

17 October 2012

To

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

Comment letter from European Audit Regulators relating to implementation of clarified ISAs

Dear Sirs

In March 2012 the IAASB wrote to the European Audit Inspection Group (EAIG) Steering Group and asked whether the EAIG, or individual members of the EAIG, would be able to submit views on the implementation of clarified International Standards on Auditing (ISAs) by 31 October 2012, in connection with the IAASB's post-implementation review of the clarified ISAs. The following areas of interest were highlighted in the IAASB letter:

- Using experts and specialists in audits
- Quality control policies and procedures (including EQCR)
- Group audits
- Auditing accounting estimates and fair values

Members of the EAIG appreciate the opportunity to respond to the IAASB, and certain members have submitted individual responses.

This letter supplements such responses and has been discussed and agreed by a number of independent European audit regulators and/or oversight bodies ("the audit regulators") representing the following countries:

- Czech Republic – Audit Public Oversight Council
- Finland – Auditing Board
- France - Haut Conseil du commissariat aux comptes
- Germany - Auditor Oversight Commission
- Hungary - Auditors' Public Oversight Committee
- Lithuania – Authority of Audit and Accounting
- Luxembourg - Commission de Surveillance du Secteur Financier
- Malta - Quality Assurance Oversight Committee
- The Netherlands – Netherlands Authority for the Financial Markets
- Norway - Financial Supervisory Authority of Norway
- Portugal – Conselho Nacional de supervisão de auditoria
- Slovakia - Auditing Oversight Authority
- Slovenia - Agency for Public Oversight of Auditing
- Spain - Instituto de Contabilidad y Auditoria de Cuentas
- Sweden – The Supervisory Board of Public Accountants (Revisorsnämnden)
- Switzerland - Federal Audit Oversight Authority
- UK – Audit Quality Review, part of the UK's Financial Reporting Council

As European audit regulators, we consider it important to pursue continuing improvement of auditing standards. Our comments in this letter reflect several matters on which we have achieved a consensus amongst the above mentioned audit regulators, although due to the timing and focus of inspections not all of the findings were identified by all the audit regulators. In addition, the IAASB standards may not have been adopted in some jurisdictions, although similar local requirements usually apply instead. The findings are not intended to include all comments that might be provided by individual members.

Feedback to IAASB in 2011

In 2011, the following findings were presented in a meeting with the IAASB. Although these were based on inspection findings prior to the clarified ISAs, the root cause analysis performed at the time was based on the clarified ISA requirements. These findings continue to arise in practice.

Using experts and specialists in audits (ISA 620)

Audit inspections have identified the following findings which we believe deserve specific consideration in the process of improving ISA 620:

- Individuals involved in audits are not always appropriately treated as experts for the purpose of ISA 620, and therefore the requirements of ISA 620 are not always specifically addressed. The guidance in ISA 620 states that, while the distinction between auditor's experts and members of the audit team will be a straight forward in many cases, the distinction will be a matter of professional judgment in other cases. However, further guidance is not provided in the standard.
- Auditors rely on the work of experts, who do not always perform their procedures in accordance with auditing standards and do not always adequately document their work for the purpose of the audit. The extent to which auditors require experts to perform audit procedures and document their work in order to provide adequate audit evidence is not specifically covered in ISA 620.
- Auditors do not always adequately follow up the findings and recommendations of experts. ISA 620 does not specifically address the need for the auditor to adequately follow up issues or recommendations raised by experts.

EQCR (ISQC1)

Audit inspections have identified the following findings which we believe deserve specific consideration in the process of improving ISQC1:

- The EQCR is not always performed for all PIEs¹. ISQC1 requires mandatory EQCRs for listed entities only and, apart from listed entities, the EQCR requirements depend on criteria chosen by each audit firm.
- EQCRs are sometimes performed by partners who were subject to adverse inspection findings on their own audits. ISQC1 does not require that the partners performing the EQCR to have demonstrated quality in his/her own audits.

¹ In the European Union, the scope of PIEs may vary from one jurisdiction to another. In some countries, only listed entities are considered as PIEs, whereas in other countries, the scope may be much broader.

- The EQCR is sometimes performed at a very late stage of the audit. ISQC1 does not have any requirements regarding the timing of the EQCR involvement, only on the timing of the completion of the EQCR.
- Sometimes the underlying audit work is not sufficiently reviewed by the EQCR. ISQC1 does not contain specific guidance on the depth of the EQCR review.
- The review comments and follow-up are often not visible on the audit file. ISQC1 does not require that review notes from the EQCR review to be retained on the file.

Inspection findings post clarified ISAs

In 2012, the EAIG conducted surveys of its members in relation to group audits and auditing accounting estimates and fair values. The majority of the findings related to inadequate application of the ISA requirements and guidance. However, we have summarised below those areas where we believe improvements could be made to the relevant ISAs to achieve a more consistent approach.

Group audits (ISA 600)

Audit inspections have identified the following findings which we believe deserve specific consideration in the process of improving ISA 600:

- There is a wide variation in practice regarding the calculation of component materiality. ISA 600 provides little guidance for determining component materiality.
- The involvement of the group audit team in the component audits, including communications with the component audit teams and the review of their work, is often inadequate or not adequately evidenced. ISA 600 provides limited requirements and guidance on the level of involvement and review and the evidence of such.

Auditing accounting estimates and fair values (ISA 540)

Audit inspections have identified the following findings which we believe deserve specific consideration in the process of improving ISA 540:

- There have been a number of findings in relation to the quality of audit work relating to the impairment of goodwill and other assets or the valuation of financial instruments (including the use of third party pricing services). ISA 540 is difficult to apply to these specific areas of the audit, given the lack of specific audit guidance relating to the relevant financial reporting requirements.

Thank you for the opportunity to provide comments on the implementation of clarified ISAs. If you have any questions or would like to further discuss the matters noted in this letter, please contact Janine van Diggelen, head of the audit oversight division of the AFM in The Netherlands at +31 20 797 2833.

Yours sincerely

On behalf of the audit regulators referred to above in the following countries:

Czech Republic
Finland
France
Germany
Hungary
Lithuania
Luxembourg
Malta
The Netherlands
Norway
Portugal
Slovakia
Slovenia
Spain
Switzerland
Sweden
UK