



Mr. Kevin J. Dancey
President & CEO
The Canadian Institute of Chartered
Accountants
277 Wellington St. West
Canada-Toronto ON M5V 3H2

eaq.ac@cica.ca

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Dear Mr. Dancey,

Re: FEE Comments on the CICA – CPAB Discussion Paper “Enhancing Audit Quality: Canadian Perspectives – The Role of the Audit Committee in External Auditor Oversight”

The Federation of European Accountants¹ (FEE) read with great interest the discussion paper published by the Canadian Institute of Chartered Accountants (CICA) and the Canadian Public Accountability Board (CPAB) in January 2013: ‘Enhancing Audit Quality: Canadian Perspectives – The Role of the Audit Committee in External Auditor Oversight’. We are delighted to share some views on key areas, as well as a copy of our recent publications on the subject matter:

- A Discussion Paper on ‘The Functioning of Audit Committees’² that FEE published in July 2012; as well as
- Highlights of a Roundtable we organised in February 2013 on ‘How to improve the functioning of audit committees further’³.

¹ FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States.

FEE has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

² See at:

http://www.fee.be/images/publications/company_law/Discussion_Paper_on_Audit_Committees_120615156201218855.pdf

³

See at : http://www.fee.be/index.php?option=com_content&view=article&id=1295:programme-now-available-fee-roundtable-how-to-improve-the-functioning-of-audit-committees-further-brussels-tuesday-5-february-2013&catid=35:company-law-and-corporate-governance&Itemid=170

FEE very much welcomes this collaborative initiative by CICA and the CPAB focussing on three interrelated key areas in enhancing audit quality - the independence of auditors, the role of audit committees, and auditor reporting. FEE has been interested in and contributed to these specific areas for a number of years. In addition to this letter, it should be noted that:

- On the auditor reporting model, FEE issued in October 2012 a letter in response to the CICA – CPAB Discussion Paper “Enhancing Audit Quality: Canadian Perspectives – The Auditor Reporting Model”⁴;
- On the auditor independence, FEE issued in November 2012 a letter in response to the CICA – CPAB Discussion Paper “Enhancing Audit Quality: Canadian Perspectives – Auditor Independence”⁵.

1. General comments

The functioning of audit committees and its role to improve the overall audit quality is central in the current debate. FEE is glad to observe that this debate does not stop at Europe’s borders and that this debate goes in the same direction worldwide. In the aftermath of the financial crisis, the audit committee has a key role to play in restoring confidence in the market place and strong audit committees can be seen as essential for the quality of financial information provided by companies. Audit committees cooperate with auditors through their monitoring responsibilities: an effective cooperation between these parties is beneficial, not only for the auditor and the audit committee, but also for the company as a whole.

The CICA - CPAB Discussion Paper concentrates on a strategic part for the profession of the main attributes of a well-functioning audit committee, which is the role of the audit committee in external auditor oversight. In all initiatives, FEE has tried to develop thought-leadership ideas on the functioning of audit committees as a whole, and not to concentrate on this specific point of view, but you will find hereafter some key points that could be of interest for you.

2. Detailed comments on specific topics in CICA - CPAB’s Discussion Paper

a. Overseeing the Work of the External Auditor

FEE agrees with the different activities pointed out by the CICA - CPAB’s analysis as well as with a recurrence of these activities every year. FEE believes that this monitoring process discharged by audit committees in a timely manner is aimed at enhancing audit quality.

⁴ To view the FEE Comment Letter on the CICA – CPAB Discussion Paper “Enhancing Audit Quality: Canadian Perspectives – The Auditor Reporting Model”, see at:

<http://www.fee.be/fileupload/upload/CPAB%20121010%20enhancing%20audit%20quality10102012361536.pdf>

⁵ To view the FEE Comment Letter on the CICA – CPAB Discussion Paper “Enhancing Audit Quality: Canadian Perspectives – Auditor Independence”, see at:

http://www.fee.be/images/publications/ethics/Dancey_121122_CICA_CPAB_DP_Auditor_Independence2311201231135.pdf

In general, audit committees are deemed to help minimising financial, operational and compliance risks and enhancing the quality of financial reporting.

According to the European current debate, two activities may be added to the list stated on page 17 regarding:

- The approval or pre-approval of the provision of non-audit services: according to the European Statutory Audit Directive – which is in the process of being revised – the auditor should discuss together with the audit committee threats to independence as well as safeguards to be applied to mitigate those threats in relation to the provision of non-audit services. It has to be emphasised that one of the proposals in the revision of this directive, which is heavily discussed, entails that, in public interest entities, the audit committee would have to pre-approve the provision of some non-audit services. FEE believes that audit committees could have an important role to play in this area.
- The appointment of the auditor: according to the European Statutory Audit Directive – which is in the process of being revised – the audit committee is involved with the appointment of the statutory auditor or audit firm as the appointment in a public interest entity should be based on a recommendation made by the audit committee. The proposals in the revision of this directive include a number of initiatives to strengthen the involvement of the audit committee in the selection process and the appointment of the auditor. These measures entail that, in public interest entities, the audit committee is to be explicitly responsible for the procedure for selection and appointment of the auditor, which includes:
 - o Organising audit tenders at regular intervals in case of the mandatory audit firm rotation; and
 - o Deciding whether or not to appoint more than one auditor.

FEE agrees to strengthen audit committee, and in particular in relation to the process of selection and appointment of the auditor, but does not support these European Commission proposed measures that are too prescriptive and could be seen as a contradiction to the audit committee decision-making authority. Indeed, prescriptive measures ignore judgement of those charged with governance, especially the audit committee, to determine if and when to rotate auditors.

FEE agrees that guidance for audit committees on how an audit committee could undertake an annual evaluation of the external auditor would be helpful. This assessment activity is an important task for audit committees and guidance would steer audit committees away from using subjective criteria.

b. Conducting a Comprehensive Review of Audit Firm

FEE is very interested in the concept exposed in Chapter 3 'Conducting a Comprehensive Review of Audit Firm'. As explained in the CICA - CPAB's discussion paper, in addition to the audit committee's annual assessment of the external audit, it is proposed to implement a comprehensive review that would focus on the audit firm, its independence and the application of professional scepticism, and would be performed every five years. In the current European debate, there is not a clear distinction between both types of

assessments, but it is true that a five-year analysis could give the audit committee another vision to evaluate audit quality.

The audit committee should have sufficient resources at its disposal to carry out such assessments.

FEE agrees that guidance for audit committees on how an audit committee could undertake a comprehensive review of the audit firm would be helpful.

In relation to this topic, without detailed analysis, FEE recommends that the audit committee carries out:

- Regular assessments of the functioning of the audit as a whole and of the cooperation between the external auditor and the audit committee. This assessment should be based on criteria developed by the audit committee that can support an efficient tender process. Indeed, it could be useful as this would make the audit committee being prepared for any upcoming tender and selection process of a new auditor (or in case of a decision to renew the term of the existing statutory auditor);
- A self-assessment of its own work and functioning. The self-assessment should preferably include an assessment of possible improvements regarding the relationship with the board and other board committees.

c. Communication of Inspection Results

FEE does not have any views on this specific area of the Discussion Paper.

d. Public Commentary by the Audit Committee

FEE believes that more can be done in the area of communication from and to the audit committee. The audit committee plays indeed a pivotal role in facilitating communication within the company and between the company and the external auditor.

The work of the audit committee – and communication about it – is of great use to investors and other external stakeholders of the company. More transparency about the work carried out by the audit committee would further facilitate the assessment of the efficiency of the audit committee and contribute to the appreciation for the quality of the financial information provided by the company. In relation to this matter, it is essential to enhance fruitful communication and avoid boilerplate. FEE believes that this goal might be better met with internal reporting, but is interested in the debate of public commentary as well. In Europe, we have identified that the starting point for enhanced communication could be the strengthening of audit committees by clarifying their roles and responsibilities vis-à-vis other parts of the governance structure of the entity.

3. Conclusion

Although a 'one size fits all' approach for audit committees is not the way forward across the world, there is a lot of potential for audit committees to develop further and play an ever more important role within the governance of the company.

FEE is ready to foster the debate and to enhance cooperation with other organisations. As a concrete first step, in January-February 2013, FEE organised a series of dinner debates with audit committee members together with the US Center of Audit Quality (the CAQ) and the Institute of Chartered Accountants in Australia (ICAA) and a summary will be published in the coming weeks. We will keep you informed about this publication.

For further information on this letter or on FEE's work, please contact Mrs. Hilde Blomme at +32 2 285 40 77 or via e-mail at hilde.blomme@fee.be or Mrs. Noémi Robert at +32 2 285 40 80 or via e-mail at noemi.robert@fee.be from the FEE Secretariat.

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive

Encl.:

1. Highlights on FEE Initiatives on How to Improve the Functioning of Audit Committees further
2. FEE Discussion Paper on the functioning of audit committees