



European Federation of Accountants and Auditors for SMEs

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor
New York, New York
10017 USA
Attn. IAASB Technical Director
Brussels, 14 May 2013

Dear Sir

Comment on IAASB Consultation Paper “A Framework for Audit Quality”

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the International Auditing and Assurance Standards Board (“IAASB”) Consultation Paper “A Framework for Audit Quality” (the Framework). The IAASB rightly recognises that it cannot alone take all the steps necessary to enhance audit quality. Nevertheless, as a global standard setter, it contributes greatly through the issue of high quality auditing standards and by promoting debate with this proposed Framework.

In Europe, many small companies are exempt from statutory audit but if a voluntary audit is commissioned, such auditors are likely to comply with auditing and quality control standards issued by the IAASB (or national standards based on them) and apply the International Ethics Standards Board for Accountants “Code of Ethics for Professional Accountants”.

General Remarks

EFAA recognises that audit does not exist in a vacuum; it is the value to society of the audited information that is the ultimate determinant of the value of audit and hence the quality that must be achieved in the audit process. Quality is difficult to define and measure but it is implicit in the work of professional accountants. An audit that does not achieve sufficient quality has no right to call itself an audit. The users of the work of auditors (ultimately society) determine what constitutes sufficient quality by putting in place relevant environmental factors, such as laws and standards, and through the mechanism of price with the latter, whether considered as the fee for the provision of the audit or the cost of audit failure, a recognition of audit value.

EFAA believes an opportunity has been lost because the Framework concentrates on the audit. In Europe, many smaller companies are exempt from statutory audit but can voluntarily commission an audit, or a compilation, or a review, or an agreed-upon procedures engagement. The IAASB issues standards for all such engagements and the wider public interest would have been better served by a Framework relevant to them all. Given that the factors that contribute to quality are considered in terms of input, output and context it follows that this same Framework could have been used to set the Framework for Engagement Quality which would have necessarily included Assurance Quality. Not only would this have addressed the wider public interest in terms of today’s standards it may have encapsulated future assurance standards developed to meet the demands of the markets and stakeholders.



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Within the context of auditing alone, we are disappointed that the Framework principally addresses the particular circumstances of the audit of large entities. As we believe that any tool seeking to enhance Audit Quality is a positive one we would encourage further considerations specific to audits of smaller entities. Even taking into account the growth of exemption from statutory audit, the Framework is not addressing the vast majority of audits globally. Having said that, the fact that the Framework is intended to be used in the context of the audit of large entities is a strong argument for deletion of the two pages, as they are not relevant to its intended readership. We believe that it would have been more appropriate to address this issue at the outset. A high level of audit quality is desirable regardless of the size or complexity of the entity so had Audit Quality been defined possibly the only point to be made would be recognition that the input, output and context factors would be different.

The majority of the remainder of our comments set these primary concerns aside and deal with the document as presented. Our positions are nevertheless informed by our role in the business world and our natural focus on small and medium-sized enterprises and small and medium-sized practitioners.

Even in the context of the large listed company audit we find the Framework to be too extensive. It must be remembered that auditing, ethics and quality control standards are already voluminous and those who are neither auditors, nor very closely concerned with the audit process, will have no detailed knowledge of them. Such stakeholders will similarly be deterred from engaging with audit quality because of the length of this document.

Many of the differences in perception, about the quality of audit and the factors that are relevant, may be explained by the respective distance from the audit of each stakeholder group. An audit committee has, for example, a degree of inside knowledge about the audit that is denied to external investors. Users also vary in their knowledge and understanding of the audit process in general as well as other aspects of the corporate reporting supply chain. Such is the diversity both within and between stakeholder groups that we doubt whether the detailed Framework as drafted can meet the majority of their information needs.

Lastly, the value of this Framework will ultimately be judged in terms of the manner in which it is used, how often and by whom it is referenced and its ability to stay of relevance, that is, can it be evergreen? The input, output and context factors will develop in time and we are unclear as to the IAASB's plans to ensure that this document can remain current and how it intends to ensure that this is continually developed in the light of a changing audit market where the auditor needs to be innovative and flexible.

Request for Specific Comments

Our comments on specific matters are set out below.

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

The question is a difficult one to answer because the Framework has not sought to include a definition of "Audit Quality". The IAASB concluded in its document "Audit Quality, An IAASB Perspective" that Audit quality is, in essence, a complex and multi-faceted concept subject to many direct and indirect influences. This document considers some of those influences in terms of factors and context. That said, it is possible that an audit opinion is given and could be relied upon (and hence audit quality may well have been achieved) in the absence of some of these factors. What else is of interest is the diversity evident in the Stakeholder Survey in Appendix 2 in terms of what factors demonstrate quality to individual survey respondents. Of further note



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is the observation that there are no instances when all 3 stakeholders consider the same factor that they might take into account in forming a view on the likely quality of an audit to be important.

The document is intended to be a framework for audit quality, but we question why such a title has been chosen. A framework, such as the assurance framework, is normally so called because it sets out elements of its subject matter and the relationships between them for the purpose of allowing that structure to be built upon: for example, through the creation of auditing or other engagements standards. A framework provides an intellectual footing, facilitating the building of a comprehensive set of consistent standards. In order to assert that this is a framework, it is also necessary for the IAASB to explain what it supports and the actions that depend on it. We suggest instead that the document be repositioned as a statement of position, not a framework.

Because the document is to be issued at a particular time, it is important for potential users to know whether it is dealing with just the “here and now”, or whether it is intended to provide support for future developments of those matters within its compass and whether it will itself be subject to planned revision. The input, output and context factors will develop in time and we are unclear as to the IAASB’s plans to ensure that this document can remain current and how the IAASB intends to ensure that this is continually developed.

In a rapidly changing business environment, the ability of the auditor to be flexible and innovative may be an important contributor to audit quality. Similarly, legislators and standard setters for aspects of the corporate reporting supply chain must strive to overcome the inertia imposed by resource constraints and the need to achieve a degree of consensus and transparency in due process.

The Framework appears to us to include most of the elements that are likely to be relevant to audit quality. These are analysed in a very general way as inputs, outputs, interactions and influences but there is no analysis of how much a factor promotes audit quality. We believe that this is a result of the way the document was put together. Academic research into the views of user groups on a list of potential factors has yielded an analysis in which the perception of quality is better served than the actuality. Such analysis, even if necessarily only at the general level, is nevertheless important as it exposes to stakeholder groups the perceptions of other stakeholders.

One aspect of analysis that could be criticised is the boundary adopted for factors to be analysed. Appendix 2 to the Framework appears to demonstrate that factors that are perceived as “important” or “less important” are included but those that are perceived as “not important” are excluded. Some elements that are determinants of audit quality are not considered by stakeholders because they are taken as a given. For example, if one were to ask a stakeholder who was an electricity supplier about elements that contribute to audit quality they would doubtless say that a stable and uninterrupted electricity supply was important because it allowed the auditor to use modern technology. There is not an audit committee or investor who would raise such an issue, but it is doubtless true. Without wishing to extend the Framework even more, it is important to set the boundaries of the factors to be considered by reference to their proximity to, and impact on, audit quality. We see little point in analysing factors that have no material effect on audit quality.

There should also be consideration of the complex interactions between factors and the difference in weighting of these factors. Such analysis is important particularly when evaluating a proposed change to a relevant factor. For example, when considering auditing in the European Union, independence is seen as important to audit quality, so some would advocate regular rotation of audit firms where as others regard client knowledge possessed by a long-standing auditor as being a more important contributor to audit quality.



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A further matter worthy of analysis is the effect of the rate of change of factors. Some factors have a natural rate of change, while change in others can be managed; for example, a standard setter may accelerate the updating of standards. Auditing has a natural annual cycle matching the financial reporting period and that cycle is characterised by peak activity for audit firms relating to the bunching of year ends at a calendar or fiscal year end. If legislators wished to increase audit quality they could enforce an even distribution of year ends to remove peaks. That might have a greater impact than legislation concerning independence, but the Framework does not provide any advice for legislators about such matters although it would be useful for the framework to advise legislators of such matters.

2. Does the Framework reflect the appropriate balance of responsibilities 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?

We find this question difficult to answer because the responsibility for audit quality does not lie with the entity or other stakeholders but with the auditor. Those who regulate and provide the societal context for the audit may be considered to have a secondary responsibility for audit quality. We caution that, if the question is taken at face value, answers to it may prove difficult to assess.

Perhaps the intention was to investigate whether the different perspectives were properly addressed, as these parties possess different abilities to take action to contribution to audit quality, if not a primary responsibility to pursue it.

The various perspectives on audit quality are dealt with in the Framework both in the section dealing with interactions, for example between auditors and those charged with governance, and the section on contextual factors. The latter section may be interpreted as describing the interaction between the audit and, for example, those in society that determine the broader cultural factors.

It seems to us that the Framework must seek to identify for stakeholders not only which audit quality factors are relevant to them but also what actions they could take to improve audit quality. As currently written, it merely describes in general terms circumstances and interactions. Perhaps we are seeking too much from the Framework as we would prefer a “call to action” on those stakeholders who are best placed to not only understand audit quality but also contribute to its enhancement (see also our answer to question 4 below).

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?

For the reasons set out in our general remarks, were the Framework to be finalised in roughly the form it now takes, we believe that it could be used but the format, structure and its length may mean that it is unlikely to be used directly. We have stated above that auditing, ethics and quality control standards are already voluminous and those who are neither auditors, nor very closely concerned with the audit process, will have no detailed knowledge of them. Such stakeholders will similarly be deterred from engaging with audit quality because of the length of this document.

At the outset, the project objective was stated as being “to establish in the public interest an international framework that describes audit quality holistically”. We agree that it describes a holistic approach to achieving audit quality but we would advocate some form of Cost / Benefit Analysis post issuance as it would



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be of value to know (following a post issuance review of say 3 years) what the impact of this document has been in terms of whether Audit Quality has been improved.

What is clear is that aspects of it may be referenced in areas such as auditor education, regulation and monitoring, the evaluation of auditor quality for purposes such as audit selection, and as an indicator of areas where academic research may be fruitful. As a reference document it would seem important to enable its use in electronic format such that it could be navigated quickly and in a targeted manner. This is because any tool that increases Audit Quality must be given every chance to succeed.

That said, there is a danger that some may seek to operationalise the Framework by turning it into a checklist against which to rank or monitor audit firms. Given that the Framework's primary purpose is to inform the debate we think this is not something that would be appropriate. The debate surrounding professional judgement and professional scepticism together with the current on-going project on Auditor Reporting has highlighted the importance of Auditor Judgement and we do not think it would be wise to seek to necessarily introduce more checklists without careful consideration. It may, however, be worth using the Framework as a basis of tailored communication, for example, a publication directed at audit committees dealing with the elements of audit quality and how the audit committee can best promote it.

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?

We found the inclusion of "Areas to Explore" to be worthy of further exploration but suggest that such matters would be better presented in a separate document dealing with potential actions for those parties interested in furthering audit quality. Such a document would not require as much due process as the Framework and could be updated more quickly to reflect the steps taken in relation to the areas to explore. The use of a separate document would also shorten the Framework itself.

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours faithfully,

Federico Diomeda

Chief Executive Officer