

### Audit Quality – Summary of Comments Received on IAASB’s Consultation Paper *A Framework for Audit Quality* and Planned Actions

#### Background

1. In January 2013 the IAASB issued a Consultation Paper *A Framework for Audit Quality* (the “draft Framework”) and invited comments. The deadline for comments was May 15.
2. The draft Framework described the input and output factors that contribute to audit quality at the engagement, audit firm, and national levels and demonstrates the importance of appropriate interactions among stakeholders and of various contextual factors.
3. 76 responses<sup>1</sup> were received, broken down into the following respondent categories:

Respondent Category	Number
Investors and Analysts	5
Regulators and Oversight Authorities	12
National Auditing Standard Setters	8
Accounting Firms	12
Member Bodies of IFAC and Other Professional Organizations	27
Public Sector Organizations	7
Academics	1
Individuals and Others	4
<b>Total</b>	<b>76</b>

4. This paper summarizes the comments received and indicates the Task Force’s proposals on how to respond to them.

#### General Observations

5. A large majority of the respondents welcomed the IAASB’s work in the area of audit quality and supported the objectives of the project. These respondents thought that finalization of the Framework would provide a useful source of reference to raise awareness, to inform discussions, and to support education and training initiatives. Some thought that the IAASB needed to further clarify how it was intended that the Framework should be used.

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<sup>1</sup> Appendix 1 to this paper lists the respondents and the abbreviations used for them, which are used in footnotes throughout the paper.

6. A few respondents thought that the objectives of the project were too limited and some were disappointed that the draft Framework sought to describe the current attributes of audit quality rather than focusing more specifically on the changes that needed to be made to improve audit quality in the future.<sup>2</sup>
7. In addition, a number of respondents observed that the draft Framework did not seek to support the measurement of audit quality and indicated that there would be value in the IAASB establishing weightings to reflect the importance of the various inputs and interactions, or at least highlighting those that are considered most important.<sup>3</sup>
8. There was broad support for the structure and content of the draft Framework, notwithstanding many useful detailed suggestions as to how it could be enhanced. Many of the concerns raised related to:
  - (a) The need for a definition of audit quality;
  - (b) Concerns about the length of the document;
  - (c) Uncertainty about the status of the Framework;
  - (d) Questions about the balance of Framework and whether more, audit specific, contextual factors needed to be described; and
  - (e) The treatment of audits of smaller entities and public sector audits.
9. The IOSCO response letter (refer to Appendix 2) included several points that might be considered further by the IAASB, but are beyond the scope of this phase of the project. They include:
  - (a) For the IAASB to consider providing clear guidance on how to identify root causes of audit deficiencies and how to develop relevant solutions, including remediation and preventive steps, to address such deficiencies.
  - (b) For the IAASB to guide auditors in how to determine the sufficiency and appropriateness of audit evidence in substantiating account balances and disclosures in financial statements.
  - (c) That the IAASB reach beyond the current boundaries of how audits are performed to grasp new ways of thinking and to stimulate revolutionary approaches to affecting the behavior of auditors, improving audit quality, enhancing professional skepticism, and satisfying the needs of investors.

## Significant Issues

### Definition of Audit Quality

10. In the Consultation Paper the IAASB did not define either “audit quality” or “a quality audit” but included the following paragraphs (18 and 19 of the Consultation Paper) that went some way to explaining these terms.

18 *Auditors are responsible for the quality of individual audits, and should aim to ensure that quality audits are consistently performed. A **quality audit** is likely to be achieved when the*

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<sup>2</sup> EFAA, FEE, NZICA, ICPAS

<sup>3</sup> AAA, ACCA, CPAB, EFAA, FEE, JICPA, IOSCO, KI, KICPA, KPMG, NBA, NZAuASB, ZYEN

*auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that:*

- *Exhibited appropriate values, ethics and attitudes;*
- *Was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work;*
- *Applied a rigorous audit process and quality control procedures;*
- *Provided valuable and timely reports; and*
- *Interacted appropriately with a variety of different stakeholders.*

19 *Many factors contribute to enhancing **audit quality** within a jurisdiction, and increasing the likelihood of quality audits being consistently performed. The IAASB believes there is value in describing these factors and thereby encouraging audit firms and other stakeholders to challenge themselves about whether there is more they can do to increase audit quality in their particular environments.*

11. A number of respondents thought that a clear definition of “audit quality” was needed,<sup>4</sup> while a smaller number called for a definition of “a quality audit”.<sup>5</sup> A number of respondents supported the approach taken in the Consultation Paper recognizing that it was impractical to provide simple definitions of these terms, not least given the differing stakeholder perspectives that exist.<sup>6</sup>
12. Only a few suggestions were received about how these terms could be better defined. These included:
- (a) “the likelihood of the audit achieving the fundamental objective of the audit which is to obtain reasonable assurance that material misstatements in the overall financial report are detected, and addressed or communicated to relevant stakeholders”;<sup>7</sup>
  - (b) “the market-assessed joint probability that a given auditor will both (a) discover a breach in the client’s accounting system and (b) report that breach”;<sup>8</sup> and
  - (c) “High quality audit is one where there is execution of a well-designed audit process by properly motivated and trained auditors who understand the inherent uncertainty of the audit and appropriately adjust to the unique conditions of the client”.<sup>9</sup>

In addition, a definition discussed at the Public Company Accounting Oversight Board (PCAOB)’s Standing Advisory Group (SAG) meeting in May 2013 was:

- (d) “Meeting investor’s needs for independent and reliable audits and robust audit committee communications on financial statements, including related disclosures, assurance about internal control, and going concern warnings”.<sup>10</sup>

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<sup>4</sup> ACCA, ACAG, AFRC, CAQ, CBarnard, CGAC, DFSA, EYG, GTI, ICAA, ICAEW, ICGN, ICPAS, IDW, IOSCO, WPK

<sup>5</sup> AFRC, AUASB, CAASB, CSACAC

<sup>6</sup> CSACAC, DTT, EUMEDION, FAOA, KI, KPMG, PWC

<sup>7</sup> AFRC

<sup>8</sup> CGAC (audit quality)

<sup>9</sup> CGAC (high quality audit)

13. Suggested response by the Task Force:

The Task Force remains of the view that for the reasons described in Consultation Paper<sup>11</sup> it is not possible to develop a simple definition of audit quality. This was the reason that the IAASB decided to develop a Framework that described the input and output factors that contribute to audit quality as well as at the appropriate interactions among stakeholders and the importance of various contextual factors. That said, the Task Force believes that giving additional profile to the equivalents of paragraphs 18 and 19 in the Consultation Paper and making limited modifications to them will assist in clarifying its thinking. See paragraphs 1 and 2 of updated Framework (**Agenda Items 3-B and 3-C**).

**Length of the Framework**

14. The vast majority of respondents thought that the draft Framework, at 63 pages, was too long and that its length would limit the extent to which it was used in practice, especially by non-auditors.

15. Suggested response by the Task Force:

The Task Force accepts the comments and plans to shorten the document, largely by moving the descriptions of the various input factors to one or more subsidiary documents called guides to input factors. The intention is that the guide(s) will be published on the IAASB website and will reduce the Framework to 39 pages (including cover page, contents page, and appendix).

The Task Force hopes that a separate section of the IAASB website will be allocated to audit quality and that, over time, this can be used to provide access to other supporting material including, perhaps, guides for audit committees or for audits of smaller entities.

**Status of the Framework**

16. Many respondents considered that the status of the draft Framework was unclear and that its relationship with the ISAs and ISQC 1<sup>12</sup> needed to be clarified.<sup>13</sup> Some were concerned that the

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<sup>10</sup> The CAQ provided input on this definition by suggesting that a definition of AQ should:

1. Recognise the role that the audit committee plays in providing oversight
2. Incorporate
  - a. Compliance with applicable regulations and professional standards
  - b. Consideration of the audit firm
3. Provide linkage to the key elements of an audit quality framework (e.g., value, ethics and attitude; knowledge experience and time; process and execution; and reporting and communications.

<sup>11</sup> Pages 13–15 of the Consultation Paper describe the challenges of defining audit quality as:

- The existence, or lack of material misstatements in audited financial statements provides only a partial insight into audit quality;
- Audits vary and what is considered to be sufficient appropriate audit evidence to support an audit is, to a degree, judgmental;
- Perspectives of audit quality vary among stakeholders; and
- There is limited transparency about audit work performed and audit findings.

<sup>12</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Framework might be thought of a “super standard”, while others were concerned that the Framework might cause questions to be asked about the robustness of the ISAs.

17. Some questioned calling the document “A Framework” as they thought this implied a role that was inconsistent with the IAASB’s *International Framework for Assurance Engagements* (Assurance Framework) and the International Accounting Standards Board’s (IASB) Conceptual Framework.<sup>14</sup>
18. Suggested response by the Task Force:

The IAASB does not intend the Framework to be authoritative and included in the Consultation Paper the statement “*Auditors are required to comply with relevant auditing standards and standards of quality control within audit firms, as well as ethics and other regulatory requirements. The Framework is not a substitute for such standards, nor does it establish additional standards or provide procedural requirements for the performance of audit engagements*” on the inside of the cover. This statement may have been missed by respondents and the Task Force plans to give it greater profile by also including it within the body of the Framework. See paragraph 5 of updated Framework (**Agenda Items 3-B and 3-C**).

Some respondents also called for the status to be clarified in the IAASB’s *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Standards* (the Preface). The Task Force does not propose this course of action as the Preface makes clear, in paragraph 4, that the authoritative pronouncements are the International Standards. The only non-authoritative papers specifically referred to in the Preface are International Auditing Practice Notes (IAPNs) and Staff Papers. The Task Force does not believe there would be much benefit in opening up the Preface just to explain the status of another type of non-authoritative paper. The Task Force notes that there is no reference to the Assurance Framework in the Preface; its status<sup>15</sup> is described in the document itself.

Some respondents called for the IAASB to demonstrate the linkage between the input factors included in the Framework and the specific requirements within the ISAs and ISQC 1. While this could be done, perhaps as appendices to the guide(s), the Task Force does not advocate this as the relationships between some of the attributes and specific requirements in the ISAs are complex. The complexity would be further increased if links with the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB) pronouncements were also included.

The IAASB discussed, at length, the use of the term “Framework” before issuing the Consultation Paper and the Task Force determined that this title should be retained. However, the Task Force proposes adding a sub-title “*A discussion of the key elements that create an environment for audit quality*” to better distinguish it from the Assurance Framework and to help to communicate the status of the document.

<sup>13</sup> ACCA, AUASB, BDO, CAQ, CPAA, DIPAC, EAIG, EBA, FAOA, FEE, GTI, HKICPA, ICAEW, IRBA, JICPA, KPMG, MIA, NBA, PP, PWC, SAICA

<sup>14</sup> DIPAC, EFAA, JICPA, PWC

<sup>15</sup> The status of the Assurance Framework is described as “*This Framework does not itself establish standards or provide procedural requirements for the performance of assurance engagements. ISAs, ISREs and ISAEs contain the basic principles, essential procedures and related guidance, consistent with the concepts in the Framework, for the performance of assurance engagements.*”

### Comments Regarding the Treatment of Audits of Smaller Entities and Public Sector Audits

19. A number of respondents called for the Framework to cover all audits. In so doing they may have misunderstood the IAASB's intention. The intention was that the entire suite of input and output factors in the draft Framework, as well as the appropriate interactions among stakeholders and the various contextual factors should apply to all audits. It is possible some people may have thought that by including in the draft Framework a section titled "Considerations Relating to Specific Audits", audits of smaller entities and public sector audits were in some way being treated differently.
- (a) **Audits of Smaller Entities:** Some respondents thought that the Framework was biased toward audits of larger entities and over-simplified, or was unduly negative about, aspects of audits of smaller entities.<sup>16</sup> Others called for greater attention being given to the audits of small- and medium-sized entities (SMEs), particularly medium-sized entities, throughout the Framework.<sup>17</sup> Some respondents thought additional work was necessary to explore how the Framework could be adapted for use in the audits of smaller entities and called for additional guidance, perhaps in a separate document.<sup>18</sup>
- (b) **Public sector audits:** Some respondents thought that further discussion of public sector issues was needed, including the role played by a strong legislative mandate<sup>19</sup> and the wider scope of many public sector audits (e.g., performance audits and audits of information systems<sup>20</sup>).
20. Suggested response by the Task Force:

The Task Force agrees that the inclusion of a separate section titled "Considerations Relating to Specific Audits" has the potential to cause confusion and therefore proposes that this section be removed from the final version of the Framework. Instead, the material that is included in that section of the Framework will be integrated into the detailed discussion. Much of this will be in the guide(s), rather than the updated Framework.

The Task Force is pleased that, in general, respondents did not challenge the relevance of the input, output, and interactions sections for audits of smaller entities or public sector entities. Respondents' concerns related more to the discussion of corporate governance in the contextual factors and the detailed comments that had been included in the section titled "Considerations Relating to Specific Audits". The IAASB will review these comments before finalization.

In the longer term it may also be appropriate for the IAASB, or others, to develop specific user guides for audits of smaller entities and public sector audits.

### Balance of the Framework

21. The draft Framework stated "*auditors are responsible for the quality of individual audits*". The structure of the draft Framework reflected this with inputs being the first section (inputs are largely

<sup>16</sup> AAA, ACCA, AUASB, BT, CAI, CGAC, DIPAC, EFAA, FACPCE, FAR, FEE, ICAEW, ICAS, PP

<sup>17</sup> ICAEW, NBA

<sup>18</sup> CGAC, HKICPA, ICAS, NZICA, SAICA

<sup>19</sup> ACAG

<sup>20</sup> FAP, IRBA, NAOS

auditor driven, whereas outputs and interactions involve both auditors and other stakeholders) and contextual factors being the last. One of the questions the IAASB asked when it issued the Consultation Paper was “Does the Framework reflect the appropriate balance in responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance) and other stakeholders?”

22. Responses to this question varied significantly. Almost equal numbers thought the draft Framework:
- (a) Was suitably balanced;<sup>21</sup>
  - (b) Gave insufficient emphasis to non-auditor stakeholders,<sup>22</sup> in particular the importance of management providing timely and relevant information to auditors; and
  - (c) Gave insufficient emphasis to the interactions and contextual factors<sup>23</sup>.
23. Some thought that the responsibilities of the various stakeholders needed to be defined within the Framework.<sup>24</sup> Others thought more emphasis needed to be placed on oversight and regulation, including more description of how regulator activities can influence audit quality both positively and negatively.<sup>25</sup>
24. Suggested response by the Task Force:

Give the variety of responses the Task Force does not propose a change to the structure of the Framework, which will therefore continue with inputs as the first section. However, movement of the descriptions of the various input factors to the guide(s) will considerably reduce the length of the inputs section and may help those respondents who thought there was too much emphasis on the auditor and not enough on the other stakeholders. The inclusion of audit specific contextual matters (see next section) may help those who wanted more emphasis on the contextual factors and audit regulation.

More emphasis on the interactions could also be achieved by a change to the main diagram. An illustration of how this might be done is shown in Appendix 3.

### Audit-Specific Contextual Factors

25. The contextual factors described in the draft Framework were those considered likely to impact the nature and quality of financial reporting. A number of respondents thought that there was a need to also describe contextual factors that specifically impact audit quality. These include matters such as

<sup>21</sup> AAA, ACCA, AIA, ASCOT, BR, CGAC, CIAOA, DJ, FAOA, FEE, ICAS, ICPAK, JICPA, KI, NAOS, NZICA, PWC, ZICA

<sup>22</sup> ACAG, AFRC, ASB, AUASB, CAASB, CARB, CPAA, CPAB, CPAI, DTT, EYG, FAP, FAR, ICAA, ICPAS, IRBA, KPMG, MIA, NAOUK, NZAuASB, SAICA. Against this, 5 respondents thought that there was too much emphasis on management and those charged with governance (BT, EFAA, GAO, ICAEW, MS).

<sup>23</sup> BDO, CAQ, DTT, EYG, ICAEW, IRBA, NAOUK, NZAuASB, NZICA, PKF, PWC

<sup>24</sup> ICAEW, ICPAK, NZAuASB, SNG

<sup>25</sup> AFRC, BT, ICGN

the attitude of those charged with corporate governance towards audit,<sup>26</sup> litigation risk environment,<sup>27</sup> audit regulation,<sup>28</sup> education,<sup>29</sup> and competitive pressures impacting fees.<sup>30</sup>

26. Suggested response by the Task Force:

The draft Framework contains a number of references to these issues but, with the plans for shortening the Framework, these will largely be transferred to the guide(s). The Task Force agreed that there would be value in including a section on audit specific contextual matters in the Framework itself. See paragraphs 130 to 154 of updated Framework (**Agenda Items 3-B and 3-C**).

### Completeness of the Framework

27. One of the questions the IAASB asked when it issued the Consultation Paper was “*Does the Framework cover all areas of audit quality that you would expect?*” Many indicated that they thought the Framework was comprehensive; other respondents helpfully suggested factors that they thought should be given more emphasis. A relatively small number of new factors were suggested.

28. Suggested response by the Task Force:

The Task Force considered these suggestions and proposes some changes to the wording of the Framework and the wording to be included in the guide(s). The majority of the suggestions made and adopted impact the wording of the guide(s).

Paragraphs with revised wording are outlined below.

Comments Received	Task Force Reaction	Updated Framework	A Guide for Input Factors
<b>Input factors</b>			
Some thought that there was need for more emphasis on ensuring staff are sufficiently skeptical in practice. <sup>31</sup>	Skepticism was already an attribute. Emphasis given to the role of the engagement partner.	Paragraph 19	Paragraphs 18 and 32 (second dot point)

<sup>26</sup> BR, CPAB, ICGN, PP, PWC

<sup>27</sup> AAA, BDO, ICPAS, SAICA

<sup>28</sup> ACAG, BT, ICAA, ICGN, KI, NZICA

<sup>29</sup> AAA, DIPAC, NZICA

<sup>30</sup> BR, CPAB, ICGN, PP, PWC

<sup>31</sup> EBA, EUMEDION, HEOS



Comments Received	Task Force Reaction	Updated Framework	A Guide for Input Factors
Some thought that more discussion was needed about the relationship between quality and the remuneration of the audit partner. <sup>32</sup>	Rename attribute 1.2.2 to “The firm has appropriate appraisal and reward systems essential to audit quality”.	Paragraph 21	Paragraphs 34 (second dot point), 38, 39, and 40
Others were concerned about the impact that audit firms’ business models could have on audit quality. <sup>33</sup>	Not entirely clear what is meant by business model. It probably relates to the link between experience and professional judgment.	Paragraph 20 (with respect to wording on public interest)	Paragraphs 33 (re public interest) and 72 (additional sentence)
A few thought that more discussion was needed about specialist skills. <sup>34</sup>	Add list of areas where experts needed (based on ISA 620). <sup>35</sup>	No revision in Framework	Paragraph 60
Greater emphasis should be given to innovation and continual improvement to meet the needs of society and were concerned about the impact litigation could have on this. <sup>36</sup>	Impact of litigation now in audit contextual issues.  Continual improvement.	No revision in Framework	Paragraphs 114 and 124 (re identifying risks and opportunities)
<b>Output factors</b>			
A number of respondents thought that the outputs section should give further emphasis to the importance of effective engagement between auditors and users. <sup>37</sup>	Wording revisions suggested in interactions section rather than outputs.	Paragraphs 61 and 74	Not applicable

<sup>32</sup> AAA, EUMEDION

<sup>33</sup> EUMEDION, HEOS, ICPAS, UKFRC

<sup>34</sup> AUASB, EUMEDION, ICPAS

<sup>35</sup> ISA 620, *Using the Work of an Auditor’s Expert*

<sup>36</sup> ACCA, EFAA, EYG, NBA

<sup>37</sup> AFRC, EUMEDION, ICAEW, ICGN

Comments Received	Task Force Reaction	Updated Framework	A Guide for Input Factors
<b>Interactions</b>			
A number of respondents thought that there needed to be elaboration on what IAASB means by the term “effective interaction”. <sup>38</sup>	Not considered necessary.	Not applicable	Not applicable
Others thought that the section dealing with interactions between the auditor and the audit committee needed to be further developed. <sup>39</sup>	Corporate governance now in audit contextual issues and material slightly extended. There is a danger of overlap with ISA 260. <sup>40</sup>	Paragraphs 132 to 136	Not applicable
Some respondents suggested that audit standard setters should be treated as an additional stakeholder group and the importance of them interacting with other stakeholders emphasized. <sup>41</sup>	Not done as do not want to overcomplicate. Link with standard setters added as appropriate.	Paragraph 141 (re feedback to standard-setters)	Paragraph 140 (re responding to feedback)
<b>Contextual factors</b>			
The main comments related to the need to explore some contextual matters specific to audit.	New section	Paragraphs 131 to 155	Not applicable

<sup>38</sup> CAASB, ICPAS, MS, SNG

<sup>39</sup> BR, CPAB, PWC

<sup>40</sup> ISA 260, *Communication with Those Charged with Governance*

<sup>41</sup> CAQ, EYG, NZAuASB

Comments Received	Task Force Reaction	Updated Framework	A Guide for Input Factors
A number of respondents thought that it was important to emphasize that auditors have a responsibility to perform additional procedures where the entity being audited does not have robust corporate governance and strong information systems. <sup>42</sup>	Noted and agreed.	Paragraphs 15 and 97	Paragraph 14

### Other Significant Comments

29. **Assurance.** A number of respondents thought that the Framework should apply to assurance engagements not just audits,<sup>43</sup> while others questioned whether it should apply to review engagements.<sup>44</sup>

30. Suggested response by the Task Force:

The IAASB considered this point when developing the draft Framework and determined that the priority should be developing a Framework that addressed the quality of audits.

31. **Value of an audit.** Some respondents thought that the Framework needs to be more clearly placed in the wider context of the quality of financial reporting.<sup>45</sup> Linked to this view, some respondents thought that the Framework needed to explore the relationship between audit quality and the value of an audit, and make clear that the value of an audit is subservient to the intrinsic value of the underlying financial statements.<sup>46</sup> One respondent thought that it was important to distinguish audit quality from the value of an audit.<sup>47</sup>

32. Suggested response by the Task Force:

The Task Force agrees that some stakeholders are likely to consider value as part of audit quality. In particular, management (particularly of smaller entities) is likely to value the auditors' insights into the entity's business and systems. The Task Force also agrees that some financial reporting frameworks are likely to provide more information value than others, and that this may impact the

<sup>42</sup> DIPAC, FEE, NBA

<sup>43</sup> ACCA, EFAA, ICPAS, MS

<sup>44</sup> DIPAC, IRBA, NZAuASB

<sup>45</sup> DIPAC, FAR, KICPA, NBA

<sup>46</sup> ACCA, FEE

<sup>47</sup> IDW

perception of audit quality. However, the Task Force believes that a quality audit can be performed irrespective of the financial reporting framework and indeed, the requirement in many countries for the financial statements and the auditor's opinion to "fairly present" or "give a true and fair view" of the entity's results and financial position, should overcome limitations in the financial reporting framework. Therefore, the Task Force has not proposed to add further material to the Framework to explore the relationship between the value of financial reporting and audit quality.

33. **Developing nations.** Some respondents thought that consideration should be given to how the Framework might be used by stakeholders in developing nations.<sup>48</sup>

34. Suggested response by the Task Force:

The Task Force considered the comments received and continues to believe that discussion of the attributes of audit quality summarized in the Framework will be of value to all stakeholders, including those in developing nations.

35. **Importance of audit quality.** One respondent thought that it was important that the Framework clearly articulated the benefits of performing a high-quality audit as well as the implications if high audit quality is not achieved.<sup>49</sup>

36. Suggested response by the Task Force:

The Task Force agrees with this comment and has added a paragraph at the start of the Framework to explain the importance of an audit, and therefore, audit quality. See the first paragraph of the Foreword (**Agenda Items 3-B and 3-C**).

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<sup>48</sup> BDO, PP, SAICA

<sup>49</sup> IOSCO

## Appendix 1

### List of Respondents

List of Respondents—grouped by respondent category—to the January 2013 Consultation Paper  
*A Framework for Audit Quality*.

Abbreviation	Respondents (76)
<b>Investors and Analysts (5)</b>	
BR	BlackRock, Inc (Investment Manager)
EUMEDION	Eumedion (Dutch Institutional Investors)
HEOS	Hermes Equity Ownership Services
ICGN	International Corporate Governance Network
ZYEN	Z/Yen Group Limited
<b>Regulators and Oversight Authorities (12)</b>	
AFRC	Australian Financial Reporting Council
CPAB	Canadian Public Accountability Board
CSACAC	Canadian Securities Administrators Chief Accountants Committee
CIAOA	Cayman Islands Auditors Oversight Authority
CARB	Chartered Accountants Regulatory Board (Ireland)
DFSA	Dubai Financial Services Authority
EAIG	European Audit Regulators Group
EBA	European Banking Authority
FAOA	Federal Audit Oversight Authority (Switzerland)
UKFRC	Financial Reporting Council (UK)
IRBA	Independent Regulatory Board for Auditors
IOSCO	International Organization of Securities Commissions
<b>National Auditing Standard Setters (8)</b>	
ASB	American Institute of Certified Public Accountants' Auditing Standards Board
AUASB	Australian Auditing and Assurance Standards Board
CAASB	Canadian Auditing and Assurance Standards Board
FAP	Federation of Accounting Professions of Thailand
HKICPA	Hong Kong Institute of Certified Public Accountants
IDW	Institut der Wirtschaftsprüfer
JICPA	Japanese Institute of Certified Public Accountants
NZAuASB	New Zealand Auditing and Assurance Standards Board

Abbreviation	Respondents (76)
<b>Accounting Firms (12)</b>	
BT	Baker Tilly (UK)
BDO	BDO International Limited
DTT	Deloitte Touche Tohmatsu Limited
EYG	Ernst & Young Global Limited
GTI	Grant Thornton International Ltd
KPMG	KPMG IFRG Limited (Network)
KI	Kreston International
MS	Moore Stephens International Limited
PP	Pitcher Partners (Australia)
PKF	PKF International Limited
PwC	PricewaterhouseCoopers International Limited
SNG	Sizwe Ntsaluba Gobodo (South Africa)
<b>Public Sector Organizations (7)</b>	
ASCOT	Audit Scotland
ACAG	Australasian Council of Auditors-General
NAOS	National Audit Office (Sweden)
NAOUK	National Audit Office (United Kingdom)
UAESAI	United Arab Emirates State Audit Institution
GAO	United States Government Accountability Office
WAO	Wales Audit Office
<b>Member Bodies and Other Professional Organizations (27)</b>	
ACCA	Association of Chartered Certified Accountants
AIA	Association of International Accountants
CAQ	Center for Audit Quality
CGAC	Certified General Accountants Association of Canada
CAI	Chartered Accountants Ireland
CIPFA	Chartered Institute of Public Finance & Accountancy
CPAA	CPA Australia
DIPAC	Conseil Supérieur de l'Ordre des Experts-Comptables and Compagnie Nationale des Commissaires aux Comptes
EFAA	European Federation of Accountants and Auditors for SMEs
FAR	FAR (Institute for the Accountancy Profession in Sweden)
FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas

<b>Abbreviation</b>	<b>Respondents (76)</b>
	(Argentine Federation of Professionals Councils of Economic Sciences)
FEE	Fédération des Experts comptables Européens - Federation of European Accountants
SMPC	IFAC Small- and Medium-Practices Committee
CPAI	The Institute of Certified Public Accountants Ireland
ICPAK	Institute of Certified Public Accountants of Kenya
ICPAS	Institute of Certified Public Accountants of Singapore
ICAEW	Institute of Chartered Accountants in England and Wales
ICAA	Institute of Chartered Accountants of Australia
ICAS	Institute of Chartered Accountants of Scotland
KICPA	The Korean Institute of Certified Public Accountants
MICPA	The Malaysian Institute of Certified Public Accountants
MIA	Malaysian Institute of Accountants
NZICA	New Zealand Institute of Chartered Accountants
NBA	Nederlandse Beroepsorganisatie van Accountants
SAICA	The South African Institute of Chartered Accountants
WPK	Wirtschaftsprüferkammer (German Public Accountants MB)
ZICA	Zambia Institute of Chartered Accountants
<b>Academics (1)</b>	
AAA	American Accounting Association - Auditing Standards Committee of the Auditing Section
<b>Individuals and Others (4)</b>	
CBarnard	Chris Barnard (Affiliated with ESMA, Germany)
DJuvenal	Denise Juvenal (Brazil)
MNS	Internal Audit Department of Pension Administrators (MN Services and PGGM) (The Netherlands)
IAESB	International Accounting Education Standards Board

## Appendix 2

### Consultation Paper Response from the International Organization of Securities Commissions (IOSCO)



International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organização Internacional das Comissões de Valores  
Organización Internacional de Comisiones de Valores

1 July 2013

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, NY 10017 USA

Our Ref: 2013/JE/C1/IAASB/87

**Subject Line: IAASB's Consultation Paper: *A Framework for Audit Quality***

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB) Consultation Paper: *A Framework for Audit Quality* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

#### **Overall Considerations**

We believe that the consistency of performance of high quality audits can promote confidence in the integrity of capital markets and provide investors with independently verified information to assist in investment decisions. As such, we support the Board's efforts as it both explores the topic of audit quality and encourages all stakeholders to challenge themselves concerning what they can do to increase audit quality.

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The Paper focuses on the elements of an audit as it is conducted today, versus on a framework or tool for a potentially improved audit in the future. Accordingly, how would the Paper serve to take forward the thinking needed to improve audit quality? Or will it better serve as a document that informs about how an audit is conducted today, which could be educational in its own right as well as serve as a precursor to a document that sparks debate around the ideal framework going forward? With the significant effort the Board has invested in developing the Paper, and the comprehensiveness of the explanations regarding the elements of an audit, we believe it is important for the Board to clearly describe, in their view, what the document should be used for. With its current focus on the elements of audits as they are conducted today, we do not think the Paper can serve as the end product of a framework for improved audit quality.

#### **Definition of Audit Quality**

We have observed that the Paper begins with “the challenges of defining audit quality,” the placement and content of which seems to communicate more of a defensive position to readers and can set a negative tone for the rest of the document. Nonetheless, our members believe a definition of audit quality is a critical first step in exploring this topic. We recognize that it may be very challenging for the Board to develop a definition as evidenced by the Board’s list of challenges of defining audit quality, but we believe this should not deter the Board from pursuing a definition. A definition establishes a common understanding and a baseline from which the Board can then build the rest of its proposal. Provided the Board decides to explore a definition, we believe it would be important for the Board to consider integrating the auditor’s compliance with auditing, accounting and ethical standards and relevant laws and regulations as part of the definition of audit quality.

#### **Benefits of Audit Quality**

One reason we believe audit quality is very important is that confidence in the integrity of audited financial statements and the auditor’s opinion, which are influenced by the quality of the audit, can form an integral part of an investor’s decision making. Likewise, a poorly performed audit which results in a material misstatement going undetected would result in the capital markets being misinformed. As such, audit quality is of great benefit to investors and other users of financial statements. Prominently highlighting and clearly articulating the benefits of audit quality within the Paper can serve to emphasize the significance of this important topic. The Paper should also present a balanced perspective of audit quality by presenting the benefits of performing a high quality audit as well as the implications if a high audit quality is not achieved.



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### Content of the Paper

As noted above, the Paper seems to describe what auditors currently do in performing audits and the environment in which they operate; in other words it describes the current elements of an audit. While this information is agreeable and can form the basis of an educational document, we believe auditors stand to benefit most if the Board would focus on the matters which can make tangible differences to audit quality.

We believe one such matter could be for the Board to provide clear guidance on how to identify root causes of audit deficiencies and how to develop relevant solutions, including remediation and preventive steps, to address such deficiencies. For example, what steps should the audit firm take to assess the root cause, and remediate and/or prevent the re-occurrence of either specific internal or specific external inspection findings, especially those related to repeated audit findings from year to year?

Another matter could be for the Board to guide auditors in how to determine the sufficiency and appropriateness of audit evidence in substantiating account balances and disclosures in financial statements. A third matter could be to focus on the education and training of auditors, and how much of it relates to understanding the economic principles at work in transactions and commerce, versus on understanding the requirements of accounting and auditing standards.

### Summary of Attributes

The table listing the Summary of Attributes in the Paper presents several elements that, for the most part, are present particularly in audits performed for more developed capital markets. Nonetheless, regulators globally continue to note significant audit firm inspection findings as indicated in the International Forum of Independent Audit Regulators (IFIAR) 2012 Summary Report of Inspection Findings released in December 2012. As per the IFIAR Report,

“There are common audit findings among [IFIAR] Members in a number of areas (inspection themes), including four that have been discussed by IFIAR with representatives from the six largest international audit firm networks since 2010: professional skepticism, group audits, revenue recognition, and the role of the engagement quality control reviewer.”

The significant audit firm inspection findings noted above should be considered in establishing a proper perspective of whether the attributes listed are uniformly found in current practice. Understanding current practice can act as a springboard to future change. As the Board contends with existing issues of audit quality, we believe it is also important for the Board to reach beyond the



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current boundaries of how audits are performed to grasp at new ways of thinking and to stimulate revolutionary approaches to affecting the behavior of auditors, improving audit quality, enhancing professional skepticism and satisfying the needs of investors. Are there aspects of an auditor's remuneration, including appointment, oversight and sanctioning that can be approached differently to have a positive impact on audit quality? Are there changes to the design of the audit firm's network structure that can be implemented to promote more consistency in the performance of high quality audits?

#### Measures of Audit Quality

We note that the Board did not include content addressing how to measure audit quality. If improvements to audit quality are to be achieved, then we believe the elements of audit quality need to be measurable and monitored. We recognize this may be a difficult task but the degree of difficulty should not impede the Board's path to realizing the significant benefits to be achieved by pursuing measures of audit quality. If the Board only addresses audit quality concepts with no quantifiable measures then attainable goals and future progress may be theoretical and lacking focus.

#### Intersection with Auditor Reporting Project

We believe the current auditor reporting initiative being undertaken by the Board should be done with the goal of benefiting users or providing incentives to improve audit quality. It is therefore important for the Board to consider if there are synergies or lessons from the audit quality project that could be factored into the auditor reporting initiative because the extent of reporting may positively influence the behavior of auditors in the conduct of the audit and in forming an opinion on the financial statements.

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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact either Nigel James or me at 202-551-5300.

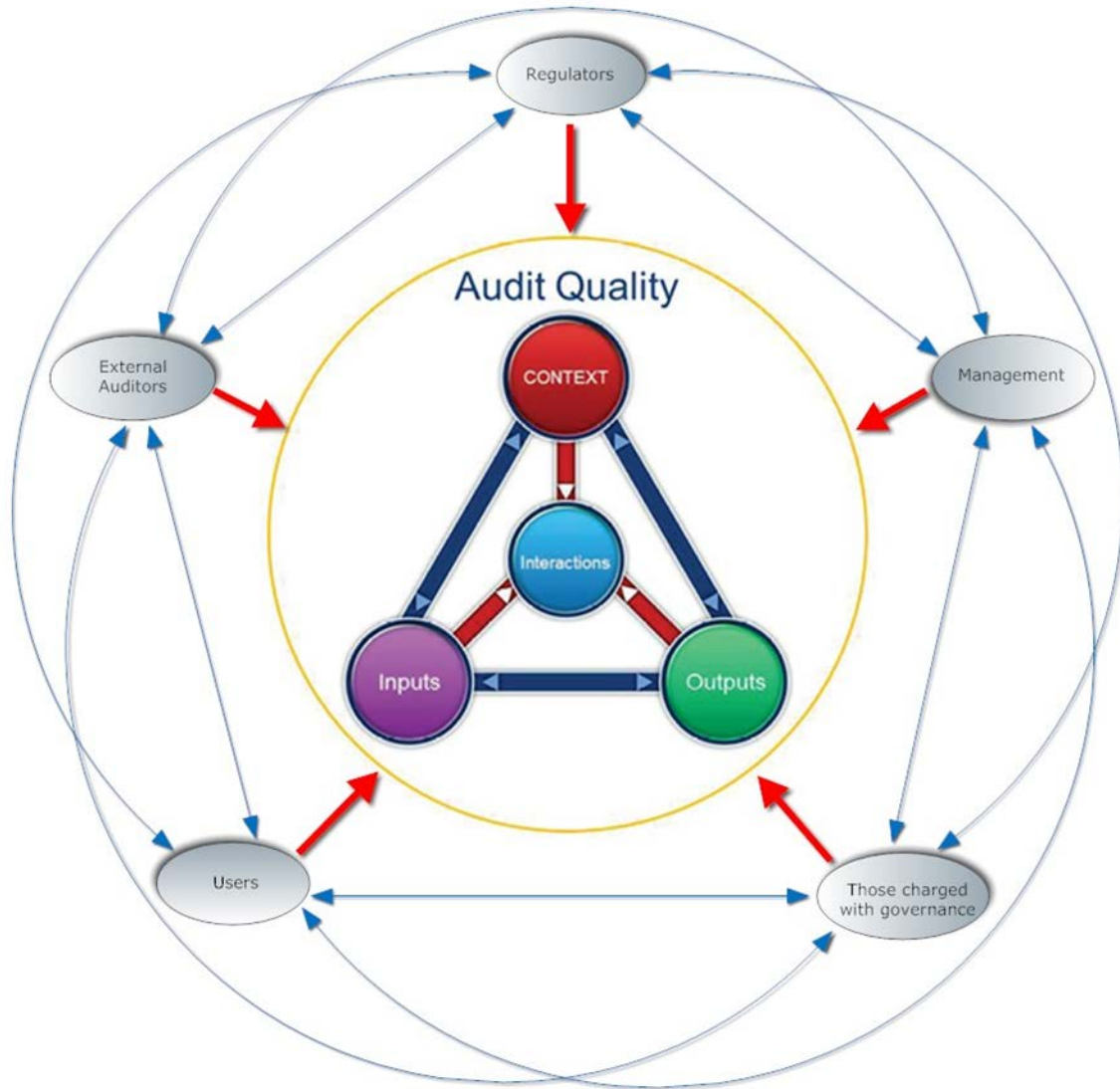
Sincerely,

Julie A. Erhardt  
Chair

Committee on Issuer Accounting, Audit and Disclosure  
International Organization of Securities Commissions

### Appendix 3

## Possible Change to Main Diagram to Give Greater Emphasis to the Interactions



Source: Response to the Consultation Paper by the New Zealand Auditing and Assurance Standards Board