



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.

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