

4 April 2014

To:

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

Re.: Comment letter from European audit regulators relating to the IAASB's Consultation Paper *"The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016"*

Dear Mr. Schilder,

1. A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciate the opportunity to comment on the IAASB's ("Board") Consultation Paper *"The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016"* issued in December 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
 - 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 – Greece
 - Auditors' Public Oversight Authority – Hungary
 - Irish Auditing & Accounting Supervisory Authority – Ireland
 - Authority of Audit and Accounting – Lithuania
 - Commission de 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 – UDVA – Slovakia
 - Slovenian Agency for Public Oversight of Auditing – Slovenia
 - Instituto de Contabilidad y Auditoria de Cuentas – Spain
 - Supervisory Board of Public Accountants – Revisorsnämnden – Sweden
 - Federal Audit Oversight Authority FAOA – Switzerland
 - 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.

Introductory comments

3. We commend the Board for its efforts to take into account the concerns of audit regulators as evidenced by the choice of projects for the first cycle of the IAASB's proposed work program.
4. From our perspective, it is important that standards allow their users to understand them fully and comply effectively with them.

5. We have set out in the paragraphs that follow our comments regarding both the proposed strategy and work program.

Detailed comments

Strategic objectives

6. We generally support the strategic objectives¹ set out by the IAASB in its strategy consultation paper for the 2015-2019 period.
7. We believe that audit quality is driven, amongst others, by the quality and robustness of the standards underpinning the audit process. As audit regulators, ISAs are our primary area of focus. These standards deal with the audit of financial statements. Other standards within the suite of standards developed by the IAASB are less highly prioritized for audit regulators. Nevertheless, we agree that these other standards also deserve consideration, with an objective to drive convergence in practices of auditors at an international level, when their mandate encompasses other services than the audit of financial statements.
8. We support the IAASB in its objective to strengthen its collaboration with stakeholders such as investors and audit regulators. Considering input from the various contributors to the financial reporting supply chain is likely to contribute to the usability of auditing standards.
9. We believe it is necessary to factor into the strategy the possibility of dealing with urgent emerging issues identified during, for instance, inspections. In this regard, we support the idea of an IAASB work program that is divided into two year cycles within the strategy period. This could potentially facilitate the reorientation of the work effort to deal with issues requiring immediate attention, circumscribed by an appropriate due process, in cases where deficiencies that deserve remediation in the standards are identified.

Work program

10. We appreciate that a number of topics of relevance to audit regulators have been included in the IAASB proposed work program, such as professional scepticism, quality control (in particular engagement review and use of the work of experts), group audits and fair value measurement.² These topics have been identified as areas of concern during inspections and will benefit from further consideration from a standard-setting perspective.
11. This being said, we note that certain issues identified during the clarified ISAs post-implementation review are included in the proposed work program in the second half of the strategy period.³ We encourage the Board to address, in a timely manner, issues identified as requiring remediation in the public interest.

¹ §13. "The strategic objectives for 2015-2019 identified by the IAASB are to :

i) *Develop and Maintain High-Quality ISAs that Are Accepted as the Basis for High-Quality Financial Statement Audits*

ii) *Ensure the IAASB's Suite of Standards Continues to be Relevant in a Changing World by Responding to Stakeholder Needs*

iii) *Collaborate and Cooperate with Contributors to the Financial Reporting Supply Chain to Foster Audit Quality and Stay Informed"*

² Refer to 17 October 2012 EAIG members co-signed response to the "Implementation of clarified ISAs" consultation

³ Proposed Work Program 2015-2016, page 39, Appendix 1 « ISA-Related Projects »

12. Accordingly, we would like to draw the Board's attention to issues currently of concern for audit regulators. We believe that these topics should be addressed in a shorter timeframe, either within the appropriate work streams already envisaged in the consultation paper, or by means of a quick response mechanism:
- The issue of the audit of "letterbox companies"⁴ would deserve specific consideration regarding its timing;
 - With regards to group audit,⁴ we support the idea of a project dealing with the topic⁵ but would encourage the Board to consider starting it at an earlier date;
 - Materiality is also an area that deserves specific attention, not only within the disclosure project, but also with regards to group audit,⁴ audit reporting or potentially with regards to the level of guidance included in the standards⁶ dedicated to the topic;
 - The implications of the use of the services of persons working in off- (or on-) shore centers, where the auditor so decides, on the organization of audit work and related quality controls, is also an area that regulators would like to be considered;
 - Direct assistance by the internal audit function remains a domain where we believe revision in the standard would be necessary to align the standard with the fact that there is a ban on making use of such assistance in several jurisdictions;⁷
 - The provisions with regards to sampling are also an area of concern for regulators given the developing trend of the use of data analytics for audits in high data volume environments;
 - We would also advise the Board to consider the issue of actions taken by audit firms when deficiencies have been identified in their internal processes, for instance, during internal or external inspections, in the context of the work stream relating to the standard on quality control⁸ in addition to dealing with the implications of the European audit reform⁹ and with the topics identified during the clarified ISAs post-implementation review.
13. With regards to the project dealing with special audit considerations relevant to financial institutions, we see an interest in ensuring that the current standards are sufficiently robust to deal with the specific concerns of the audit of banks and insurance companies, given the potential contribution of certain financial institutions' to financial stability in the public interest.

Audit reform in Europe, and projects currently in progress

14. Coherence between the developments in audit standard-setting on an international and European level is an important issue for us. We encourage the Board to consider the potential implications of the audit reform in Europe on the standards, in particular with regards to topics relating to the auditor's professional practice. Close monitoring would be relevant, especially for :
- audit reporting (including report to those charged with governance),
 - going concern issues,
 - joint audit procedures,

⁴ Proposed Work Program 2015-2016, §39

⁵ Refer to §10 of this letter

⁶ ISA 320 and 450

⁷ ISA 610

⁸ ISQC 1

⁹ Refer to §14 of this letter

- communication of the auditor to those charged with governance and to the authorities, and
 - internal organization of audit firm quality control,
- as standards that would be less stringent than the legal framework in force would impair the benefits of their use in Europe.

15. We furthermore would like to draw the Board's attention to the importance of the projects included in the previous strategy cycle, most notably, "auditor reporting", "disclosures" and "going concern". These are topics of particular interest to audit regulators which will require due care and consideration and sufficient time to complete. The impact of a potential over-run on the proposed strategy period should not be disregarded.

Factors used to identify and prioritize IAASB actions

16. As audit regulators, we are particularly focused on the auditor's contribution to the public interest. In our view, the criterion pertaining to the potential benefit to the public interest¹⁰ of any work stream started should be the most important one in decisions taken by the Board to prioritize the work streams.

Convergence IAASB - IESBA

17. We also encourage the Board to seek further convergence with the IESBA regarding the language used and the requirements defined in order to facilitate a common understanding by the stakeholders.

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).

Yours sincerely,

Audit regulator of:

- | | | | |
|------------------|-------------------|------------|------------------|
| • Austria | • Greece | • Norway | • Sweden |
| • Czech Republic | • Hungary | • Portugal | • Switzerland |
| • Denmark | • Ireland | • Romania | • United Kingdom |
| • Estonia | • Lithuania | • Slovakia | |
| • France | • Luxembourg | • Slovenia | |
| • Germany | • The Netherlands | • Spain | |

¹⁰ Appendix 2, page 19

Appendix: Comments on questions included in the consultation paper

IAASB's Proposed Strategy for 2015 - 2019

The IAASB is particularly interested in respondents' views on:

- a) *Whether the strategic objectives identified are considered appropriate for the period 2015-2019? If not, please explain.*

Please refer more specifically to §6 to 9.

- b) *Whether the factors included in Appendix 2 represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the Work Program for 2015–2016?*

Please refer more specifically to §16.

IAASB's Proposed Work Program for 2015 - 2016

The IAASB is particularly interested in respondents' views on:

- a) *The approach taken to the development of the Work Program for 2015–2016, in particular the IAASB's decision to focus on fewer key projects towards the goal of their completion by 2017.*

Please refer more specifically to §10 to 15.

- b) *The appropriateness of the topics chosen as the focus for the Work Program for 2015–2016 (see paragraph 4 and Table A) in light of the strategic objectives set out in the IAASB's Strategy for 2015–2019.*

Please refer more specifically to §10 to 15.

- c) *Whether there is an action(s) or project(s) that has not been included in the Work Program for 2015–2016 that you believe the IAASB should address during that period. For example, should any of the topics in Appendix 1 be prioritized sooner? If so, which initiative(s) identified in Table A do you believe should be replaced by this action(s) or project(s)? Please provide an explanation of your views.*

Please refer more specifically to §11,12 and 14,15.

- d) *Whether there are alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for IAASB efforts on a variety of important topics, in light of the constraints of available resources and the need for due process to be applied in the development or revision of standards.*

Please refer more specifically to §9 and 12.