

13 June 2016

To:

Mr Schilder

Chair of the International Auditing and Assurance Standards Board

Re.: Comment letter from European audit regulators relating to the IAASB's Invitation to Comment – “Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits”

Dear Mr Schilder,

1. A number of independent European audit regulators and/or oversight bodies (“audit regulators”) appreciates the opportunity to comment on the IAASB’s (“Board”) Invitation to Comment “*Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits*”, issued in December 2015. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:
 - Austrian Auditors Supervisory Authority – Austria
 - Commission for Public Oversight of Statutory Auditors – Bulgaria
 - Audit Public Oversight Committee – Croatia
 - Cyprus Public Audit Oversight Board – Cyprus
 - Public Audit Oversight Board – Czech Republic
 - Danish Business Authority – Denmark
 - Auditors' Activities Oversight Council – Estonia
 - Haut Conseil du Commissariat aux Comptes – France
 - Abschlussprüferaufsichtskommission – Germany
 - Hellenic Accounting and Auditing Standards Oversight Board ELTE – Greece
 - Auditors’ Public Oversight Authority – Hungary
 - Irish Auditing and Accounting Supervisory Authority – Ireland
 - Financial Market Authority – Liechtenstein
 - Authority of Audit, Accounting, Property Valuation and Insolvency Management – Lithuania
 - Commission de Surveillance du Secteur Financier – Luxembourg
 - Quality Assurance Unit – Malta
 - Netherlands Authority for the Financial Markets – The Netherlands
 - Finanstilsynet – Norway
 - Comissão do Mercado de Valores Mobiliários – Portugal
 - Romanian Public Interest Oversight Body of Accounting Profession – Romania
 - Auditing Oversight Authority UDVA – Slovakia
 - Agency for Public Oversight of Auditing – Slovenia
 - Instituto de Contabilidad y Auditoria de Cuentas – Spain
 - Supervisory Board of Public Accountants, Revisorsnämnden – Sweden
 - Financial Reporting Council – United Kingdom
2. As European audit regulators we consider it important to pursue continuing improvement of standard setting for the audit profession. 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.
3. In addition, given the format of the consultation that is a discussion paper and not an exposure draft, any comments made in this letter should be taken in that context and not be considered

definitive views on the topics included in the consultation paper. More informed views may be provided once the IAASB issues the planned exposure drafts on each of those topics.

General comments

Public interest focus

4. We agree with the principle articulated by the IAASB in the consultation paper to focus on issues that need to be addressed in the public interest. Indeed, the statutory audit has a public-interest function since a broader community of people and institutions rely on the quality of a statutory auditor's work.¹ To that end, auditing standards applicable in Europe by those statutory auditors should be conducive to the public good.²

Auditor behaviour

5. Many of the possible solutions proposed in the consultation document appear to relate to additional application material. We believe that enhancing only application material may lead to an insufficient change in auditor behaviour: we encourage the IAASB to also focus on enhancing the standards either through clarifications of existing requirements or new requirements, to support the principles in the standards.

European context

6. We draw the IAASB's attention to the provisions that auditors are required to observe according to the European legislation applicable to them in the areas covered by the ITC. Any requirements in the standards which would be inconsistent with the legal framework in force would impair the application of the ISAs and ISQC 1 in countries applying the European Union's legislation.

Addressing audit regulators' concerns stemming from inspections

7. We note that a number of potential areas of weakness identified during inspections and relating to professional scepticism, quality control and group audit have been recognized and taken into account by the IAASB in developing the ITC. We encourage the IAASB to continue to investigate areas of weaknesses identified during inspections and the possible solutions for those weaknesses which could be remediated through improving the standards, as it progresses in its work on this project, and to deal with the concerns raised by audit regulators in a timely manner.

Professional scepticism

8. We believe that professional scepticism is an element of auditor behaviour that has the potential to impact the audit in its entirety. As such, we agree that the approach taken by the IAASB to address professional scepticism holistically, and not only from an auditing standards perspective, is appropriate. However, we would have concerns if the focus of the IAASB project moved away from improving the current auditing standards.
9. In addition, we draw the IAASB's attention to the following aspects stemming from the European Audit Directive³ which, in essence, relate to the work effort required from the auditor regarding professional scepticism:

¹Directive 2006/43/EC Art. 26(3c)

² Directive 2006/43/EC whereas (9)

³ Directive 2006/43/EC Art. 21(2)

- professional scepticism should be applied by the auditor throughout the audit,
 - the auditor shall maintain professional scepticism in particular when reviewing:
 - i. management estimates relating to fair values,
 - ii. the impairment of assets,
 - iii. provisions, and
 - iv. future cash flow relevant to the entity's ability to continue as a going concern.
10. We invite the IAASB to maintain its focus on setting the requirements for the exercise of professional scepticism at an appropriate level which takes into account the aforementioned provisions.

Group audit

11. We note that a number of concerns stemming from inspections regarding group audit have been taken into account by the IAASB in developing the ITC. We encourage the IAASB to pursue its focus on investigating the possible enhancements of the standards which would improve auditors' performance on those areas of group audits that most commonly give rise to inspection findings by European audit regulators.
12. In particular, we draw the IAASB's attention to the fact that several of those findings would appear to point to areas where the standards could be improved, namely:
- *Relating to the ISAs as a whole*: interrelations between ISA 600 and other ISAs;
 - *Relating to the group engagement team's understanding of the component auditor*: access to component information by the group auditor, assessment of the component auditor's competence;
 - *Relating to the determination of materiality*: determination of component materiality, of aggregation risk, of "significant" components;
 - *Relating to the assessment of risks and the planned responses to assessed risks*: assessment of risks of material misstatement at the group financial statements level, consideration of risks identified at component level in the group auditor's assessment of risk (and the responses to those risks);
 - *Relating to the audit of the consolidation process for group financial statements*: the group auditor's role regarding the substantive consolidation;
 - *Relating to the level of involvement of the group auditor in the audit of the component*: the level of involvement by the group auditor in component audits, the level of reliance by the group engagement team on component auditor reporting, the group auditor's role regarding the work of the component auditor during all phases of the audit;
 - *Relating to audit engagements where the engagement partner is in a different location from where the majority of audit work is performed (e.g. situations of so-called "letter box" companies)*: dealing with audits where all/most of the audit is performed in another jurisdiction.
13. In addition, we highlight the following topics covered by European legal provisions,⁴ which we believe the IAASB should consider in further developing the standards:
- The group auditor's responsibility for the audit report issued on the consolidated financial statements;

- The group auditor’s documentation of the work performed on the component, either by the component auditor or the group auditor;
 - The conditions for the reliance by the group auditor on the work of a component auditor.
14. Furthermore, to respond to the needs of jurisdictions in which joint audit is requested or allowed, we draw the IAASB’s attention to the need for ISA 600 to take into account or be compatible with situations where the group audit is performed by joint auditors, since this allowed by European law.⁵

Quality control

15. As for group audit, we note that a number of concerns of European audit regulators relating to audit firm and audit engagement quality control have been taken into account by the IAASB in developing the ITC. We encourage the IAASB to pursue its focus on investigating the possible enhancements of standards which would improve auditors’ performance on those areas of quality control that most commonly give rise to inspection findings by European audit regulators.
16. We draw the IAASB’s attention to the fact that several of those findings would appear to point to areas where the standards could be improved, namely:
- *Relating to leadership responsibilities for audit quality*: role of management in audit quality, internal culture to promote audit quality (“tone at the top”);
 - *Relating to human resources*: link between remuneration and audit quality;
 - *Relating to engagement performance, including EQCR*: objective, timing and extent of procedures for an Engagement Quality Control Review, selection of the reviewer, quality control for audit work performed in a different location, pre-issuance reviews, link between ISA 220 and ISQC 1;
 - *Relating to monitoring*: scope and frequency of review of firm-wide procedures, root cause analysis after findings, requirements in ISQC 1 for the firms to take action and/or remediate for external inspection findings;
 - *Relating to acceptance and continuance*: consideration of all ethical requirements, including locally applicable provisions;
 - *Relating to globally established policies at network level*: adaptation of global policies to take into account local requirements;
 - *Relating to complying with ethical requirements*: engagement partner’s responsibilities, clarity on ethical requirements;
 - *Relating to proportionality*: the need to address the proportionate application of ISQC 1, depending on the size of the audit firm.
17. We highlight the fact that some of the topics mentioned above, as well as other areas related to quality control, are covered by European legal provisions⁶ which we believe the IAASB should consider in further developing the standards, for example:
- The responsibility of the engagement partner when audit work is outsourced;
 - Engagement quality control reviews, in particular, the documentation of those reviews;
 - Audit firms’ internal monitoring of findings;

⁵ Regulation (EU) No 537/2014 Art.17(4)(b)

⁶ Directive 2006/43/EC Art. 24a and 24b, and Regulation (EU) No 537/2014 Art. 6.1, 8 and 13

- Remuneration policies applying to all persons involved in, or in a capacity to influence the conduct of the audit engagement;
 - Internal control measures for dealing with and recording incidents which have, or may have, serious consequences for the integrity of the firm's activities or on the audit firm's or engagement partner's independence, including in the case of a group audit;
 - Disclosures regarding a firm's quality control system in the transparency report;
 - The scalability of quality control measures, including engagement quality control review.
18. We encourage the IAASB to take into account the existence of joint audit situations,⁷ in particular in determining the extent of the requirements for engagement quality reviews in those situations.

We thank you for the opportunity to comment on the document. If you have any questions or would like to further discuss the matters noted in this letter, please contact Laurence Duflo at the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Yours sincerely,

Audit regulators of

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| • Austria | • Lithuania |
| • Bulgaria | • Luxembourg |
| • Croatia | • Malta |
| • Cyprus | • The Netherlands |
| • Czech Republic | • Norway |
| • Denmark | • Portugal |
| • Estonia | • Romania |
| • France | • Slovakia |
| • Germany | • Slovenia |
| • Greece | • Spain |
| • Hungary | • Sweden |
| • Ireland | • United Kingdom |
| • Liechtenstein | |

⁷ Regulation (EU) No 537/2014 Art.17(4)(b)