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Mr. Jonathan Bravo
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Via email: consultation-04-2018@iosco.org

IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality

Dear Jonathon,

The International Federation of Accountants (IFAC) values the opportunity to comment on the *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality* (the Consultation). In addition to the overall comments below, Appendix 1 contains IFAC's responses to the detailed questions in the consultation, and Appendix 2 contains some further detailed comments and editorial suggestions.

IFAC overall strongly supports IOSCO's emphasis on the role of audit committees in audit quality, and efforts to enhance the coherence and quality of applicable regulation, oversight, and practices internationally. IFAC recognizes many valuable aspects within the proposed good practices document, in particular with relation to defining appropriate parameters for the external auditors' access to and relationship with the audit committee, and the provision of appropriate support to the external auditor.

There are many different definitions of what constitutes audit quality; and differences can reflect the different roles played by those defining the term. Any best practices document would benefit from being clear what background and context is being provided with respect to the meaning of audit quality. Consideration should be given to referring to the Audit Quality Framework published by the IAASB; in terms of:

- Highlighting the range of factors that contribute to audit quality;
- Highlighting the difference between audit quality and a quality audit (both terms of which are used in the Consultation Report); and
- Describing the complexities of defining audit quality.

Audit committees, together with management and the independent auditor, are key pillars that support audit quality and the ultimate objective of providing relevant and reliable information for investors -- including financial, non-financial, and integrated reporting. An effective audit committee is first among equals in this process although its oversight role, and the role of an external auditor, are impacted significantly by the capacity and expertise of finance functions and their leaders.

We recommend it is important to explicitly address and clarify the scope of the good practices document in this respect -- currently the document focuses on the role of audit committees in regard to oversight of



the appointment and engagement of external auditors. The good practices do not cover the role of audit committees in oversight of finance functions or their leaders to the same degree, nor the tripartite relationship and dynamics between audit committee, external auditor and finance function.

IFAC also recommends consideration should be given to ensuring that examples provided do not all draw on the negatives, which risks portraying company directors, external auditors, and management as being motivated solely by commercial imperatives, rather than promoting and encouraging good practice.

Finally, IFAC recommends consideration should be given to highlighting, to a greater extent, the importance of good communication – especially in what regulators and audit oversight bodies provide to the public, audit committees, and auditors, in the name of enhancing audit quality

Should you have any queries please don't hesitate to contact Amir Ghandar at amirghandar@ifac.org or myself.

Regards,

A handwritten signature in black ink, appearing to read 'Faye Choudhury', written in a cursive style.

Faye Choudhury
Chief Executive Officer



Appendix 1: Response to Consultation Questions

<p>1. <i>Do you agree that audit committees can have an important role in supporting audit quality in the interests of market confidence in the quality of information in the financial reports of issuers</i></p>	<p>Yes</p>
<p>2. <i>Do you have any comments on the background material on audit quality</i></p>	<p>Please refer to Appendix 2.</p>
<p>3. <i>Do you have any comments on the proposed description of the roles and responsibilities of audit committees and auditors</i></p>	<p>Please refer to Appendix 2.</p>
<p>4. <i>Do you have any comments on the proposed good practices for the features of audit committees that may facilitate a committee in being more effective in promoting and supporting audit quality</i></p>	<p>Please refer to Appendix 2.</p>
<p>5. <i>Do you agree with the good practices for audit committees outlined in Sections 3.3 to 3.9</i></p>	<p>Please refer to Appendix 2.</p>
<p>6. <i>Do you have any additional suggestions on good practices to be adopted by audit committees</i></p>	<p>Please refer to Appendix 2.</p>
<p>7. <i>Would you suggest any other changes to the proposed good practices outlined in this report?</i></p>	<p>Please refer to Appendix 2.</p>
<p>8. <i>In some cases a good practice is introduced with the words “The audit committee should take reasonable steps to ensure that” and in other case the words “The audit committee should consider the extent to which”. Is the wording used for each good practice appropriate?</i></p> <p>9.</p>	<p>Yes</p>
<p>10. <i>It is proposed to provide good practices at principles level and not to include detailed</i></p>	<p>Yes</p>



<p><i>procedures to support those principles. Do you agree with this approach</i></p>	
<p>11. <i>Given the differing governance structures for issuers in different jurisdictions, to what extent should any final good practices report deal with the roles of the governing board, audit committee and management in relation to financial reporting, systems and processes?</i></p>	<p>The proposed good practices strike an appropriate balance with respect to this aspect.</p>
<p>12. <i>What frameworks, practices, methodologies, or tools have audit committees found to be helpful in evaluating the following:</i></p> <ul style="list-style-type: none"> <i>a) Professional skepticism of auditors;</i> <i>b) An auditor's commitment to audit quality;</i> <i>c) Whether an audit firm's culture supports audit quality;</i> <i>d) Whether an audit firm has or makes available during an audit an appropriate level of resources with appropriate skills and expertise; and</i> <i>e) Whether audit quality has been compromised by reduced audit fees?</i> 	<p><i><u>A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality</u></i>, International Auditing and Assurance Standards Board</p>
<p>13. <i>Are there any other comments that you have on the proposed good practices report and the material that may be included in any final report?</i></p>	<p>Please refer to Appendix 2.</p>



Appendix 2: Further Comments and Editorial Suggestions

Page	Item	Comment
1	Reference in second paragraph to financial report	Recommend acknowledgment of the role of broader corporate/organizational reporting.
1	Reference in second paragraph to financial report	Suggest to add the following text: “..... and to the effective functioning of capital markets and the strengthening of economies” At the end of the sentence: “..... is key to market confidence and informed investors...”
1	Last part of second paragraph	Recommend including the broad range of factors that contribute to audit quality. Refer to IAASB Audit Quality Framework, possibly as an appendix.
1	Start of third paragraph say the audit committee can promote and support audit quality	Recommend to state that the audit committee <u>should</u> promote and support audit quality
1	End of the fourth paragraph referring to the IFIAR member findings	To provide richer and fuller context, recommend IOSCO should encourage IFIAR to provide full details of how many financial reports were deemed to be materially misstated. This goes to the point about how audit quality might be defined.
2	End of first dot point	Recommend to point out that auditor independence <u>and auditor experience and expertise</u> should be key considerations.
2	Start of fifth dot point	It is not clear the extent to which an audit committee seeking the views of an auditor relate to assessing the independence of an auditor? The point being made relates more to the level of objectivity and skepticism being exhibited by the audit committee itself.
2	Communication with the audit – last dot point	We recommend a reference to the IAASB <i>Framework for Audit Quality</i> in regard to this aspect and in assessing audit quality more generally. Regulator/audit oversight bodies can play a key role in communicating with the company (audit committee) and the auditor – sharing insights from inspections, discussing key sectoral and industry issues an alerting others to matters identified, and generally looking to collaborate and cooperate with other stakeholders in the attainment of the same objective of high quality financial reporting.
4	End of third paragraph regarding confidence in the audit opinion	The focus in this area appears to become slightly unbalanced, we recommend it should be about ongoing confidence in the financial reporting by the company; especially if one agrees that audit quality is impacted by a broad range of factors as per the IAASB Audit Quality Framework.



4	End of fourth paragraph	Recommend the good practices report (guidance) should be aiming to assist audit committees in considering ways in which they <u>can</u> promote and support audit quality; not merely ways in which they “may be able” to
4	Last paragraph	Audit committees need not follow any law, but rather <u>relevant</u> laws; not applicable to the “issuer” per se, but rather to <u>relevant governance practices of the issuer</u> .
5	Section 2.3, first paragraph – re being confident and informed	In our view, this is an overstatement of the role that auditors and audit play; and as written seems to misunderstand investors actions, approach, and motivations. This should be clarified to say that auditors play a critical role in enhancing the credibility of a company’s financial report that may be used by investors – among a range of other information – in making investment decisions.
5	Section 2.5 first two dot points	Recommend consideration should be given to referring to the standards adopted and implemented.
8	Section 3.2	Recommend to include a good practice in this section which covers following: “Audit committee members should have a clear understanding of the organization’s structure, including responsibilities and related processes for the preparation of information presented to the Board and audit committee. This includes an understanding of processes related to financial reporting, risk management and internal control, internal audit and internal assurance practices, and compliance with laws and regulations.”
9	Good practice 4	Recommend explicit reference to understanding of the business, including the company’s business model and strategy, and the main business and financial dynamics and risks. Also, training for audit committee members is currently referenced as ‘where necessary’, however the good practices should be explicit that this is always necessary.
11	Section 3.3 second paragraph	The example provided casts negative aspersions upon issuer management and links two different ideas. It is not clear how management has interests not aligned with a quality audit (maybe if they are trying to hide fraudulent behavior), but this does not logically follow that it would set lower audit fees. The example goes on to refer to financial performance motivations for lower fees, which does not logically follow from having misaligned interests with respect to the conduct of an audit. Possible alternative wording: “Whilst management is often the body that negotiates the audit fee with the auditor, the audit committee should ensure that the fee is appropriate for the level of audit work to be done consistent with achieving a high level of audit quality. The



		audit committee should have the final authority to approve the audit fee”.
11	Proposed good practice 12	<p>The requirement that “Any audit tender or other selection process is conducted independently of issuer management”, may appear to conflict with the later aspect, “in a tender process, sufficient access would normally be provided to management for a prospective auditor to obtain an understanding of the business, operations and risk areas”.</p> <p>We recommend a valuable area of further exploration might be to more practically consider what parameters define an appropriate level of involvement of management.</p>
12	Proposed good practice 16	Overall the inclusion of the discussion about firm size, and fees alongside more general parameters to guide the audit committee’s decision making and assessment convolute this proposed good practice -- suggest this is moved to accompanying narrative.
12	Proposed good practice 16	This is unnecessarily negative about non-smaller audit firms. The statement could be written more neutrally to refer to the fact that where one focuses on the expertise and experience, and independence, of the auditor, the size of the audit firm should not be a sole determining factor for the choice of auditor.
12	Proposed good practice 17	“Potential auditors are not asked for their views on contentious judgements or accounting treatments affecting the issuer’s financial reports before their selection” -- this requirement appears to be an impracticable constraint on audit committee judgment and decision making, we recommend that instead good practices would include being aware of and explicitly managing the risk of ‘opinion shopping’.
17	Third paragraph referring to cost as a consideration	It does not appear to make practical sense to suggest that cost should not be a consideration when setting audit fees. Perhaps that sentence should be saying that costs needs to be balanced against a range of important considerations when assessing audit fees?
16/17	Section 3.5, Fees	Section 3.5 sets out some of the competing imperatives and context related to setting audit fees (commercial decision, audit quality), however rather than providing clarity as currently drafted it appears contradictory and possibly confusing, emphasizing some aspects while not emphasizing others (this is also linked to our recommendation to refer to a holistic framework in defining audit quality). From the perspective of regulators, it is important to be aware of not creating competing expectations that confuse the market.
19	Proposed good practice 40	Seeking external advice is presented as a solution however this can exacerbate or cause issues in itself -- while depending on the situation, this may result in either 1) seeking out someone who



		<p>agrees with you because you don't agree with the auditor, or 2) wasting money when you already have an external opinion. A more appropriate approach is for a consensus to be reached through proper and rigorous challenge and discussion.</p>
19	First paragraph	<p>Recommend to change to ".....whose role is to provide an independent opinion on the financial statements and accompanying information confirming they are true and fair view and contain no material misstatements".</p>
20	Proposed good practice 44 with respect to cooperation	<p>This is written quite negatively and perhaps should focus on the importance of cooperation, and assessing whether the right level of cooperation has been provided.</p>
21	Proposed good practice 46	<p>Recommend further detail on what is involved, and references to other relevant sources on auditor independence.</p>
25	Section 3.9	<p>Recommend this section is entitled "Assessing the External Auditor's Performance", rather than "Assessing Audit Quality", refer also reference to scope in cover letter above. The preamble could also more strongly emphasize the importance of the role of audit committees in evaluating auditor performance as follows: "Audit committees should establish appropriate and robust performance measurement criteria to enable them to evaluate an auditor's performance. This can help to ensure that members receive a valuable independent audit opinion on the financial reports. The audit committee should also agree how they communicate the results of their assessment to shareholders and others. This promotes market confidence in the issuer's financial reports."</p>
25	Section 3.9	<p>Further matters for audit committees to consider in this section include:</p> <p>Did the auditors bring to attention risks or issues that the audit committee was not previously aware of?</p> <p>Did they provide constructive observations, implications, and recommendations in areas needing improvement?</p>