation, with "hidden requirements", going deeper than the ones of ISA 220 and ISQC1.

This is why, we consider that the IAASB should clearly state that the Paper is not a call for more regulation, but better regulation and re-entitle the Paper "IAASB's vision of audit quality" instead of "a Framework for audit quality" to avoid all misunderstandings.

- Scope of the Paper

This Consultation Paper is entitled "a Framework for Audit Quality". In our views, the IAASB should specify if the scope of the Paper includes the reviews. As a matter of fact, article 290.3 of IESBA code of Ethics states: "*In this section, the term(s): (a) "Audit," "audit team," "audit engagement," "audit client" and "audit report" includes review, review team, review engagement, review client and review report; and (...)*". Is this also the case for the IAASB's proposed Framework for Audit Quality ?

- Integration of SMEs and SMPs considerations

It is crucial that a Paper addressing audit quality be capable of addressing the fundamentals of audit quality regardless of entity's or audit firm's size. However, some developments in the Paper may seem too "constraining" for SMEs and SMPs:

- Part 3 deals with the *Key Interactions within the Financial Reporting Supply Chain influencing Audit Quality*, especially the interactions between those charged with governance and auditors, management, regulators or financial statements users. In small entities, only one person may be charged with governance for example, the owner-manager where they are no other owners or a sole trustee. This will limit the interactions between the various actors of the *Financial reporting supply chain*. It is nevertheless possible to have a high quality audit performed by an SMP in a SME. The Paper should acknowledge so;
- Part 1.4 deals with knowledge, experience and time. Paragraph 80 states that prolonged involvement of the same staff members on an audit may result in a lack of skepticism and threats to auditor independence. But, in small audit firms, the number of staff members may be limited making it difficult or impossible to rotate staff members on a same job or on different jobs.

In our views, the Audit Quality Framework should be scalable to the entity's and audit firm's size without however departing from the principle that "an audit is an audit".

Another solution would be to limit the scope of the Framework to the public interest entities (PIEs), which are defined in the IESBA code as: "*all listed entities; and any entity (i) defined by regulation or legislation as a PIE; or (ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities*".

- Length

The Paper is too long. Some repetition could be avoided (for instance, repeating some requirements from auditing standards) and some less relevant matters could be deleted or simplified. In our views, the Paper gives excessive details on areas that are audit environment matters rather than direct audit matters. We wonder whether such degree of detail is "necessary" (e.g. section 3 and 4). We consider that the Paper could be more succinct and more relevant to reach its primary aim, i.e. demonstrate that the audit quality is a complex issue and not a sole question of auditing standards.

Moreover, we consider that the Paper does not put enough emphasis on the financial statements users' needs, since an audit is relevant only if it fulfills those needs.

- Matters that should not be in the Framework document

We believe that some inclusions within the document go beyond what might be expected from a pure framework. We recommend they be removed from the final Paper. For example:

- The debate on audit firm rotation is succinctly described in paragraph 41 and it does not give the whole picture of the matters at stake when selecting and appointing an auditor. Moreover, it can appear partial, since even if it gives the pros and cons of audit, it totally eludes some other topics currently under discussion such as joint audit for example. If the Framework speaks about audit firm rotation, it should also mention joint audit as one element which is considered by certain as an element of independence and quality.
- The vision regarding the off-site review and audit software needs to be redefined (reference is made to paragraphs 109 and 122 to 124). In our views, today's work environment should be taken into account more carefully. Currently, these paragraphs seem to stress the negative aspects of the audit software, off-site review of working papers. But the complexity of businesses has increased during the last years. Audit firms have had to adapt their ways to audit more and more

complex entities. Without IT platforms, it would be impossible to perform audits of certain complex entities.

- Paragraph 115 states that *“group management usually expects the group auditor to co-ordinate the work undertaken on components efficiently. Some believe that this can be facilitated if the audits of components are undertaken by the same audit firm or firms within the same audit network or association. The firm’s geographic reach, and therefore its ability to provide efficient audit coverage for subsidiaries and other components of the group, can therefore be important”*. This statement seems to go against the spirit of ISA 600 where the IAASB was very cautious not to distinguish components auditors who were members of the network of the group auditor from others.
- Paragraph 263 - Corporate Governance - states: *“In many smaller entities, there is little distinction between management and those charged with governance. An owner-manager will usually fulfill both roles. Formal corporate governance requirements do not usually apply to smaller entities. Audit committees are rare and, when they exist, members are often not independent or financially literate.”* We believe that declaring *“members are often not independent or financially literate”* goes beyond the objective of this paper and could be offending to the smaller entities and should therefore be deleted.

As far as question 1 is concerned and in addition to the previous comments, we believe that the relevant factors for audit quality are mentioned but the weighting of these factors is lacking.

**Question 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?**

As mentioned in our comments to question 1, some areas of the Paper should be revised. Please refer to our comments above.

Moreover, we consider that additional points that also contribute to the audit quality should be included in the Paper, e.g.:

- the education of auditors;
- the work experience and the on job training of auditors;
- the capacity of an audit firm to attract and recruit the best persons (and the related risk if it is not the case);
- the possibility to use and to find the relevant expert to assist the auditor in one or more specific areas, other than accounting or auditing.

**Question 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?**

The two Institutes envisage considering the *Framework for Audit Quality* as part of other documents dealing with audit quality. As a public document, it should promote a common understanding of the factors and contribute to audit quality. But, to enhance the use of this Framework, we believe, consistent with our comments above, that the Paper should be shortened and amended.

**Question 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?**

The two Institutes are interested in all areas to be explored as mentioned in appendix 1 of the Paper. But we consider that the IAASB should give priority to the following points:

- Point 4: considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users (refer to page 42);
- Point 6: considering “root causes” and best practices by regulators, audit firms, and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues (refer to page 42);
- Point 7: increasing the informational value of auditor’s reports and improving perceptions of the value of the audit (refer to page 44). This issue is currently discussed at the IAASB level and we fully support the IAASB initiatives that will lead to having an auditor’s report that is more informative, more comprehensive, easier to understand and we believe that direction taken by the IAASB to improve the auditor’s report is the right one. The main issue of this project, i.e. the “Auditor commentaries” is already implemented in France that has been precursor on this area with a very similar mechanism called “Justification of assessments”;
- Point 8: achieving improved two-way communication between auditors and financial and prudential regulators, particularly in the financial services sector (refer to page 50);
- Point 9: striving for greater international harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit (refer to page 56).

We are pleased that the Framework includes regulators as part of the “supply chain” influencing audit quality and believe it is important to continue the discussion with them beyond the points previously mentioned to tackle the following issues that also contribute to the audit quality:

- the preparation of the financial statements and the quality of the final output, including the evidences necessary to support the accounting treatments and disclosures;
- the recognition of the importance of the accounting department within the entity;
- the expertise of the preparers of the financial statements.

As mentioned in the Paper, while the primary responsibility for performing quality audits rests with auditors, audit quality is best achieved in an environment where there is support from other participants in the financial reporting supply chain. Audit quality is also a question of quality of the financial statements. If the entities do not have adequate internal control procedures, the auditor will have to adapt his approach and perform more audit procedures to obtain sufficient appropriate audit evidence to form his opinion. This “interaction” between the quality of the financial statements and the audit quality should also be stated clearly in the Framework.