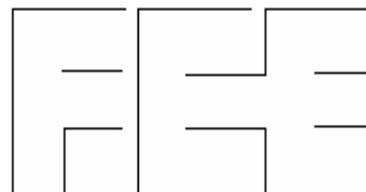


Date
21 December 2007

Le Président

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Mr. J. Sylph
Executive Director Professional Standards
International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue, 14th Floor
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USA

Edcomments@ifac.org

Dear Mr. Sylph,

Re: Proposed ISA 220 (Redrafted), Quality Control for an Audit of Financial Statements and ISQC 1 (Redrafted), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed ISA 220 (Redrafted), Quality Control for an Audit of Financial Statements and ISQC 1 (Redrafted), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement.

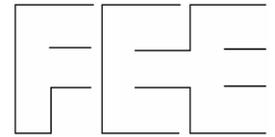
FEE considers the Proposed ISA 220 and Proposed ISQC 1 are an improvement on the existing standards. We believe however that our suggested comments which follow would further enhance the standards, especially in relation to concerns that without additional practical guidance, and, in some cases, more flexibility in the wording of requirements, Proposed ISA 220 and Proposed ISQC 1 may impose an unreasonable burden on sole or smaller practitioners. This letter also includes our responses to the questions set out in the proposed document.

It would help to manage this burden if the suggestions set out in this letter are followed, and the proposed IFAC guide to quality control for smaller practitioners is produced on a timely basis.

1. Comments on Proposed ISA 220 and Proposed ISQC 1

1.1 Comments on Objectives

There is an inconsistency in the objective of Proposed ISA 220 as compared to the objective of Proposed ISQC 1. It is not clear why Proposed ISA 220 does not include something equivalent to paragraph 11 (b) in Proposed ISQC 1 to obtain reasonable assurance that the reports issued by the firm or engagements partners are appropriate in the circumstances, especially as paragraph 14 of Proposed ISA 220 includes a requirement to that effect. We suggest the objectives in both standards are aligned to each other.



1.2 Comments on Definitions

Paragraph 6 (c) in Proposed ISA 220 and paragraph 12 (d) in Proposed ISQC 1: Engagement quality control reviewer

The definition of engagement quality control reviewer is inappropriate for smaller practitioners in relation to the addition of the words 'none of whom is part of the engagement team'. In this respect, we refer to the Application and Other Explanatory Material in paragraphs A44 through A46 in Proposed ISQC 1, which, sensibly in our view, allows some flexibility in the interpretation of the criteria in paragraph A44 when applied in smaller practices. Accordingly we believe that whether or not the quality control reviewer is a part of the engagement team or not needs to be addressed in the application material, allowing some flexibility in the case of smaller practices, rather than as part of definitions. The additional words in the definitions referred to above should accordingly be removed.

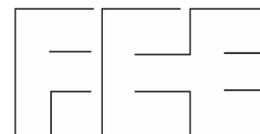
Paragraph 6 (d) in Proposed ISA 220 and paragraph 12 (e) in Proposed ISQC 1: Engagement team

The definition of the term "engagement team" is not yet settled by the International Ethics Standards Board of Accountants (IESBA) and may ultimately be determined by IAASB in the revision and redrafting of ISA 620 on "Using the Work of an Auditor's Expert". We agree alignment with the IESBA definition is sensible and refer in this respect to the FEE comment letter dated 18 April 2007 thereon.

We believe clarification of when persons are "part of the engagement team" and whether persons are subject to the requirements of the proposed quality control standards or proposed ISA 620 may be needed. To illustrate our points we offer the following scenarios and our understanding of how the proposed standards will operate:

1. The auditor uses the work of an internal accounting or auditing expert to assist in forming a view on accounting issues relevant to the auditor's conclusions or as regards whether sufficient audit evidence has been obtained. Such persons "perform the (audit) engagement" as defined, are part of the engagement team and this situation is intended to be covered by the quality controls standards, not ISA 620.
2. The auditor engages an external person with accounting or auditing knowledge. Their knowledge is equivalent to the knowledge of auditors employed by the firm but the firm needs additional personnel to tide the firm through a busy period. Such persons "perform audit procedures" as defined, are part of the engagement team and are subject to the quality control standards. Although they are not employed by the firm they should be engaged on the basis that the firm's quality control policies and procedures will apply to them.
3. The auditor engages an internal expert with knowledge and skills that the auditor does not have, to assist the auditor to obtain sufficient appropriate audit evidence. Such persons are subject to the requirements of proposed ISA 620 and are part of the engagement team. Because it will be expected that such persons will be subject to the firm's quality control policies and procedures this will assist the auditor to establish their capabilities, competence and objectivity.
4. The auditor engages an external expert with knowledge and skills that the auditor does not have, to assist the auditor to obtain sufficient appropriate audit evidence. Such persons are subject to the requirements of proposed ISA 620, are not part of the engagement team and are not subject to the quality control standards or the firm's quality control policies and procedures.
5. The audit firm engages an external expert with knowledge and skills that the firm personnel do not have to perform procedures as part of an assurance engagement other than a financial statements audit. ISQC1 applies in this situation but ISA 220 and ISA 620 do not. It is outside the scope of this letter to comment further on what approach the audit firm should take to using their work.

If our understanding of the application of the proposed standards referred to is not what the IAASB intended, we believe the proposed standards need to be clarified. We suggest either this should be achieved by amending the definitions or by providing additional application guidance.



Paragraph 6 (k) in Proposed ISA 220 and paragraph 12 (l) in Proposed ISQC 1): Partner

The proposed definition of partner in paragraph 6(k) will not prove workable in some European jurisdictions where based on common practice no one partner binds the audit firm. We suggest the definition be amended as follows:

“Partner – Any individual with authority, either alone or together with others within the firm, to bind the firm with respect to the performance of a professional services engagement.”

Paragraph 6 (n) in Proposed ISA 220 and paragraph 12 (p) in Proposed ISQC 1: Relevant ethical requirements

We recommend the definition be expanded to say “... together with national or other applicable requirements that are more restrictive” in order to be in line with common audit practice. For example, when European audit firms report to a group auditor outside of Europe, like for instance the USA, they have to comply with the third country auditing and ethics standards, US Generally Accepted Auditing Standards (GAAS) for instance, in addition to ISAs and national GAAS.

Paragraph 12 (o) in ISQC 1 and paragraph 6 in ISA 220: Definition of reasonable assurance

The fact that reasonable assurance is not defined in Proposed ISA 220, although it was defined in extant ISA 220, is problematic given this term is used in the objective and given the fact that it is defined in Proposed ISQC 1.

Reference is made to the FEE comment letter on Proposed ISA 200 dated 30 July 2007 where we recommended that, as a minimum, the definition of reasonable assurance in Proposed ISA 200 should be: “In the context of an audit of financial statements, a high, but not absolute, level of assurance, having regard to (or taking account of) the inherent limitations of an audit”.

The definition of reasonable assurance in the context of quality assurance should be aligned to the definition of reasonable assurance in the context of an audit, except for the reference to “inherent limitations of an audit” which should be “... subject to the inherent limitations of quality control”, as internal control is referred to as an inherent limitation in the context of financial reporting and audit in ISA 200.

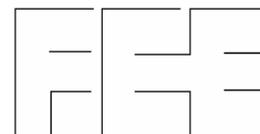
1.3 Comments on Requirements

Paragraph 15 of ISA 220 and 39 of ISQC 1

In line with the approach in the other ISAs, we are of the opinion that Proposed ISA 220 and Proposed ISQC 1 should also follow a risk based approach. Paragraph 15 in Proposed ISA 220 and paragraph 39 in Proposed ISQC 1 do not appear to allow any deviation from the requirement “shall always be reviewed by another more experienced person”. This is unrealistic in a situation where a fully competent and experienced person, e.g. the team manager, performs work that does not involve significant judgement, as can frequently happen. The Application and Other Explanatory Material should allow that in such circumstances the engagement partner should be allowed to use professional judgement to not review work not involving significant judgement, and be allowed to be selective in what he reviews enough to be satisfied with the quality of the work done.

Paragraph 25 (b) of ISA 220

We believe that paragraph 25 (b) needs to be clearer. For the avoidance of doubt as to whether it is referring to ‘quality control procedures’ or ‘engagement procedures’, we recommend that it states that “any additional *engagement* procedures are required”.



1.4 Comments on Application and Other Explanatory Material

In small or micro companies, audits are often carried out by a sole practitioner or one auditor using one assistant. For such smaller practices, references to an engagement team or team member and the quality control procedures that envisage larger teams are incongruous, like for instance in the requirements in paragraphs 8, 9, 10 (a), 10 (b), 10 (c), 15, 16, 18 (a), 18 (b) and 24 of ISA 220. Other requirements like the ones included in paragraphs 7, 12 and 13 would be better worded in a more principles-based way in order for smaller practices or sole practitioners to be able to apply them without having to refer to extensive application material introducing greater flexibility.

ISA 220 does not include 'Considerations specific to small entities and practices' except for a reference in a firm's definition. We recommend that there should at least be a mention in the Application and Other Explanatory Material of how the different sections of Proposed ISA 220 should be applied in such cases.

Reference is made to our comments hereafter in section 2.3 on Comments on Application and Other Explanatory Material on Proposed ISQC 1. Whilst we support the timely development of the proposed IFAC guide to quality control for SMPs, we believe that the redrafted ISQC1, if it continues to follow the approach to requirements set out in the Exposure Draft, should still include additional application material for smaller practices because otherwise it will cause unreasonable expectations of what smaller practices can realistically achieve.

2. Comments on Proposed ISQC 1

2.1 Comments on Introduction

Authority of this ISQC

Paragraphs 5 to 9 on the authority of the ISQC are new and do not include a provision for a departure from a requirement deemed necessary by the firm. The Preface and Proposed ISA 200 permit auditors not to comply with relevant requirements in very limited circumstances for ISAs where the requirement is a specific procedure and performance of something else is essential in order to achieve the aim of the requirement. It is explained that there is no such exception for Proposed ISQC 1 because of the "generally principled nature of the requirements [which] are not expected to give rise to circumstances in which departure would be appropriate."

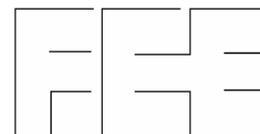
We agree that the objective of quality control within a practice is to achieve the proper performance of engagements in compliance with professional standards and law. The focus of the auditor in complying with the requirements needs to be on the achievement of this objective. However, we believe there is a need for some flexibility in relation to compliance with the requirements of Proposed ISQC 1, in a similar way to that applicable to the ISAs, especially for small audit firms and sole practitioners. This is primarily due to the way in which the requirements are worded, which is often impracticable for smaller practices.

If certain of the requirements of Proposed ISQC 1 were worded in a more principles-based way, and supported by appropriate considerations for smaller practices in the Application and Other Explanatory Material, there would be less need for providing the ability to depart from a requirement in Proposed ISQC 1.

2.2 Comments on Requirements

Combined effect of the various elevated requirements

The combined effect of the various new requirements of Proposed ISQC1 is to put in place overly detailed requirements to document policies and procedures that may detract a small firm's limited resources from adhering to those very policies in an appropriate manner. To ensure quality audits and other engagements, what is important is whether the firm has achieved the objectives of ISQC 1 and ISA



220. Evidence of the measures *actually taken* by the firm to comply with requirements is more effective focus for audit regulation than insisting on documentation of the design of policies and procedures.

For example, from the point of view of a sole practitioner who currently does not employ staff but may do so in the future, the extent of the documentation required to comply with paragraph 16 (d) and paragraph 17 (a) is unclear. Some application guidance would be helpful along the lines we suggest in Section 2.3 of this letter.

Paragraph 21

Paragraph 21 is prescriptive rather than principles-based; we recommend it is reworded as follows:

“The firm shall establish policies and procedures designed to prevent commercial considerations overriding the quality of work performed.”

Also, the following Application and Other Explanatory Material could be added:

“In fulfilling the requirement of paragraph 21 the firm may assign management responsibilities such that commercial considerations do not override the quality of work performed. In the individual circumstances of the firm (e.g., in the case of a sole practitioner) such assignment may not be practicable. In such cases the engagement partner may need to plan and perform the audit on the basis that audit quality is of paramount importance and not to be compromised by commercial considerations.”

The following additional Considerations Specific to Smaller Practices would provide further clarification:

“In a small firm policies and procedures designed to prevent commercial considerations overriding the quality of work performed may be established and carried out by one individual. For example, a sole practitioner may need to satisfy himself before commencing the audit that costs budgeted for performing the audit are appropriately covered by the amount of any advance agreement of fees. In addition, when circumstances arise that were not foreseen at the budget and fee agreement stage, but that will necessitate more personnel or other additional resources to complete the audit to the required standard of quality, the practitioner may consider it appropriate to renegotiate fees with a client on the basis of changed circumstances.”

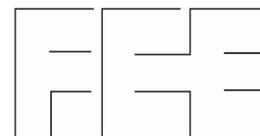
2.3 Comments on Application and Other Explanatory Material

Application Material to Paragraphs 17 and 18

Paragraphs 17 and 18 are elevations of present tense statements in extant ISQC 1 and do not benefit from guidance in the Application and Other Explanatory Material in Proposed ISQC 1. A consideration specific to smaller practices would be useful clarification, as follows:

“In smaller practices with relatively simple organizational structures and limited segregation of duties, the requirement to document the system of quality control may generally be achieved by retaining evidence that professional requirements have been adhered to in the day-to-day organization of the practice and correspondence as part of the engagement performance. E.g., by filing employee assessments, planning related to training and CPD courses, the independence confirmations obtained from employees and the signature of papers reviewed by the engagement partner etc.”

This type of explanation of the documentation requirement is intended to make clear that if, for example, the firm’s policy is to send all staff on training courses at regular intervals, it is not always necessary that the policy as such be written down; rather evidence that the firm actually adheres to such a policy will suffice in complying with the requirement of paragraph 17(a).



Paragraph A2

The application material in paragraph A2 is guidance to paragraph 21 which, as a minimum, should explicitly note that in cases of very small practices or sole practitioners, the respective management responsibilities rest with the sole practitioner.

Management responsibilities cannot be assigned in small firms due to compact structures. Therefore, the requirement in paragraph 21 requires a consideration for smaller practices. The principle is that commercial decisions should not override the quality of the work performed. The conclusion is therefore that management responsibilities should be assigned to persons who are not necessarily involved in commercial decisions. Whilst we agree with the contents of paragraph A2, promoting the right culture, the smaller firm might find it impossible to assign management responsibilities. In such cases, one has to determine the most effective and efficient manner in order to promote such a culture, referred to in paragraph A2, and make sufficient references in the firm's policies and procedures.

We refer to our comments on the authority of Proposed ISQC 1 under section 2.1 Comments on Introduction of Proposed ISQC 1 for specific suggestions related to a consideration specific to smaller practices related to paragraphs 21 and A2.

Application Material to Paragraph 22

Paragraph 22 is an elevation of a present tense statement in extant ISQC 1 and does not benefit from guidance in the Application and Other Explanatory Material in Proposed ISQC 1. A consideration specific to smaller practices would be useful to reflect the reality in smaller practices that resources are limited as such firms may not have an adequate number of resources to satisfy the requirement in paragraph 22 to the letter, while still complying with the principle behind paragraph 22.

Although there is always the option of using third party support and development, the idea of sending firms to third parties for every hurdle they come across is not appealing. An audit firm should ordinarily be able to document, develop and support its own policies and procedures internally tailored to its circumstances and needs.

Paragraph A14

The application material in paragraph A14 is guidance to paragraph 30 (a) which should clarify that the procedures to obtain reasonable assurance for the continuation of client relationships for smaller practices could be less formal than the acceptance of new clients seen the traditionally close relationship that small and sole practitioners enjoy with their clients,

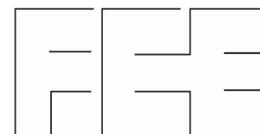
Paragraphs A 24 and A25

The application material in paragraph A25 is a consideration specific to smaller practices to paragraph 35 for which there is a need to clarify that sole practitioners do not need to set up formal policies and procedures regarding staff assessment. It should be sufficient for the small and sole practitioners to evidence their compliance with CPD requirements.

It should be noted that there is a reference to smaller firms in paragraph A24. This paragraph should be included under the heading of 'Considerations Specific to Smaller Practices' and could be supplemented with some practical examples of what may be excluded.

Paragraph A27

The guidance in paragraph A27 to the requirement in paragraph 37 should include a consideration for smaller practices with one or a few partners. The same person may be responsible for recruiting staff, appraising their performance, accepting new clients and assessing whether he has the resources to handle the job. The proposal for less formal procedures above should also be adopted in this case as in a small firm environment, the staff is usually quite close to the partner as are also the clients.



Paragraph A28

Paragraph A28 is application material to paragraph 38 and should include a consideration specific to smaller practices that indicates that the concept of review responsibilities and supervision assumes the existence of a sizeable team of personnel of different grades and seniority. In smaller practices it is not considered practicable or relevant to pursue the requirements of paragraph 38 in their entirety and to pursue documentation of compliance with such requirements in a standardised way.

Paragraph A36

We believe that the consideration specific to smaller practices in paragraph A36 regarding the requirement in paragraph 40 that a firm shall establish policies and procedures for when and how consultation shall take place, seems to put much bureaucracy on a small audit firm in that it suggests that a smaller practice needs to "contract" for such services. In practice small firms or sole practitioners often have an informal network with other auditors that consult with each other. We see no benefit in formalizing this in "contracts".

Paragraph A37

In paragraph A37 there is no application guidance for smaller practices. However it would be useful to explain that for small practices not using any team structures and only performing audits of small or at least mini- and micro-entities, no engagement quality control reviews are needed because they were not relevant in practice or because they were clearly insignificant. The Application and Other Explanatory Material in paragraph A37 should therefore continue as follows:

"Where no engagement quality review exists, for the most material and most difficult issues it is suggested to obtain a second opinion by another authorised and experienced auditor (e.g. another partner or sole practitioner etc.) before issuing the final audit opinion."

Paragraph A37 reads "Criteria to consider...", which implies that all criteria are considered. We suggest this should read "Criteria the auditor may consider..." as this is in line with the clarity conventions in the context of application material.

In addition, we believe the criteria listed as guidance in paragraph A37 of ISQC 1 are too broad to be really helpful. In particular, the first bullet point on "the nature of the engagement and the extent of its public interest" could lead to a wide range of engagements being subject to external quality control review by smaller practices or sole practitioners. For example, one might question whether the audit of a government owned business enterprise is always of public interest; we believe there may be such enterprises that may not be.

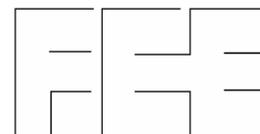
Similarly it is not clear how widely the term "unusual circumstances" in the second bullet point should be interpreted. Proposed ISQC 1 needs to give more precise guidance on such matters. For example, banks and insurance companies that are not listed entities could be exemplary in the first point. The second point might refer to a case where the going concern principle is threatened.

Paragraph A40

Due to limited human resources, the engagement quality control review may not be practicable in smaller practices. In analogy with the consideration specific to smaller practices in paragraphs A36 and A46, such practices should also be allowed to get external quality control review, which should comply with at least the same requirements as the internal quality control review. This should be specifically recognised in Proposed ISQC 1 in relation to the requirements in paragraphs 42, 44 and 45.

Paragraphs A60 and A61

The main purpose of the monitoring is explained in paragraph 55 and paragraphs A60 and A61, which include no guidance for small practices not using teams and only performing audits of small, mini- and micro- entities. In these circumstances it should be explained that no monitoring is needed because it is



either not possible or not relevant or is clearly insignificant. The Application and Other Explanatory Material in paragraph A60 should therefore continue as follows:

“Where no monitoring exists, it is suggested to use check lists or other tools for self control in order to secure that no material issue or aspect is unintentionally neglected.”

Paragraph A62

For periodic inspections, there is an example in the beginning of paragraph A62 that the inspection cycle may for example span over three years. However, in the last bullet point of paragraph A62, it is mentioned that the inspection cycle depends on risks associated with the firms and engagements.

We recommend that the example of a three year inspection cycle is moved to this last bullet where the inspection cycle shall consider the risk in the engagements. This is important in the European Union considering that the European Union has decided on a maximum inspection cycle of six years for audits of non-public interest entities. The present design of paragraph A62 may give the impression that a three year cycle is a best practice and a benchmark treatment.

Paragraphs A68

We recommend that the mention about size of the audit firm and of smaller practices at the end of paragraph A68 should be included under a separate header on ‘Considerations Specific to Smaller Practices’, so as to emphasise the specific needs of smaller firms. Such paragraph should also clarify that smaller audit firms may use more informal documentation methods.

3. Responses to IAASB’s Questions

3.1 Comments on Special Considerations in the Audit of Small Entities and Considerations Specific to Smaller Practices

There are many small audit firms and sole practitioners in most European Union member states, which will be disadvantaged by Proposed ISA 220 and Proposed ISQC 1 if the IAASB does not adopt more principles-based requirements or provide for further considerations specific to smaller entities or practices in the Application and Other Explanatory Material to address the practicalities of complying with certain specific proposed requirements. Certain requirements appear overly bureaucratic in the smaller practices context, and the burden they create is often likely to be out of proportion to the benefit (if any). Ultimately, this could force some smaller practices to cease performing audits, which we believe would not be in the public interest.

Proposed ISA 220

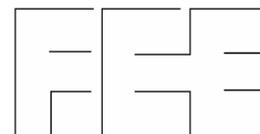
Reference is made to our comments on Proposed ISA 220 under Section 1.4 Application and Other Explanatory Material above.

Proposed ISQC1

Reference is made to our comments on Proposed ISQC 1 under Section 2.3 Application and Other Explanatory Material above.

3.2 Comments on Special Considerations in the Audit of Public Sector Entities and Considerations Specific to Public Sector Audit Organisations

The explanations in the considerations specific to public sector entities are standard and based on the extant ISA 220 and ISQC 1. However, Proposed ISA 220 paragraph A20 would be clearer if it were explicitly linked to the discussion of private sector ‘listed entities’ which are subject to Engagement



Quality Control Review, in paragraphs 19-23 and A16-A19 (in line with similar cross-references in Proposed ISQC 1 paragraphs A12 and A41).

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,

Jacques Potdevin
President

Ref.:AUD/AED/JP-HB/EF