

# **FEE Conference on Audit Regulation 12 October 2006**

## **Update on FEE Survey on Quality Assurance Systems in the EU**

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- FEE Survey on Quality Assurance Systems
  - ↳ Objectives
  - ↳ Methodology
  - ↳ Responses
- FEE Paper on Quality Assurance Arrangements Across Europe
  - ↳ Structure and content
  - ↳ Compliance aspects with the Statutory Audit Directive

# Objectives of FEE Survey on Quality Assurance (QA)

- To support the development of principles-based, judgement-driven quality assurance arrangements in the European Union (EU):
  - ↳ Promoting understanding of alternative approaches and their relative benefits
  - ↳ Past, present and future role of the profession in QA, as prescribed by the Statutory Audit Directive
  - ↳ Contributing to the debate on the structure of QA arrangements in the EU

# Methodology of FEE Survey on Quality Assurance

- 36 questions on:
  - ↳ Public oversight structures
  - ↳ Quality Assurance Arrangements
    - ✧ Review Methodology
    - ✧ Review Selection
    - ✧ Review Process
    - ✧ Reviewers and Reporting Process
    - ✧ Investigation of Complaints, Follow-up Processes and Sanctions

# Responses to FEE Survey on Quality Assurance

- 29 European countries surveyed as at 31 December 2005 with updates up to 1 July 2006
- 25 EU Member States plus Bulgaria, Romania, Norway and Switzerland

# Structure and Content of FEE Paper on Quality Assurance

- Three-part paper:
  - 1) - Executive summary, introduction and general comments and conclusions
    - Analysis of responses, findings, conclusions and recommendations
  - 2) Appendix including country summaries
  - 3) Appendix including summary of responses to survey

# Compliance Aspects with the Statutory Audit Directive

- A significant number of countries is still considering the implications of the Directive
- Public oversight: major changes expected (see separate slide)
- Review methodology: minimal changes expected, except for visit cycle and implementation of ISAs
- Review selection: changes expected in limited number of countries
- Review process: varying degree of adaptation needed

## Compliance Aspects with the Statutory Audit Directive (continued)

- Reviewers and reporting process: significant changes expected in 19 countries on annual publication of the overall results of the quality assurance system, 10 countries need minor adaptations
- Investigation of complaints, follow-up process and sanctions: major changes expected in majority of countries:
  - ↳ Right of system of public oversight to conduct investigations
  - ↳ Right of public oversight body to take appropriate action



- Prerequisites of quality assurance: education and competencies
- Public oversight
- Extraterritoriality
  - ↳ Within the EU
  - ↳ Outside the EU
- Equivalence of monitoring and monitored peer review
- Quality assurance funding

## Prerequisite of Quality Assurance: Education and Competences

- High quality audits is major objective of regulators, profession, businesses, investors, etc.
- Quality assurance is one element of audit quality
- Appropriate education, continuing education and competencies of an auditor are prerequisites for a good quality audit and for quality assurance
- Requirements on education and competencies met by compliance with:
  - ↳ Existing Eighth Directive of 1984 already in force
  - ↳ IFAC International Standards on Education
  - ↳ ISQC 1 on internal quality control in audit firms (IAASB)
  - ↳ Reinforced by the new Statutory Audit Directive

# Public oversight

## ➤ Findings:

- 13 EU Member States plus Norway have a public oversight body, no further changes are believed to be necessary
- Half of the countries awaited the adoption of the Statutory Audit Directive
- A difficult concept for new EU entrants

## ➤ FEE proposals:

- Range of different models possible based on the Statutory Audit Directive
- Wide range of stakeholders, including minority of practitioners
- Competent and knowledgeable members
- Ultimate responsibility allows for significant delegation to profession

➤ Within EU:

- ↳ The Statutory Audit Directive requires application of the home-country principle for regulation and oversight
  - ✧ Cooperation and coordination within EU is essential
  - ✧ EGAOB, with necessary further formalisation

## FEE Proposals

- ↳ Agreements of mutual recognition between EU Member States
- ↳ Application of EU proportionality principles on quality assurance reviews and inspections

## Extraterritoriality (continued)

- Outside EU

- ↳ Statutory Audit Directive provisions on third-country auditors and audit firms related to oversight, quality assurance, investigations and penalties

FEE proposal:

- ↳ Encourage EU decision as soon as possible to avoid confusing third countries with non-identical national EU Member States initiatives

- Impact of third country legislation on audits of European companies:

FEE proposal:

- ↳ Encourage coordination and cooperation between EU and third countries to minimise duplication

# Equivalence of Monitoring and Monitored Peer Review

- Statutory Audit Directive does not express a preference for or unacceptability of monitoring or monitored peer review system
- FEE proposal:
  - ↳ Both quality assurance systems are equivalent
- Special procedures for quality assurance of audits of public interest entities due to their higher visibility

# Quality Assurance Funding

- Statutory Audit Directive requires that the funding of the quality assurance system is secure and free from any possible undue influence by statutory auditors or audit firms
- Quality assurance funding to large extent by profession
- FEE considers that:
  - ↳ control and thus influence over quality assurance systems is not with the profession, especially when under supervision of a public oversight body
  - ↳ Requirements of Statutory Audit Directive met