

11 June 2013

To:

Mr. Schilder
Chair of the International Auditing and Assurance Standards Board

**Re.: Comment letter from European audit regulators relating to IAASB's consultation
"A framework for Audit Quality"**

Dear Mr. Schilder,

1. Seventeen independent European audit regulators and/or oversight bodies ("audit regulators") appreciate the opportunity to comment on the IAASB's ("Board") consultation paper "*A framework for audit quality*" issued in January 2013. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:
 - Austrian Auditors Supervisory Authority – Austria
 - Audit Public Oversight Council – Czech Republic
 - Haut Conseil du Commissariat aux Comptes – France
 - Abschlussprüferaufsichtskommission – Germany
 - Auditors' Public Oversight Committee – Hungary
 - Irish Auditing & Accounting Supervisory Authority – Ireland
 - Authority of Audit and Accounting – Lithuania
 - Commission du Surveillance du Secteur Financier – Luxembourg
 - Netherlands Authority for the Financial Markets – The Netherlands
 - Finanstilsynet – Norway
 - Conselho Nacional de Supervisão de Auditoria – Portugal
 - Romanian Public Interest Oversight Body of Accounting Profession – Romania
 - Auditing Oversight Authority – Slovakia
 - Slovenian Agency for Public Oversight of Auditing – Slovenia
 - Instituto de Contabilidad y Auditoría de Cuentas – Spain
 - Revisorsnämnden – Sweden
 - Financial Reporting Council – United Kingdom
2. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above mentioned audit regulators. Nevertheless, they are not intended to include all comments that might be provided by these individual regulators and their respective jurisdictions.

Overall considerations

Benefits of raising awareness and enhancing audit quality

3. We are in general supportive of the Board's efforts towards enhancing and improving the quality and consistency of auditors' practices throughout the world.
4. We believe that the consultation paper "*A framework for audit quality*" will be useful in creating a dialogue around the notion of audit quality, which could encourage different stakeholders to find ways to assess and improve audit quality. Enhancing audit quality contributes to strengthening the public confidence in audits and in audited financial information.

5. We believe the paper can usefully raise awareness amongst the different stakeholders on audit quality attributes. Raising awareness is particularly useful for those stakeholders that are less knowledgeable regarding audit practices, as they are not involved in the audit work and have no direct access to it (such as, for instance, shareholders, investors, institutions in charge of policy making, media, society as a whole...).
6. We believe that the document could be improved by clarifying its status vis-à-vis the other IAASB publications, by emphasizing the key elements of audit quality and their impact on the role of the auditors in delivering audit quality and by leveraging the paper to assist stakeholders in monitoring audit quality. We have detailed our suggestions for improvements regarding each of these areas in our letter hereafter.

Comments and suggestions

Status of the document and relationship with IAASB standards

7. We believe a clarification of the ultimate purpose of the document would be helpful. It is clear that a number of audit quality attributes are being considered and presented with an educational purpose or with an aim to facilitate dialogue between stakeholders¹. However, the manner in which the outcomes of such dialogue on the issues would be identified and further developed by the Board is not clear at this stage, especially in relation to how they might affect other IAASB pronouncements.
8. In this regard, it would be helpful to clarify the status of the document, in order to avoid any confusion amongst stakeholders about its non-authoritative status.
9. Thus, an additional explanation or mapping of the way in which the document relates to the standards would be useful as there are areas of overlap with the topics covered by the International Standard on Quality Assurance (ISQC1) and the International Standards on Auditing (ISAs).

Emphasis on key elements of audit quality

10. In our view, the paper should identify and highlight more clearly the key elements of audit quality. It covers a large number of items and explanations, amounting to 70 pages. We suggest that the variety of elements dealt with and the length of the document should not dilute the importance of key elements contributing to audit quality.
11. From our experiences of audit inspections and quality reviews, we consider that elements that should be highlighted as key include, for example:
 - the measures to ensure the independence of the auditors (including rotation, provision of non audit services...);
 - the audit firms' business models, and in particular the appropriateness of appraisal, incentive and remuneration regimes of auditors;
 - the consistency of execution of the audits within audit networks;

¹ Consultation paper - page 9

- the level of involvement of the auditors in identifying quality issues and addressing the underlying root causes;
 - professional skepticism (even if the lack of skepticism can have deeper underlying causes, like a lack of time and resources to perform an audit, over-familiarity, a lack of independence, lack of competence...).
12. We also believe that the content and clarity of auditing standards play an important role in defining the level of audit quality expected. Consistent application and enforceability of the standards are also important elements to highlight.
13. In the same vein, the level of ethical requirements to protect and ensure the auditor's independence and the way these requirements are enforced and understood also constitute an important factor in audit quality enhancement. The underlying issues in current discussions about possible legislative measures to strengthen the auditors' independence, taking place both on a global and on an European level by several policy makers, should also be reflected in the consultation paper (e.g. rotation of audit firms, prohibition of non-audit services...).
14. In addition, we believe that the involvement of the stakeholders in monitoring audit quality on a timely basis, and their ability to take appropriate consequential action in the case of any audit quality concern should also be highlighted as key elements driving audit quality, in order to encourage their appropriate involvement.
15. The Board could also consider exploring how the evaluation of audit quality can draw on lessons learnt from a range of audits rather than looking at individual audits as stand-alone events.

Auditors' primary responsibility for audit quality

16. Highlighting the key elements could also help to cover audit quality issues identified during audit inspections. A part of the consultation paper could be perceived as conveying the impression that the debate around audit quality is related to communication or perception problems, rather than to practical audit quality issues, often identified during inspections, that could have been addressed by the auditor.
17. We believe that auditors are on the front line with regards to the delivery and improvement of audit quality. The range of stakeholders contributing to audit quality mentioned in the paper should not obscure the fact that auditors and audit firms have the primary responsibility for improving audit quality. Contextual factors may contribute to facilitating the provision of a quality audit, but we believe that auditors should be able to provide a quality audit, taking into account adverse circumstances or contextual factors. Therefore, we suggest placing more focus on the role of the auditors in the audit quality delivered.

Monitoring of audit quality

18. We are aware of the fact that evaluating the quality of an audit is a difficult challenge for a range of stakeholders². We nevertheless support the possibility of leveraging the framework to maximize its usefulness to specific groups for purposes of assessing audit quality. For instance, in some jurisdictions, audit committees or other stakeholders may be required, or may decide on a

² §5 and §22

voluntary basis, to perform effectiveness or quality reviews of audit engagements, or to take into account audit quality in tendering processes for the selection of auditors. They could find benefits in using a consistent basis for such a review, which could be based on the framework.

19. In this regard, we believe that defining observable and measurable criteria could be a further area to explore in the context of the project on audit quality, in order to enhance the potential practical output that could be expected from it.

We thank you for the opportunity to comment on the consultation paper. If you have any questions or would like to further discuss the matters noted in this letter, please contact Marjolein Doblado, technical director of the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Sincerely,

Audit regulator of:

- Austria
- Czech Republic
- France
- Germany
- Hungary
- Ireland
- Lithuania
- Luxembourg
- The Netherlands
- Norway
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom

Appendix: Comments on questions included in the consultation document

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

Please refer more specifically to §10 to 15.

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?

Please refer more specifically to §16, 17.

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?

Please refer more specifically to § 4, 5, 6, 7, 8, 9, 18.

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?

Please refer more specifically to § 15, 18, 19.