

To:
Mr. Jonathan Bravo
International Organization of Securities Commissions
(IOSCO)

Sent by email to: consultation-04-2018@iosco.org

Brussels, 13 July 2018

Subject: Accountancy Europe's response to *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality*

Dear Mr. Jonathan Bravo,

Accountancy Europe is pleased to provide you with its comments on the *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality*.

We welcome the IOSCO's consultation report aimed at gathering relevant stakeholder feedback on its proposals for good practices for audit committees of issuers of listed securities in supporting external audit quality.

We consider that audit committees play an active and vital role in enforcing good corporate governance and serve the interests of a broad range of stakeholders through their independent oversight of the financial reporting process. A principles-based guide with good practices, centred around the active role of audit committees in enhancing external audit quality could contribute to improving the quality of financial reporting.

There is a varying 'maturity' of audit committees across countries, i.e. in some countries, the practice of having audit committees is better established and has a longer history than in others. Having a global guide with good practices for audit committees would therefore help establish a level playing field.

This consultation focuses mainly on the role and responsibilities of the audit committee vis-à-vis the external auditor. However, we would like to highlight that other vital roles and responsibilities of the audit committee could be considered, including the oversight of the internal audit function which also contributes to audit quality.

In addition, it is important to consider the audit committee's role related to wider corporate reporting including financial and non-financial information. The audit committee should make sure that the entity's reports include all relevant information responding to stakeholders' needs. The audit committee should also consider the assurance needs on reported non-financial information and proactively manage assurance in this area of increasing significance.

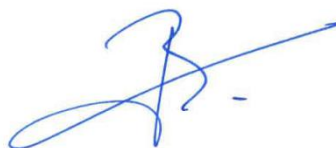
We appreciate the opportunity to provide our input and hope that the IOSCO finds our comments helpful in shaping its good practices report.

For further information on this Accountancy Europe letter, please contact Hilde Blomme on +32 (0)2 893 33 77 or via email at hilde@accountancyeurope.eu, Mihai Calin on +32 488 55 25 44 or via email at mihai@accountancyeurope.eu or Júlia Bodnárová on: +32 (0)2 893 33 83 or via email at julia@accountancyeurope.eu.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
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ABOUT ACCOUNTANCY EUROPE

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ANNEX – ACCOUNTANCY EUROPE’S RESPONSE TO THE IOSCO CONSULTATION REPORT ON GOOD PRACTICES FOR AUDIT COMMITTEES IN SUPPORTING AUDIT QUALITY

Questions relating to the role of audit committees and audit quality (Chapter 2): Question 1

Question 1: Do you agree that audit committees can have an important role in supporting audit quality in the interests of market confidence in the quality of information in the financial reports of issuers (see Section 2.1)?

We fully agree with this statement. As highlighted in our discussion paper *The Functioning of Audit Committees*¹, a well-functioning audit committee is highly beneficial to the external or statutory auditor.

An effective audit committee facilitates high quality internal controls, effective risk management and ensures the quality of information provided to the external auditor, to ultimately contribute to an enhanced level of audit quality.

Audit quality is facilitated by the rigour the audit committee sets for the tone at the top, i.e. to management and the whole organisation, concerning the importance and quality of financial reporting. Audit quality is also facilitated by the rigour with which those charged with governance execute their oversight responsibilities. This is described in paragraph 35 of the *International Standard on Auditing (ISA) 700 (Revised)*² and mentioned in the new audit report format.

Questions relating to the role of audit committees and audit quality (Chapter 2): Question 2

Question 2: Do you have any comments on the background material on audit quality (see Sections 2.3 and 2.4)?

While we agree with the background materials in *sections 2.3 Why is Audit Quality Important* and *2.4. What Factors Influence Audit Quality*, we highlight below relevant considerations analysed in our discussion paper *Overview of Audit Quality Indicators Initiatives*³.

2.3 Why is Audit Quality Important

There is a need to set a common approach to measuring audit quality, including a framework for Audit Quality Indicators (AQIs) which could be used to measure audit quality.

The term ‘audit quality’ does not have a globally recognised definition. Assessing audit quality is therefore a complex and challenging task. Nevertheless, audit committees should strike the right balance between the financial and non-financial criteria, with the ultimate goal of ensuring quality audits in competitive financial terms for the company and at the same time serving the needs of the financial statements’ users (refer to our responses to *points 15* and *21*).

¹ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

² *International Standard on Auditing (ISA) 700 (Revised)*, IAASB; available at <http://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>

³ *Overview of Audit Quality Indicators Initiatives* (2016), Accountancy Europe; available at <https://www.accountancyeurope.eu/audit/fee-shows-significant-differences-in-developments-on-measuring-audit-quality/>

2.4. What Factors Influence Audit Quality

We note that audit quality drivers should correlate with the key elements of audit quality identified by the International Auditing and Assurance Standards Board (IAASB) in the *Framework for Audit Quality*⁴, which are distinguished as follows:

- Inputs: covering such factors as values, ethics and attitudes which are influenced by the culture of a firm; also, it covers knowledge, skills and experience of auditors as well as allocated time to complete the audit
- Process: covering audit processes and quality control procedures and their effect on audit quality
- Outputs: including reports and information that are formally prepared for the purposes of audit
- Key interactions within the financial reporting supply chain: covering formal and informal communication between stakeholders and the context which may influence those interactions
- Contextual factors: including a number of environmental factors that might affect audit quality

It should therefore be taken into account that besides the external auditor, there are various other drivers influencing audit quality. One of them is the audited entity itself, including its audit committee.

Questions relating to the role of audit committees and audit quality (Chapter 2): Question 3

Question 3: Do you have any comments on the proposed description of the roles and responsibilities of audit committees and auditors (see Sections 2.5 to 2.7)?

2.5 What are auditor's responsibilities

While we agree with the main auditor's responsibilities listed in *Section 2.5*, we note additional auditor's responsibilities for the audit of financial statements, as outlined in the Appendix to the *International Standard on Auditing (ISA) 700 (Revised)*⁵, which include:

- Identify and assess the risks of material misstatement of the financial statement and design and perform audit procedures responsive to those risks
- Obtain audit evidence that is sufficient and appropriate to provide a basis for the audit opinion
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Conclude on the appropriateness of management's use of the going concern basis
- Evaluate the overall presentation of the financial statements, including the disclosures
- Communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings

⁴ *Framework for Audit Quality* (2014), IAASB; available at <https://www.ifac.org/system/files/uploads/IAASB/Framework-for-Audit-Quality-Outline.pdf>

⁵ *International Standard on Auditing (ISA) 700 (Revised), Appendix, Illustration 1: Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework*, IAASB; available at: <https://www.ifac.org/publications-resources/international-standard-auditing-isa-700-revised-forming-opinion-and-reporting>

Risk assessment and understanding of the internal control environment are prerequisites for the design and execution of an effective audit. The evaluation of the appropriateness of accounting policies used, the evaluation of the reasonableness of accounting estimates and related disclosures and the evaluation of the overall presentation of financial statements are key responsibilities that enable the auditor to reach its overall objective in an audit of the financial statements.

As stated above, effective communication with those charged with governance, including with the audit committee, is instrumental to the auditor's overall objective in the audit of the financial statements.

2.6 Audit Committees and Auditors

We agree that open, timely and meaningful communication between the audit committee and the auditor is vital to both parties in the discharge of their respective duties.

As highlighted in our publication *The Functioning of Audit Committees*⁶, we note that enhanced transparency of audit committees on the following matters has the potential to improve the quality of financial reporting by companies:

- The work of the audit committee carried out in the current year, especially in relation to the significant issues that arose during the course of the statutory audit
- Judgements and conclusions of the audit committee in relation to key or critical accounting policies and estimates
- The decisions made and action plan for the coming year(s)
- The non-audit services either provided or to be provided, following involvement of the audit committee, by the statutory auditor as well as by other auditors to further highlight the need for independence of management regarding such decisions
- The audit appointment process, in particular the rationale for the selection of a new audit firm or the renewal of an incumbent audit firm's term
- The work of the audit committee, judgements and conclusions made in relation to the monitoring of the company's internal control, internal audit and risk management system also aimed at shareholders

Enhanced transparency in these areas would leverage the audit committee's potential to improve the quality of financial reporting by companies.

2.7 What are the roles of Directors and Audit Committees

According to the European Union's *Directive 2014/56/EU on statutory audits of annual accounts and consolidated accounts*⁷ (hereafter: *2014 EU Audit Directive*), the audit committee shall have, inter alia, the following responsibilities:

- Monitor the financial reporting process, such as reviewing critical accounting policies
- Monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems
- Monitor the statutory audit of the annual and consolidated accounts

⁶ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

⁷ *Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts*, Chapter X, Article 39, paragraph 6; available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056>

- Review and monitor the independence of the statutory auditor or audit firm and in particular the provision of additional services to the audited entity
- Selecting statutory auditor and providing a recommendation on the proposal to the administrative or supervisory body to appoint a statutory auditor or audit firm

In our publication *The Functioning of Audit Committees*⁸, we recommend the following actions with respect to the responsibilities of the audit committee, to further strengthen the responsibilities of the audit committee, and ultimately leverage its effectiveness:

- To clarify the responsibility of the audit committee vis-à-vis the board and other board committees
- To reinforce the audit committee’s evaluation of internal control, internal audit and risk management functions
- Audit committees to carry out regular assessments of the cooperation between the external auditor and the audit committee, as well as a self-assessment of its own work and functioning

We would like to highlight that, as already stated in our response to *Question 1*, audit quality is facilitated by the rigour with which those charged with governance execute their oversight responsibilities.

Questions relating to proposed good practices (Chapter 3): Question 4

Question 4: Do you have any comments on the proposed good practices for the features of audit committees that may facilitate a committee in being more effective in promoting and supporting audit quality (see Section 3.2)?

3.2. Features of Audit Committees that Support Audit Quality

Proposed good practices	Accountancy Europe’s comments
(1.) The audit committee should comprise only nonexecutive directors.	We support this proposed good practice. We reiterate our previous position ⁹ . We are in favour of all audit committee members being non-executive directors regardless of whether they are appointed by the board or by the shareholders. This would implicitly entail that management or even the Chief Financial Officer of a company is not to be a member of the audit committee, neither to chair the audit committee.

⁸ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

⁹ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

3.2. Features of Audit Committees that Support Audit Quality

Proposed good practices	Accountancy Europe's comments
(2.) Consideration should be given to whether all or a majority of audit committee members and the chair should be independent with respect to matters such as financial and business interests with the issuer and length of tenure, acknowledging that different concepts of independence may apply in different jurisdictions.	<p>We support this proposed good practice.</p> <p>We reiterate our previous position¹⁰. We are in favour of requiring the majority of the members of the audit committee and the chair to be independent.</p> <p>This is in line with the <i>2014 EU Audit Directive</i>¹¹ which requires that a majority of audit committee members are independent.</p> <p>As mentioned in section 2.2 of this IOSCO Consultation Report, in some jurisdictions, a single body commonly known as an 'audit committee' oversees all matters relating to the external auditor. In other jurisdictions, more than one body within the governance structure of a listed entity may assume this responsibility. Therefore, it has to be taken into account that there may be different approaches ensuring the independence of the audit committee as a whole, especially in two tier board structures.</p>
(3.) The audit committee chair or another audit committee member should have a good knowledge of financial reporting or audit (including accounting, auditing and audit independence requirements).	<p>We support this proposed good practice.</p> <p>This proposed good practice is in line with the <i>2014 EU Audit Directive</i>¹² which requires at least one of the audit committee members to have competence in auditing and/ or accounting.</p> <p>Nevertheless, we think that more guidance is needed as to what is understood as 'competence' (as per the <i>2014 EU Audit Directive</i>) or 'good knowledge' (as stated in this IOSCO Consultation). Such guidance could, for instance, indicate that a university degree in economy or finance, a professional qualification from a relevant professional organisation or significant professional and practical experience in accounting and/ or auditing qualify as 'good knowledge' for an audit committee member.</p> <p>In addition, we recommend that the audit committee is sufficiently diverse in its membership based on the principle of 'the best person for the job'. In this approach, due care should be given to the competences, qualifications and the collective responsibilities of the audit committee.</p>
(4.) Audit committee members as a whole should between them have an appropriate understanding of financial reporting and audit, and knowledge of the industry in which the issuer operates. Where necessary, there should be some introductory and periodic ongoing training for audit committee members to ensure their capabilities and skills are appropriate and up-to-date.	<p>We support this proposed good practice.</p> <p>We reiterate our previous position¹³. The collective competence of the audit committee should reflect the appropriate skills needed to carry out its work, taking into account the collective responsibility that the audit committee has.</p> <p>Other competences, such as competences in risk assessment, business strategy and business models may also be relevant for the audit committee. Audit committees are normally quite small in order for them to be as efficient as possible. This means that a more principles-based approach to the composition, in addition to having one member with experience in accounting and/ or auditing, would be appropriate.</p>

¹⁰ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

¹¹ *Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts*; available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056>

¹² *Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts*; available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056>

¹³ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

3.2. Features of Audit Committees that Support Audit Quality

Proposed good practices	Accountancy Europe's comments
(5.) Audit committee members should maintain professional scepticism and a questioning attitude toward the information received from management and in considering the quality of the audit.	<p>We support this proposed good practice.</p> <p>We reiterate our previous position¹⁴. In general, the audit committee should apply sufficient professional scepticism when reviewing the information that they receive. In this way, the monitoring responsibilities of the audit committee are also preventive, as they may influence the incentives for management not to engage in fraudulent behaviour due to the heightened scrutiny of risk management systems and financial reporting procedures that the audit committee carries out.</p> <p>A well-functioning audit committee is beneficial to the external or statutory auditor as its work should contribute to an enhanced level of audit quality. By providing good quality information to the external auditor, the audit committee facilitates high quality internal control and risk management performance and assessment during the audit.</p>
(6.) Consideration should be given to how often the audit committee should meet. The audit committee should meet sufficiently frequently to meet its responsibilities on a timely basis. Regard may be given to factors such as the annual and interim financial reporting processes, the audit committee's role in the entity meeting certain market disclosure obligations (e.g, any continuous disclosure obligations), the complexity of the business, and the need to approve non-audit services. In some cases, ad hoc meetings, teleconferences or email exchanges may also be considered.	<p>We support this proposed good practice.</p> <p>We reiterate our previous position¹⁵. The audit committee should have regular meetings that are aligned with the cycle relevant for the company as a whole.</p> <p>Besides regular formal audit committee meetings, we support a practice of having closed-door meetings with the auditors without management, so called 'in camera meetings' (see also <i>point 66</i>).</p>
(7.) The audit committee should be established with a mandate that permits it to carry out its responsibilities free of any unreasonable restraints.	<p>We support this proposed good practice and refer to our above response to proposed good practice in <i>point 1</i> and <i>2</i> in this section.</p> <p>We think that requiring the following enables the audit committee to carry out its responsibilities free of any unreasonable restraints:</p> <ul style="list-style-type: none"> • All audit committee members should be non-executive directors • Majority of the members of the audit committee and the chair should be independent
(8.) The audit committee should have appropriate support of a secretary or other appropriate resources for its role.	<p>We support this proposed good practice.</p> <p>Audit committee members need support of a secretary or similar to enable them to carry out their responsibilities in an efficient manner, without being burdened with administrative tasks. The secretary or other support need to be independent from management. Otherwise, the audit committee cannot fulfil its responsibilities independently from management which it should oversee.</p>

¹⁴ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

¹⁵ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

3.2. Features of Audit Committees that Support Audit Quality

Proposed good practices	Accountancy Europe's comments
(9.) The audit committee should have sufficient capacity for its roles, and be effective in its role in relation to financial reporting and audit quality.	We support this proposed good practice and refer to our above response to proposed good practice in <i>point 4</i> in this section. We think that the collective competence of the audit committee should reflect the appropriate skills needed to carry out its work.
(10.) There should be open internal dialogue within the audit committee. All audit committee members should be encouraged to ask questions, express their views, be heard and have their views considered.	We support this proposed good practice. We reiterate our previous position ¹⁶ . In general, audit committees should have open communication among its members and with its counterparts. In this context, it is crucial for audit committee members to obtain relevant information well ahead of their meetings to be able to hold relevant discussions and make well informed decisions.
(11.) The audit committee should be the key representative body with which the external auditor interacts.	We support this proposed good practice. The audit committee being responsible for the external auditor selection and overseeing the auditor independence, is best placed to be the key representative body for interacting with the external auditor.

Questions relating to proposed good practices (Chapter 3): Question 5

Question 5: Do you agree with the good practices for audit committees outlined in Sections 3.3 to 3.9?

3.3. Recommending the Appointment of an Auditor

Proposed good practices	Accountancy Europe's comments
Any Audit tender or other selection process	
The audit committee should take reasonable steps to ensure that:	
(12.) Any audit tender or other selection process is conducted independently of issuer management (i.e. using a panel of non-executive directors).	We support this proposed good practice. Regardless of the selection and appointment procedure, it is of utmost importance that the process is sufficiently independent from management, in terms of both: <ul style="list-style-type: none"> • Executive members of the administrative body • Managerial body of the audited entity

¹⁶ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

3.3. Recommending the Appointment of an Auditor

Proposed good practices	Accountancy Europe's comments
(13.) Audit tender or selection criteria, which should generally be set at the start of the tender/ selection process, are focused on audit quality.	<p>We support this proposed good practice.</p> <p>We reiterate our previous position¹⁷ that the appointment of the auditor has to be done in a principles-based manner that is easily applicable for companies. According to the <i>2014 EU Audit Directive</i>¹⁸, the Audit Committee is responsible for the procedure for the selection of statutory auditor and recommending the statutory auditor to be appointed.</p> <p>Clear selection criteria have to be set out transparently at the start of the tender/ selection process. Audit committees, as owners of this process, have the main responsibility to ensure clarity and transparency.</p>
(14.) Audit fees are not reduced where this may compromise audit quality (e.g. by inadequate resourcing or insufficient work being performed).	<p>We support this proposed good practice.</p> <p>Audit fees have to reflect fairly the amount of effort to be carried out by the auditor in the context of the client specific risks. Audit fees should reflect the auditor's role in supporting the audit committee function and the high expectations on audit quality.</p> <p>Undue pressure on audit fees leads to reduced time-budgets and constitutes a threat to auditor's independence, having direct impact on audit quality.</p> <p>Although the professional ethics standards provide for auditors to consider whether to decline nomination, should they assess that the level of audit fees does not reflect the effort required to carry out the audit, the audit committee should enforce appropriate safeguard mechanisms.</p> <p>For this, the audit committee should develop a reasonable range of expectations on the expected market level of audit fees. One way to achieve this would be to carry out a benchmarking exercise against similar companies within the industry or with similar risk profiles. This would assist the audit committee as a prerequisite to the tender/ selection process.</p> <p>A clear and transparent procedure should be put in place by the audit committee to assess and address lowballing instances.</p>
(15.) Requests for tenders include objective criteria relating to both audit quality and fees with fees not being given undue weight in selecting an auditor.	<p>We support this proposed good practice.</p> <p>As highlighted in our publication <i>Overview of Audit Quality Indicators Initiatives</i>¹⁹, the term 'audit quality' does not have a globally recognised definition.</p> <p>Assessing the quality of an audit is therefore a complex and challenging task. However, the audit committee should strike the right balance between the financial and non-financial selection criteria, with the ultimate goal of ensuring quality audits in competitive financial terms for the company while also serving the needs of users of financial statements.</p> <p>To this end, it is vital for the audit committee to identify the key drivers of audit quality and define a coherent and meaningful set of key audit quality performance indicators. This could be done by reference to the <i>IAASB Audit Quality Framework</i>²⁰.</p>

¹⁷ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

¹⁸ *Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts*, article 39, paragraph 6.f); available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056>

¹⁹ *Overview of Audit Quality Indicators Initiatives* (2016), Accountancy Europe; available at <https://www.accountancyeurope.eu/audit/fee-shows-significant-differences-in-developments-on-measuring-audit-quality/>

²⁰ *Framework for Audit Quality* (2014), IAASB; available at <https://www.ifac.org/system/files/uploads/IAASB/Framework-for-Audit-Quality-Outline.pdf>

3.3. Recommending the Appointment of an Auditor

Proposed good practices	Accountancy Europe's comments
<p>(16.) Auditors are assessed against the criteria and selected having regard to audit quality, including skills, expertise, technical competence, and resource capacity. One way to achieve this might be for the part of any tender document relating to quality to be considered before reviewing the proposed fees. This may provide an effective safeguard that a decision is not unduly influenced by a low audit fee in circumstances where audit quality may be compromised. A smaller firm should not be excluded based only on size if it is the firm that best meets the selection criteria and any other audit quality considerations (except having regard to circumstances where the fee could be large for the partner or firm concerned and may impact on actual or perceived independence of the auditor, or any similar issue).</p>	<p>We support this proposed good practice.</p> <p>Meeting the technical selection criteria correlated with audit quality set out in the request for proposal document should be assessed before considering the financial offer.</p> <p>The audit committee must scrutinise unusually low offers and ensure that these offers also comply with applicable rules.</p> <p>The selection criteria should not be restrictive for smaller audit firms that have the capacity and the professional and technical expertise to carry out the audit.</p>
<p>(17.) Potential auditors are not asked for their views on contentious judgements or accounting treatments affecting the issuer's financial reports before their selection (also known as 'opinion shopping'). It may be relevant to ask general questions to ascertain the technical competence or industry knowledge of an auditor, provided such questions could not be regarded as opinion shopping.</p>	<p>We support this proposed good practice.</p> <p>Audit committee should make sure that potential auditors are not asked for their views on contentious judgements or accounting treatments during the selection process.</p> <p>However, the audit committee should ask general questions related to relevant technical competence or industry knowledge of auditors.</p> <p>'Opinion shopping' or 'piecemeal opinions' usually indicate the company has a conflicting relationship with the incumbent auditor. Such practices threaten the independence of the auditor and undermine the very purpose of the selection process.</p>
<p>(18.) Potential auditors are asked to confirm that, after appropriate due diligence, they are not aware of any matters affecting their independence.</p>	<p>We support this proposed good practice.</p> <p>As stated in above in our response to <i>Question 3, section 2.7</i>, audit committees should review and monitor the independence of the statutory auditor or audit firm, during the selection process and after appointment.</p> <p>To this end, audit committees should seek from the potential audit firms an explicit statement of independence during the tender/ selection process.</p> <p>In addition, this request could be backed-up with additional request for information about policies and processes for maintaining independence and monitoring compliance with relevant requirements.</p>
<p>(19.) Consideration is given to any over familiarity with management of the incumbent auditor, particularly if there haven't been sufficiently recent partner rotation or changes in management, and there are no unusual circumstances (beyond the need for an incoming auditor to invest to understand the business and risks) where a change in auditors has the potential to compromise audit quality.</p>	<p>We support this proposed good practice.</p> <p>The familiarity threat is a specific instance of independence threat that has to be actively monitored by audit committees and is not specific to the audit tender or other selection process.</p> <p>Audit committees should continuously review and monitor the independence of the statutory auditor or audit firm to prevent such instances from occurring.</p>

3.3. Recommending the Appointment of an Auditor

Proposed good practices	Accountancy Europe's comments
(20.)When selecting an auditor to recommend for appointment, the audit committee should satisfy itself that the auditor is independent in accordance with applicable standards.	<p>We support this proposed good practice.</p> <p>Audit committees are responsible for the procedure for the selection of statutory auditor and recommending the statutory auditor to be appointed.</p> <p>As noted in our response to <i>point 18</i>, audit committees should seek from the potential audit firms an explicit statement of independence during the tender/ selection process.</p> <p>Following the selection procedure, the audit committee should consider the independence of the auditor(s) recommended for appointment.</p> <p>Independence is the main means by which the statutory auditor demonstrates that the auditor can carry out an objective audit. In dealing with independence, the following aspects have to be considered:</p> <ul style="list-style-type: none"> • Independence of mind, i.e. the state of mind which has regard to all considerations relevant to carrying out the audit • Independence in appearance, i.e. the avoidance of facts and circumstances which are so significant that an informed third party would question the statutory auditor's objectivity
<p>Commitment to audit quality</p> <p>The Audit Committee should consider the extent to which:</p>	
(21.)The auditor (including any incumbent auditor) has demonstrated a commitment to audit quality and to consider whether the audit committee or management is aware of any indication that the firm may not have a culture that sufficiently promotes audit quality.	<p>We support this proposed good practice.</p> <p>As noted in our response to <i>point 15</i>, it is vital for audit committees to identify the key drivers of audit quality and to define a coherent and meaningful set of key audit quality performance indicators, including a procedure to capture relevant underlying information.</p>
(22.)Any information relevant to audit quality in the audit firm's annual audit transparency report (if any) is reviewed by the audit committee.	<p>We support this proposed good practice.</p> <p>However, such reports are not widespread amongst audit firms.</p>
(23.)The auditor adequately addresses any general findings reported publicly by an audit oversight regulator from audit firm inspections, as well as any firm and engagement specific findings from inspections of the firm and from the firm's own internal quality reviews.	<p>From country to country, it may differ whether audit oversight regulators publish their audit firm-specific findings from inspections.²¹</p> <p>In cases when specific inspection findings are made public, we support this proposed good practice.</p> <p>However, while specific inspection findings of audit oversight regulators might not be made public, audit committees are encouraged at least to discuss the importance of audit quality and general inspection findings.</p>

²¹ Please refer to our publication *Organisation of the public oversight of the audit profession in Europe* (2018) for relevant information on European countries; available at <https://www.accountancyeurope.eu/publications/organisation-public-oversight-audit-profession-europe/>

3.4. Assessing Potential and Continuing Auditors

Proposed good practices	Accountancy Europe's comments
<p>Resources devoted to the audit</p>	
<p>The audit committee should consider the extent to which:</p>	
<p>(24.)The auditor demonstrates a sufficient understanding of the business, operations and risk areas relevant to the financial report, and plans to respond appropriately to assessed risks. In a tender process, sufficient access would normally be provided to management for a prospective auditor to obtain an understanding of the business, operations and risk areas.</p>	<p>We support this proposed good practice.</p> <p>Although the auditor has the primary responsibility for preparing the audit plan and strategy, the audit committee has a vital role in ensuring that the auditor has a good understanding of the business and the risks it faces from the earliest stage.</p> <p>However, from a practical standpoint, the audit committee has to consider a transparent and balanced approach in this respect, as access to management would have to be provided in non-discretionary and open manner during the tender or other selection procedure.</p>
<p>(25.)The auditor's engagement partner, engagement quality control review partner and audit team members have sufficient experience and expertise, given the size and complexity of the issuer and its operations. This includes relevant industry expertise, and valuation expertise (including expertise engaged directly by the auditor from a third party) appropriate for the types of assets, liabilities and exposures of the issuer. The audit committee may also wish to consider encouraging the audit firm to consult with the audit committee on any change in partners or key audit team members to ensure that audit quality is maintained.</p>	<p>Sufficient experience and expertise of the audit team</p> <p>We support this proposed good practice.</p> <p>The audit committee should set-up a process to ensure that the resources within the audit team are appropriate. This process would have to include a consideration of the expertise and experience of audit team as a whole (appropriateness of the resources allocated and access to experts) and of the key audit team members. The audit committee should cover the different parts of the audit team and consider the context of the audit (ex. international, joint audit, etc.).</p> <p>Consultation on changes of key audit team members</p> <p>We support this proposed good practice.</p> <p>The key objective of the audit committee is to inspire the highest standards of integrity, objectivity and judgement. The assignment/ rotation of engagement partners and other key audit team members with sufficient expertise and experience is vital for audit quality.</p>
<p>(26.)Senior audit team members (particularly the engagement partner) are sufficiently involved in the audit.</p>	<p>We support this proposed good practice.</p> <p>While it is the primary responsibility of auditors to implement internal quality control procedures to ensure audit quality, including sufficient partner involvement in the audit, audit committees are responsible for ensuring auditor's adherence to the relevant quality standards.</p> <p>However, assessing the sufficiency of partner's involvement is a subjective matter. Audit committees must be clear on their expectations from their auditors over their statutory obligation. The audit committee could, for example:</p> <ul style="list-style-type: none"> • Assess the involvement of the audit team by monitoring its interaction with the audited entity • Obtain information on the audit team's knowledge and key matters
<p>(27.)The audit firm has adequate arrangements for supervising and reviewing the audit, and adequate internal firm quality reviews and controls.</p>	<p>We support this proposed good practice.</p> <p>Please refer to our response to <i>point 26</i>.</p>

3.4. Assessing Potential and Continuing Auditors

Proposed good practices	Accountancy Europe's comments
(28.)The auditor demonstrated their ability and capacity to adequately cover audit work in geographical locations in which components of the issuer operate.	<p>We support this proposed good practice.</p> <p>The audit committee is responsible for agreeing the scope of the auditor's work as part of its consideration of the audit plan. At this stage, the audit committee should satisfy itself that the auditor has sufficient resources to execute the audit plan.</p> <p>This is why clear requirements have to be set out transparently at the start of the tender/ selection process with regard to the resources required for the audit.</p> <p>The audit committee should check periodically that the audit plan is followed by the auditor (be it a national, international or a multi-firm audit).</p>

Reliance on experts and other auditors

The audit committee should consider the extent to which:

(29.)The auditor directly uses their own firm's specialized resources or engages external experts to supplement the audit team's experience and expertise in specialist areas by obtaining an independent view on the work of issuer management and any external specialists engaged by the issuer. For example, for complex asset and financial instrument valuations, the auditor could engage their own specialists such as geologists, chemists, actuaries, corporate valuers or treasury experts. For revenue recognition, the auditor might engage their own industry expert to assess the stage of completion of a project.	<p>We support this proposed good practice.</p> <p>While it is the primary responsibility of auditors to identify the areas where specialised expertise is required and to ensure that the audit team has sufficient access to specialised resources (be they internal or external), the audit committee is responsible for ensuring that:</p> <ul style="list-style-type: none"> • Audit plan identifies the areas in which specialist expertise and involvement is required • Audit plan is executed as planned
(30.)Where the auditor uses the work of other auditors for audit work on components within a group (e.g. local or foreign branches, and subsidiaries), the auditor has processes to determine that their participation in the audit is sufficient and to satisfy the auditor regarding the qualifications and the work of other auditors.	<p>We support this proposed good practice.</p> <p>While the lead auditor has to design and perform procedures for placing reliance on the work carried out by the component auditors, the audit committee could consider the processes implemented by the auditor in this respect.</p>
(31.)The auditor will not inappropriately use or rely on internal auditors to perform external audit work.	<p>We support this proposed good practice.</p> <p>The external auditor may use the work of the internal auditor to the extent allowed by applicable auditing standards and legislation. To positively influence audit quality, the audit committee should facilitate and coordinate communication between the two.</p>

Audit strategy and scope

The audit committee should take reasonable steps to ensure that:

3.4. Assessing Potential and Continuing Auditors

Proposed good practices	Accountancy Europe's comments
<p>(32.) A continuing auditor has prepared a plan for the audit for discussion with the audit committee that includes the audit strategy and scope. The audit committee should review any such plan with regard to whether the auditor plans to address risks known to audit committee members (see also Section 3.8).</p>	<p>We support this proposed good practice.</p> <p>The audit committee is responsible for agreeing the scope of the auditor's work as part of reviewing the audit plan, for both new and recurrent audits.</p>
<p>(33.) The auditor's decision not to review or test one of the significant systems supporting information in the financial report in a particular year but still rely on relevant key controls is appropriate, particularly where the audit committee is aware of risks that controls may be intended to address or has other relevant concerns. The audit committee may also consider whether the auditor should review and test IT general and application controls if they do not intend to do so. Similarly, the audit committee may consider whether the auditor's decision not to ask component auditors to perform work at particular operations or locations is appropriate.</p>	<p>The audit committee should understand the auditor's audit approach, including the reasons for auditor's decision not to review or test one of the significant systems supporting information in the financial report in a particular year, for instance constraints of audit fees. When the auditor limits the work on internal controls, the audit committee needs to consider how those charged with governance can execute their oversight responsibilities mentioned in the <i>ISA 700.35 (Revised)</i>²² as well as in the new audit report format.</p> <p>Reliance on key control, based on audit work performed in prior year</p> <p>We support this proposed good practice, should this approach be permitted under auditing standards in the relevant jurisdictions. However, the audit committee should oversee the work of the internal audit on key controls regardless of the work performed by the external auditor.</p> <p>Testing IT general and application controls</p> <p>IT systems have a key role in all business processes in large companies. Therefore, we would expect that IT general or/ and application controls are tested by auditors of a public company.</p> <p>Limitations to the scope of component auditors' work</p> <p>We support this proposed good practice, as part of the audit committee's consideration of the scope of work outlined in the audit plan.</p>
<p>Accountability</p>	
<p>(34.) The audit committee should discuss with the audit engagement partner how the audit firm and its affiliate firms, engagement partner, review partner, specialists and audit team members are appropriately held accountable for audit quality within their firm or network. For example, audit quality is a key consideration in performance assessments and setting remuneration.</p>	<p>We support this proposed good practice.</p> <p>The audit committee should discuss with the auditor to obtain an understanding of how the audit firm holds partners accountable for audit quality, including how the performance is assessed.</p>

²² *ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements*, IAASB; available at <http://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>

3.5. Setting Audit Fees

Proposed good practices	Accountancy Europe's comments
Setting audit fees The audit committee should/ the audit committee should consider the extent to which:	
(35.) Evaluate whether the audit fees charged by the auditor appear adequate in relation to the work required to support an audit opinion without regard to fees that might be paid to the auditor for other services.	We support this proposed good practice. Please refer to our response to <i>point 14</i> . Audit fees should reflect the auditor's role in supporting the audit committee function and the high expectations on audit quality.
(36.) Audit fees are consistent with the auditor's overall plan, and are sufficient to support the execution of an appropriately resourced and effective audit. Audit committees may wish to consider the level of audit fees is adequate with regard to matters such as: (i) any risks, judgements and estimates to be addressed by the auditor; (ii) changes in the business or financial reporting requirements; and (iii) appropriate benchmarking against similar businesses. Audit committees may also wish to challenge the reasons for any reduction in audit fees.	We support this proposed good practice. Please refer to our response to <i>point 14</i> .
(37.) There is any indication that audit quality may be compromised by reduced audit fees causing the audit to be inadequately resourced or insufficient work performed.	We support this proposed good practice. Please refer to our response to <i>point 14</i> .
(38.) Audit fees reflect changes in risks, new businesses, new complex transactions, etc.	We support this proposed good practice. Please refer to our response to <i>point 14</i> .

3.6. Facilitating the audit process

Proposed good practices	Accountancy Europe's comments
<p>Supporting the audit</p> <p>The audit committee should consider the extent to which:</p>	
<p>(39.) Financial reporting processes and audit processes are planned so that an effective quality audit can be conducted within the financial reporting deadlines.</p>	<p>We support this proposed good practice.</p> <p>The audit committee should ensure that the internal financial reporting process/ timeline is aligned with the external audit plan, in order to meet the financial reporting deadlines. In addition, the audit committee should be sure that the audited entity has relevant tools and resources to prepare its financial statements within the financial reporting deadlines.</p>
<p>(40.) The audit committee seeks explanations and advice supporting the accounting treatments chosen and, where appropriate, challenge the accounting estimates and treatments applied in the financial report. The audit committee should particularly seek external professional advice where a treatment does not reflect their understanding of the substance of an arrangement.</p>	<p>We support this proposed good practice.</p> <p>The audit committee is responsible for reviewing the judgements of key or critical accounting treatments and estimates.</p> <p>Critical accounting treatments and estimates should first be discussed with management and the auditors. If this does not lead to satisfactory results, the audit committee should seek advice of an independent third party.</p>
<p>(41.) Any concerns or risks highlighted by the auditor (for example, in comment letters from the auditor to the governing board), including concerns about systems, processes or policies that could materially affect future financial reports, are considered and addressed.</p>	<p>We support this proposed good practice.</p> <p>Addressing the risks highlighted by the auditor, such as significant deficiencies in internal controls or other significant audit findings, is vital for an effective two-way communication between the external auditor and the audit committee.</p>
<p>Issuer management and staff</p> <p>The audit committee should take reasonable steps to ensure that/ The audit committee should:</p>	
<p>(42.) There are appropriate accountability and incentives for issuer management and staff to focus on the quality of financial reporting, timely reporting and facilitation of the audit process.</p>	<p>We support this proposed good practice.</p>
<p>(43.) Management has produced all information, records, and explanations that may be relevant to the financial report and audit in a timely manner. Information should be supported by appropriate analysis and documentation, particularly for key accounting estimates and judgements.</p>	<p>We support this proposed good practice.</p> <p>We agree that the audit committee has a significant role in challenging key accounting estimates and judgements, including the underlying assumptions, to ensure they are supported by a rigorous assessment process.</p>

3.6. Facilitating the audit process

Proposed good practices	Accountancy Europe's comments
(44.) Encourage management and staff to have a positive and helpful approach to the audit process, and make enquiries of the auditor as to whether there has been a lack of cooperation. Appropriate action should be taken by the audit committee to ensure that any lack of cooperation is addressed.	We support this proposed good practice. The audit committee should carry out regular assessments of the functioning of the auditor as well as of the cooperation between the external auditor and those charged with governance, management and staff.

3.7. Assessing Auditor Independence

Proposed good practices	Accountancy Europe's comments
Independence and objectivity	
The audit committee should take reasonable steps to ensure that/ The audit committee should:	
(45.) When audit committee members challenge complex accounting policy choices and estimates, they should have regard to their knowledge of the business and the substance of any arrangements. This may include seeking independent third-party advice where necessary, rather than relying on the views of the auditor. The directors remain responsible for the accounting treatments applied and estimates made in the issuer's financial report and the auditor remain responsible for the independent audit.	We support this proposed good practice. The audit committee is responsible for reviewing and challenging complex accounting policy choices and estimates. Critical accounting treatments and estimates should first be discussed with management and the auditors. If, in extreme circumstances, this does not lead to the audit committee being sufficiently satisfied, the audit committee should seek external advice.
(46.) The audit committee has a policy regarding how to evaluate the auditor's independence.	We support this proposed good practice. Audit committees should set up formal policies to continuously monitor the independence of the statutory auditor as this is one of their key responsibilities.
(47.) Oversee establishment of the issuer's policies governing the circumstances in which contracts for the provision of permitted non-audit services can be entered into with the auditor and the procedures that must be followed before doing so.	We support this proposed good practice. Audit committees should set up formal policies for contracting permissible non-audit services, as this is one of their key responsibilities. The tender or selection process for non-audit services has to be transparent and open to both the statutory auditor as well as to other auditors to further highlight the need for independence of management regarding such decisions ²³ .
(48.) Consider implementing a policy that all non-audit services to be provided by the auditor must be approved in advance by the audit committee.	We support this proposed good practice. Please refer to our response to <i>point 47</i> .

²³ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

3.7. Assessing Auditor Independence

Proposed good practices	Accountancy Europe's comments
(49.) Establish policies relating to the hiring from an entity's audit firm of senior officers for the entity, including the Chief Executive Officer and the Chief Financial Officer.	Establishing clear policies on this matter should be made with reference to and in compliance with the professional ethical standards applicable in each jurisdiction. On a separate note, we highlight the fact that in accordance with the <i>EU Regulation 537/2014</i> ²⁴ , human resources services with respect to management positions to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit are prohibited non-audit services.
(50.) Undertake procedures to satisfy itself, both initially and on an ongoing basis, as to the auditor's independence.	We support this proposed good practice. Please refer to our response to <i>point 46</i> .
(52.) Consider any other matters that may affect the independence and objectivity of the auditor, including independence of auditors of domestic and foreign components (e.g. controlled entities, associates, joint arrangements and structured entities).	We support this proposed good practice. The policies set-up by the audit committee for monitoring the independence of the statutory auditor have to cover all components of the business.
(53.) Discuss with the auditors, at least annually, matters relating to their independence, including all significant threats to independence identified by the auditors and the safeguards implemented.	We support this proposed good practice. The audit committee is responsible for assessing the independence and objectivity of the auditor. To enforce this, the auditor should present an annual confirmation of independence and objectivity to the audit committee, for its consideration.
Reporting to members/ investors/ shareholders	
The audit committee should:	
(54.) Report to the shareholders on the actions it has taken to safeguard the independence of the auditor, including satisfying itself that the auditor is independent in accordance with applicable standards.	We support this proposed good practice. This good practice supports the audit committee in its main role – to provide oversight over the integrity of a company's financial affairs, in the interest of shareholders and on behalf of the whole board. ²⁵

3.8. Communicating with the Auditor

Proposed good practices	Accountancy Europe's comments
Addressing any relevant risk areas or areas of concern	
The audit committee should take reasonable steps to focus on the following:	

²⁴ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC; available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0537>

²⁵ Guidance on Audit Committees (2016), Financial Reporting Council; available at <https://www.frc.org.uk/getattachment/6b0ace1d-1d70-4678-9c41-0b44a62f0a0d/Guidance-on-Audit-Committees-April-2016.pdf>

3.8. Communicating with the Auditor

Proposed good practices	Accountancy Europe's comments
(55.)The audit committee discusses the overall audit strategy developed by the auditor and how it responds to risks known to the audit committee.	<p>We support this proposed good practice.</p> <p>The audit committee should consider the relationships between financial statement risks, quality of internal controls and IT systems, audit risks, the proposed audit strategy, the proposed audit approach, required audit efforts and related fair audit fees.</p> <p>As pointed out in our response to <i>point 24</i>, although the auditor has the primary responsibility for preparing the audit plan and audit strategy, the audit committee has a vital role in ensuring that the auditor has a good understanding of the business and the risks it faces from the earliest stage.</p>
(56.)The audit committee and management inform the auditor in a timely manner about any relevant risks, judgements or significant concerns with accounting treatments, accounting estimates, accounting records, financial reporting systems and processes (e.g. internal control deficiencies) and fraud risks so that any matters may be properly considered and addressed by the auditor in assessing risk and the auditor's response as part of the independent audit.	<p>We support this proposed good practice.</p> <p>Further to our response to <i>point 41</i>, this proposed good practice completes the picture of effective two-way communication between the external auditor and the audit committee.</p>
(57.)The audit committee and management inform the auditor of the understanding of the business purpose of complex new transactions which may affect the accounting treatment, or uncertain accounting estimates.	<p>We support this proposed good practice.</p> <p>The audit committee should promote open and timely communication with management and provide a forum for discussions.</p>
(58.)The audit committee and management promptly inform the auditor of relevant correspondence or other communications from regulators or market operators (e.g. inquiries made, or concerns raised about, accounting policies, accounting estimates or material disclosures, or any matter that could have an impact on financial information reported to the market). The audit committee should also consider whether there are appropriate processes for its members to be promptly informed of any such communications.	<p>We support this proposed good practice.</p> <p>The audit committee plays a pivotal role in facilitating communication within the company and between the company and the external auditor²⁶. The audit committee has to implement clear procedures which ensure that sensitive information relevant for the audit is made available by management in a prompt and open manner.</p>

²⁶ *The Functioning of Audit Committees* (2012), Accountancy Europe; available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

3.8. Communicating with the Auditor

Proposed good practices	Accountancy Europe's comments
(59.)The auditor provides written reports on key issues and concerns, and these reports are considered and acted upon appropriately. These reports may include matters such as deficiencies in controls and errors identified by the auditor, and any significant concerns with accounting treatments and estimates. They may also include suspected non-compliances with laws and regulations.	<p>We support this proposed good practice.</p> <p><i>ISA 260 (Revised)</i>²⁷ underlines the need for an effective two-way communication between the external auditor and those charged with governance. The main significant audit issues that the auditor should communicate according to the relevant ISAs are generally:</p> <ul style="list-style-type: none"> • Significant findings from the audit • Significant deficiencies in internal control identified by the auditor during the audit <p>The audit committee provides a forum for the communication, discussion and analysis of these issues.</p> <p>We encourage private meetings between audit committees and auditors without management participation (see also <i>point 66</i>).</p>
(60.)The auditor demonstrates professional skepticism in considering judgement areas such as accounting estimates and accounting policies.	<p>We support this proposed good practice.</p> <p>As highlighted by the IOSCO, audit committees are also generally tasked with supporting the quality of the auditor's work, which includes an understanding whether the auditor has exercised appropriate professional scepticism.</p> <p>While the term 'reasonable steps' might seem too general, we support this good practice principle.</p>
(61.)If Key Audit Matters or Critical Audit Matters (KAMs) are required to be disclosed in the audit report, the audit committee discusses proposed KAMs with the auditor and how these affect disclosures in the financial report of accounting policies and sources of estimation uncertainty or risks in the management discussion and analysis. The audit committee should consider the need for any issues to be addressed by management or the directors (e.g. addressed in the finalisation of the financial report or by improving systems and controls).	<p>We support this proposed good practice.</p> <p>This is not only a good practice, but a core responsibility of audit committees. Extended audit reporting is highly valuable for a wide category of stakeholders as it enhances the value of audit reports and demonstrates the value added by auditors in preserving financial stability.</p> <p>Audit committees must ensure that the auditor's reporting on KAMs is relevant, factual, clear and correlated with financial statements disclosures. Any findings of the auditor in relation to KAMs should be understood and followed-up by the audit committee, board and management, to leverage the value of audit findings for the benefit of the company and its stakeholders.</p>
<p>Ensuring access to directors and audit committee</p> <p>The audit committee should ensure that:</p>	
(62.)There are established protocols for communications between the audit committee and the auditor, including setting clear expectations regarding the nature and method of communication.	<p>We support this proposed good practice.</p> <p>As highlighted in our publication <i>The Functioning of Audit Committees</i>²⁸, communication should take place on a regular basis and in a formalised way, to enhance the two-way communication between the auditor and the audit committee, following a schedule agreed at audit planning stage.</p> <p>Having effective lines of communication in place to manage the resolution and escalation of issues in an efficient and timely manner is beneficial to both parties in the discharge of their respective duties.</p>

²⁷ *ISA 260 (Revised), Communication with Those Charged With Governance*, IAASB; available at <http://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>

²⁸ *The Functioning of Audit Committees* (2012); available at <https://www.accountancyeurope.eu/publications/discussion-paper-on-the-functioning-of-the-audit-committees/>

3.8. Communicating with the Auditor

Proposed good practices	Accountancy Europe's comments
(63.)The auditor is allowed unfettered access to the audit committee or audit committee chair.	We support this proposed good practice. The audit committee is responsible for ensuring the external auditor's direct and unrestricted access to the audit committee/ its chair and the chair of the board.
(64.)The auditor is regularly invited to attend audit committee meetings, particularly where material issues concerning financial reporting are discussed.	We support this proposed good practice. Setting out a clear procedure for this would improve the quality of both financial reporting and external audit. This would be enabled through timely and open communication on sensitive financial reporting matters that have to be addressed by auditors. In addition, it could be considered a good practice that the audit committee chair and external auditor have a preparatory meeting ahead of the audit committee meeting.
(65.)There is an open dialogue between the auditor and the audit committee on matters affecting the financial report, the audit and audit quality.	We support this proposed good practice. We believe that the implementation of the proposed practices outlined in <i>points 62 – 64</i> have the capacity to provide the framework for open dialogue between the auditor and the audit committee.
(66.)The audit committee meets with the auditor without management present on a regular and frequent basis and discusses with the auditor any contentious issues that have arisen with management during the course of the audit and whether they have been resolved to the auditor's satisfaction. Minutes of these discussions should not be provided to management.	We support this proposed good practice. This practice could be implemented together with the proposed good practice presented in <i>point 64</i> by reserving a special timeslot on the meeting agenda for such matters. Formalising the results of discussions on these topics and open communication to management on this in a timely manner are beneficial to address and resolve such issues.
(67.)Communications with the auditor are regularly reviewed and are effective in supporting audit quality.	We support this proposed good practice. We believe that the implementation of the proposed practices outlined in <i>points 62 – 66</i> have the capacity to provide the framework for open dialogue between the auditor and the audit committee, to ultimately support audit quality.

3.9. Assessing Audit Quality

Proposed good practices	Accountancy Europe's comments
Quality and standards	
(68.)The audit committee should consider whether there is any indication that the auditor is not committed to audit quality and the application of high ethical standards.	We support this proposed good practice. To this end, as noted in our response to <i>points 15 and 21</i> , it is vital for audit committees to identify the key drivers of audit quality and to define a coherent and meaningful set of key audit quality performance indicators, including a procedure to capture relevant underlying information.
The audit process	
The audit committee should consider the extent to which:	

3.9. Assessing Audit Quality

Proposed good practices	Accountancy Europe's comments
(69.)The auditor demonstrates a sufficient understanding of the business, operations and risk areas relevant to the financial report, and has responded appropriately to assessed risks.	<p>The audit committee has a vital role in ensuring that the auditor has a good understanding of the business and the risks it faces from the earliest stage. As outlined in our response to <i>point 68</i>, the audit committee should design a process to assess the auditor's performance, as well as to capture relevant facts to make this assessment.</p> <p>Any doubts on the auditor's understanding of the business, operations and risk areas relevant to the financial report should be discussed with the auditor in a timely and open manner. The framework for this communication could be provided by regular discussions scheduled between the two (see <i>point 64</i>).</p>
(70.)The auditor appears to exhibit sufficient professional scepticism in challenging, rather than rationalising, estimates and accounting policy choices (e.g. complex or subjective asset valuations, including cases where the reported net assets exceed the market capitalisation of the issuer).	<p>We support this proposed good practice. Please refer to our response to <i>point 60</i>.</p>
(71.)The auditor appears to address risks or concerns identified by the audit committee.	<p>We support this proposed good practice. Audit committees should communicate timely to auditors the risks or concerns identified by them following their risk assessment process.</p> <p>Any doubts related to the auditor's response to the risks or concerns identified by the audit committee should be discussed with the auditor in a timely and open manner. The framework for this communication could be provided by regular discussions scheduled between the two (see <i>point 64</i>).</p> <p>In this context, we would like to note that the audit committee has the primary responsibility for addressing risks or concerns and it should have its own procedures to respond to these risks.</p>
<p>Communication of issues</p> <p>The audit committee should consider the extent to which:</p>	
(72.)The auditor raises key issues affecting the financial report in a timely manner.	<p>We support this proposed good practice. <i>ISA 260 (Revised)</i>²⁹ states that one of the objectives of the auditor in respect of communication with those charged with governance is to provide them "with <i>timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process</i>".</p> <p>However, the appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include "the <i>significance and nature of the matter, and the action expected to be taken by those charged with governance</i>". These factors have to be factored-in by the audit committee in their consideration of the matter.</p>

²⁹ *ISA 260 (Revised), Communication with Those Charged With Governance*, IAASB; available at <http://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>

3.9. Assessing Audit Quality

Proposed good practices	Accountancy Europe's comments
(73.)The auditor raises relevant and useful comments in their management letters.	<p>We support this proposed good practice.</p> <p>Providing relevant management letter comments is one of the best ways to add value to the audit engagement. Such letters should be addressed both to management and to those charged with governance.</p> <p>The ISAs³⁰ require auditors to communicate in writing to management about significant deficiencies in internal controls identified during the audit. These could indicate potential risks associated with financial reporting or possible non-compliance.</p> <p>The audit committee should make sure that management letter comments are addressed by management in a timely manner.</p>
<p>Other information:</p> <p>The audit committee should consider the extent to which:</p>	
(74.)Information relevant to audit quality in an audit firm's annual audit transparency report is reviewed.	<p>We support this proposed good practice.</p> <p>However, such reports are not widespread amongst audit firms.</p>
(75.)Any other information on audit quality is reviewed (e.g. internal issuer staff observations or assessments of audit quality).	<p>We support this proposed good practice.</p> <p>To this end, as noted in our response to <i>points 15, 21 and 68</i>, it is vital for audit committees to identify the key drivers of audit quality and to define a coherent and meaningful set of key audit quality performance indicators, including a procedure to capture relevant underlying information.</p>
(76.)The auditor takes actions to improve audit quality, and that there are measures and timetables in place to track progress of these actions.	<p>We support this proposed good practice.</p> <p>As highlighted in our publication <i>Overview of Audit Quality Indicators Initiatives</i>³¹, the term 'audit quality' does not have a globally recognised definition. However, audit committees should consider the auditor's process to capturing audit quality indicators and the steps taken to improve them.</p>
<p>Findings from regulatory audit inspections and surveillances</p> <p>The audit committee should consider the extent to which:</p>	
(77.)If a regulator selected the issuer's audit for review, the audit committee has considered the review's scope and results when evaluating the auditor's performance and the quality of the audit.	<p>We support this proposed good practice.</p> <p>Regulator's inspection findings might be a good indicator to assess audit quality.</p> <p>However, as different regulators have different interpretations of the applicable auditing standards, this indicator for assessing audit quality should be pondered with other audit quality indicators for a balanced and meaningful conclusion.</p>
(78.)Any overall public aggregate thematic findings from a regulator's inspections or surveillances that are common across many audit engagements are addressed.	<p>We support this proposed good practice, corroborated with our observation to <i>point 77</i>.</p>

³⁰ ISA 260 (Revised), *Communication with Those Charged with Governance*, IAASB; available at <http://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>

³¹ *Overview of Audit Quality Indicators Initiatives* (2016), Accountancy Europe; available at <https://www.accountancyeurope.eu/audit/fee-shows-significant-differences-in-developments-on-measuring-audit-quality/>

3.9. Assessing Audit Quality

Proposed good practices	Accountancy Europe's comments
(79.)If the auditor indicated that findings of an audit oversight regulator from the review of the audit files for the specific issuer were not significant (e.g. mere documentation matters or matters where judgements reasonably differ), the audit committee challenges this, as regulators do not generally report insignificant findings.	We support this proposed good practice, corroborated with our observation to <i>point 77</i> .

Questions relating to proposed good practices (Chapter 3): Question 6

Question 6: Do you have any additional suggestions on good practices to be adopted by audit committees (see Sections 3.3 to 3.9)?

Please refer to our suggestions included in the above responses to the proposed good practices.

Questions relating to proposed good practices (Chapter 3): Question 7

Question 7: Would you suggest any other changes to the proposed good practices outlined in this report? If so, in what manner (see Sections 3.3 to 3.9)?

We do not have further suggestions.

Questions relating to proposed good practices (Chapter 3): Question 8

Question 8: In some cases a good practice is introduced with the words "The audit committee should take reasonable steps to ensure that" and in other case the words "The audit committee should consider the extent to which". Is the wording used for each good practice appropriate (see Sections 3.3 to 3.9)?

We find the wording used for proposed good practices appropriate. However, please consider our suggestions and remarks on good practices, namely in *points 33, 60 and 61*.

Questions relating to proposed good practices (Chapter 3): Question 9

Question 9: It is proposed to provide good practices at principles level and not to include detailed procedures to support those principles. Do you agree with this approach (see Sections 3.3 to 3.9)?

We support your approach and agree that you should provide good practices at principles level. Nevertheless, it would be beneficial to include practical examples ('real life' scenarios) of good practices to assist the audit committee members in exercising their role.

Questions relating to proposed good practices (Chapter 3): Question 10

Question 10: Given the differing governance structures for issuers in different jurisdictions, to what extent should any final good practices report deal with the roles of the governing board, audit committee and management in relation to financial reporting, systems and processes (see Section 3.6)?

While we believe that the good practices proposed above are a good starting point, development of separate good practice reports for other governing boards would depend on the governance structure in different jurisdictions. This might not add clarity to the financial reporting process.

Questions relating to proposed good practices (Chapter 3): Question 11

Question 11: What frameworks, practices, methodologies, or tools have audit committees found to be helpful in evaluating the following:

Question 11.a): Professional skepticism of auditors:

*International Code of Ethics for Professional Accountants*³²

Question 11.b): An auditor's commitment to audit quality:

*ISA 220 Quality Control for an Audit of Financial Statements*³³

Question 11.c): Whether an audit firm's culture supports audit quality:

*International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*³⁴

Question 11.d): Whether an audit firm has or makes available during an audit an appropriate level of resources with appropriate skills and expertise:

We refer to *point 26*, where we suggest that the audit committee could:

- Assess the involvement of the audit team by monitoring its interaction with the audited entity
- Obtain information on the audit team's knowledge and key matters

This would enable the audit committee's evaluation of the above aspect.

Question 11.e): Whether audit quality has been compromised by reduced audit fees?

As we mention in *point 16*, the audit committee must scrutinise unusually low offers when selecting an external auditor.

Questions relating to other matters (Chapter 4): Question 12

Question 12: Should the proposed report include a section mentioning the possibility of public reporting by audit committees on how they support audit quality? If so, should such reporting be described as "voluntary" or as a "good practice" for the majority of jurisdictions where there is no mandatory requirement? Should more detailed reporting criteria be provided in any final report (see Section 4.1)?

³² *International Code of Ethics for Professional Accountants*, IESBA; available at <https://www.ifac.org/publications-resources/final-pronouncement-restructured-code>

³³ *ISA 220, Quality Control for an Audit of Financial Statements*, IAASB; available at <http://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>

³⁴ *International Standard on Quality Control 1*, IAASB; available at <http://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>

We support the inclusion of a section mentioning the possibility of public reporting by audit committees in the proposed report.

We are in favour of describing public reporting by audit committees on these matters as a 'good practice' to encourage audit committees to publicly disclose information on their work and thus increase transparency.

Other comments: Question 13

Question 13: Are there any other comments that you have on the proposed good practices report and the material that may be included in any final report?

As mentioned in our response to *Question 9*, including practical examples of good practices on the functioning of the audit committee in the IOSCO's report could further assist the audit committee members to fulfil their role.