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*JICPA Comments on the Consultation Paper, A Framework for Audit Quality*

The Japanese Institute of Certified Public Accountants (“we”, “our”, and “JICPA”) is pleased to provide you with our comments on the Consultation Paper, *A Framework for Audit Quality* (the Framework).

### General Comments

We recognize the necessity of communication with stakeholders regarding audit quality and appreciate that the IAASB is trying to develop the Framework whose objectives include raising awareness of the key elements of audit quality; encouraging key stakeholders to explore ways to improve audit quality; and facilitating greater dialogue between key stakeholders on the topic. Given that this project is a new challenge for the IAASB, we respect its efforts, and are looking forward to the future outcomes and impact of this project.

### Comments on the Provided Questions

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| 1. Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included? |
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We believe that the Framework covers all of the areas which can be considered at the present moment as to impact audit quality, including indirect areas. However, we believe that continuing consideration will be needed for the classification of the four factors (i.e. Inputs, Outputs, Interactions and Context), the individual attributes within each of those four factors, and for

sufficiency and appropriateness of related explanations.

2. Does the Framework reflect the appropriate balance in the responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders? If not, which areas of the Framework should be revised and how?

We note that the opening of the body of the Framework (paragraph 18) first states that auditors are responsible for the quality of individual audits. We understand that the IAASB takes the position that the auditor is primarily responsible for audit quality, and that other stakeholders within the financial reporting supply chain may have indirect impact on audit quality, by firstly describing the factors the auditor (engagement team and firm) can directly control, and having a relatively larger number of attributes to focus on those factors.

However, we believe that the summarized section of the Framework (paragraphs 18 to 30) should provide sufficient explanation about the above-mentioned IAASB's position. We believe that the understandability of the Framework would likely be improved if the summarized section would provide a clear explanation about the degree of responsibility for audit quality among the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders. Without such an explanation, it is likely to give readers an impression that many attributes are simply listed, despite the fact that there are indeed direct and indirect relationship with audit quality .

3. How do you intend to use the Framework? Are there changes that need to be made to the form or content of the Framework to maximize its value to you?

While it is not entirely clear to us as to which part of this Consultation Paper the IAASB intends to finalize as "The Framework for Audit Quality," we understand that the Framework will be issued with the intention to provide a common basis for considering or discussing audit quality, among a broad range of stakeholders including auditors, management, those charged with governance, regulators and users. Therefore, when the Framework is finalized, we would expect to use it as an educational material. For instance, we would expect to refer to it or use it, as appropriate, to develop our future work programs, train audit practitioners, and educate or have a dialogue with other stakeholders. Based on this perspective, we suggest that the following points should be considered prior to the finalization of the Framework.

(1) Finalization as a document which periodically raises issues

According to the “Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements,” the pronouncements the IAASB issues are classified as the Authoritative Pronouncements and the Non-Authoritative Material. It explains that the former includes the ISQC, ISA, ISRE, ISAE and ISRS, and the latter includes Practice Notes and Staff Publications.

The pronouncements titled as “The Framework” may be considered to have characteristics to provide the basic underlying concepts of the standards issued by the IAASB. Given the objective and the educational nature of the Consultation Paper, we suggest finalizing it as a document which periodically presents issues related to audit quality to broader stakeholders, and therefore should be classified as Non-Authoritative Material, without naming it as “The Framework”.

(2) Reconsideration when it is finalized as “The Framework”

If it is finalized as a document named “The Framework”, we believe that its status within the IAASB pronouncements needs to be clearly described as Non-Authoritative Material. Also, the following points need to be considered:

(a) Volume of the document

Recognizing that the Framework is intended to provide a common basis for understanding audit quality among a broad range of stakeholders, the document seems too long with 63 pages, excluding Appendix. We believe that it would be read only by people who have a very high interest in the topic. We are concerned that the Framework may fail to sufficiently achieve the given objectives.

(b) The concern that the Framework is used by checklist approach

The opening of the Framework clearly states, “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.” However, we are concerned that some may attempt to develop a tool to be used as a checklist by referring to a list of individual attributes in it, in order to evaluate or measure audit quality. Such an application may not necessarily meet the given objectives of the Framework, and may reinforce additional burden to auditors.

Therefore, if it is to be finalized as the Framework, we believe that the document itself should only provide a conceptual explanation with a focus that audit quality may be influenced by interactions

among stakeholders within financial reporting supply chain.

In view of (a) and (b) above, as one idea, we suggest a possibility of significantly restructuring the entire contents of the document, as follows:

- cut the list of individual attributes (paragraph 30) off from the body of the text and place it in the Appendix (reference material);
- separate the detail explanation of each attribute (paragraph 31 and forward) from the Framework, and place it as a related guidance material intended to be used mainly for training of audit practitioners; and
- remove Appendix 1 (Areas to Explore) and Appendix 2 (Stakeholder Survey) from the finalized framework or its related pronouncements.

4. What are your views on the suggested Areas to Explore? Which, if any, should be given priority and by whom? Are there additional Areas to Explore?

We believe that progressive effort would be preferable to explore improving audit quality on an international scale. However, it seems that matters in Areas to Explore include those which are beyond the scope of the IAASB activities (Areas to Explore #4 and #5), and those that the internationally harmonized effective initiatives may be challenging due to significant differences in regulation or business environment surrounding audit profession between various jurisdictions (Areas to Explore #1, #8, #9 and #10).

We believe that it is meaningful to provide suggestions to stakeholders within financial reporting supply chain to improve audit quality in the form of a consultation paper. However, since priorities of such Areas to Explore may vary between each jurisdiction, we believe it would be appropriate that, firstly stakeholders of each jurisdiction voluntarily discuss each attribute. For example, recently in Japan, in the context of past instances involving fraud, Areas to Explore #3 and #6 have been significantly addressed. On the other hand, Areas to Explore #1 or #2 have not been significantly addressed. We recognize that we are expected to continuously explore Areas to Explore #6, and, at the same time, we are aware of the importance of explaining the role of a financial statement audit to society in a more plain language.

Hence, we believe that it is not appropriate to include such broad suggestions in the finalized form of the Framework, and Areas to Explore should be separated from the Framework.

Sincerely yours,

Sayaka Sumida

Executive Board Member - Auditing Standards

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