



December 21, 2007

Jim Sylph  
International Auditing and Assurance  
Standards Board  
545 5th Avenue, 14th Floor  
New York, New York 10017  
USA

Tower 42  
25 Old Broad Street  
London EC2N 1HQ  
United Kingdom  
t + 44 (0) 20 7382 1770  
f + 44 (0) 20 7382 1771  
[www.c-ebs.org](http://www.c-ebs.org)

[Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Dear Mr Sylph

**Proposed ISQC1, Quality Control for Firms that perform Audits and Reviews of Financial Statements and Other Assurance and related Services Engagements /ISA 220, Quality Control for an Audit of Financial Statements**

The Committee of European Banking Supervisors welcomes the opportunity to comment on Proposed ISQC1, Quality Control for Firms that perform Audits and Reviews of Financial Statements and Other Assurance and related Services Engagements /ISA 220, Quality Control for an Audit of Financial Statements (ISQC1 and ISA 220 respectively).

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) to clarify ISQC1 and ISA 220.

Generally we believe the clarity conventions have been appropriately applied, however we do note some concerns we have with regard to the objective for ISQC1 and some clarifications with regard to the application material in ISQC1 and ISA 220.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), and especially by its Subgroup on Auditing, which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the chairman of EGFI, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely

A handwritten signature in black ink, appearing to be 'D. Nouy', with a stylized, cursive style.

Daniele Nouy  
Chair

## Appendix

### **Proposed ISQC1, Quality Control for Firms that perform Audits and Reviews of Financial Statements and Other Assurance and related Services Engagements /ISA 220, Quality Control for an Audit of Financial Statements**

#### **1. Are the objectives to be achieved, stated in the proposed ISQC1, appropriate?**

We note that objective 11(a) states,

'The objective of the firm *in establishing* a system of quality control is to provide it with *reasonable assurance* that...'. We have italicised those words which seem problematic to us.

ISQC1 does not cover 'establishing' a quality control system, but also designing and operating it. We suggest 'in establishing' could be changed to, 'is to ensure that it has'.

The phrase 'reasonable assurance' is generally associated with the level of assurance that an auditor seeks to obtain in an audit of general purpose financial statements. It does not seem, necessarily, to be an appropriate phrase to use when the audit firm is focusing on its own system of quality control. We appreciate that this distinction is dealt with in the IAASB glossary. However, we also suggest it could convey a better message to audit firms if, rather than use the phrase 'reasonable assurance', the phrase 'a high but not absolute level of assurance' was used.

#### **2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgement by auditors?**

Generally, the criteria have been applied appropriately and consistently. However, we do note a few areas where we think some additional clarification could be helpful. We also draw attention to some of the application material in ISQC1 and ISA 220 where the suggestions for auditor action seem to have been weakened compared to the unclarified ISQC1.

#### **ISQC1**

Paragraph 35 – this states that 'the firm shall establish policies and procedures regarding *assessment* of its staff....' We would suggest that 'evaluation' maybe a more appropriate word than 'assessment' as the latter word only suggests some sort of testing. Evaluation reflects a broader approach to evaluating the items laid out in A20 (recruitment, performance evaluation, capabilities, competence, career development, promotion, compensation and estimation of personnel needs). We would suggest that the original paragraph 36 from the extant ISQC1 is clearer.

We also note that, as paragraphs 35 and 37 only refer to staff, they scope out partners. We believe that partners should also be covered in these requirements.

Paragraph 62 – we particularly welcome this elevation as recent audit inspection reports have indicated that the sharing of results of the internal monitoring

process around the network has, to date, not been optimal for the purposes of ensuring global audit quality.

In the application material, we note what seems to be an inconsistent approach in the language used in clarifying paragraphs in the extant ISQC1. In some cases the phrase, 'the firm considers...' in the extant ISQC1 has become 'matters to consider include..' (e.g. extant paragraph 29 to clarified A14) which seems an appropriate translation of the relevant verbs. In other paragraphs, the phrase 'the firm considers...' in the extant ISQC1 has become 'the firm may consider' (e.g. extant paragraph 26 to clarified A 9). 'May consider' indicates that all the proposed firm actions are optional. This would not seem to be the original meaning of the extant paragraphs in ISQC1 and indicates a weakening of the standard. In a standard which is dealing with quality control in the audit firm, this is not desirable. We would suggest that the 'may considers' are replaced with wording such as 'matters/examples to consider include...' where appropriate

Examples where this weakening has occurred are as follows:

<b>Extant paragraph ISQC1</b>	<b>Clarified ISQC1</b>
26	A 9
37	A 20
40	A 23
47	A 28
73f	A 53
77	A 61

## **ISA 220**

### **Objective**

Please refer to our comment above about the use of 'reasonable assurance' in the objective.

### **Requirements**

Paragraphs 11 & 13 state that the engagement partner 'shall be satisfied that'. We are not convinced that it is easy to translate such a statement. We would suggest that a phrase such as 'shall establish' may be more appropriate.

Paragraph 21 – we suggest that the word 'draft' should be inserted in front of audit report.

### **Application material**

Extant paragraph 20 has changed from 'include the following' to 'may take into consideration' which seems to be a weakening of the relevant paragraph.