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May 15, 2013

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Gunn,

Re: Consultation Paper A Framework for Audit Quality

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the Consultation Paper (CP) *A Framework for Audit Quality*.

Overall Comments

The AASB supports the IAASB's project to develop a non-authoritative framework on audit quality. The term "audit quality" is increasingly used in discussions by legislators, regulators, audit inspectors and others about the role of the external auditor in the financial reporting process. The IAASB's project sheds light on the many factors that contribute to, and the roles of key stakeholders in enhancing, audit quality. The AASB believes that there are significant opportunities to raise awareness about and to help stakeholders understand the key audit quality elements. The Framework will be a useful communication tool as auditors have audit quality discussions with stakeholders. For these reasons we encourage the IAASB to continue its efforts to engage stakeholders on the topic.

Also, in our view, an important area of interest for stakeholders will be whether they can use the Framework to take actions to enhance the quality of individual audits. The CP recognizes that the

Framework, by itself, will not be sufficient for that. We believe that the IAASB should consider examining means of enabling the Framework to be useful beyond being a communication tool.

AASB Staff Detailed Responses to Questions

On the following pages, AASB staff provides detailed responses to the questions posed in the CP as well as some other comments for the IAASB to consider.

We hope that these comments will be useful to the IAASB in finalizing the CP. If you have any questions or require additional information, please contact Greg Shields at (416) 204-3287.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Mark Davies', with a stylized flourish at the end.

Mark Davies, CIA, CPA, CA
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
John Wiersema, FCPA, FCA
Bruce Winter, FCPA, FCA

AASB Staff Responses to IAASB Questions

1. Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?

No. There are four key areas that the Framework either does not cover or does not cover appropriately:

- the scope of the Framework;
- key interactions;
- contextual factors; and
- changing expectations and perceptions.

These are discussed below:

The scope of the Framework

The Framework does not clearly explain the relationship between the terms “audit quality” and “the quality of an individual audit”. Staff believes that this may create confusion about the scope of the Framework and how it might be used in practice.

Paragraph 22 explains that the Framework, by itself, will not be sufficient for the purpose of evaluating the quality of an individual audit. Further, the beginning of paragraph 19 is also confusing: “Many factors contribute to enhancing audit quality within a jurisdiction, and increasing the likelihood of quality audits being performed. The IAASB believes there is value in describing these factors...”. Some may interpret this text as suggesting that the Framework is focused at the macro level not at the individual engagement level.

However, other paragraphs in the Framework appear to conflict with paragraphs 19 and 22. For example, paragraph 17 refers to “information in auditors’ reports that may provide stakeholders with additional insights into audit quality” (as opposed to “the quality of the individual audit”).

Staff believes that the Framework could be clearer as to how it applies to individual audits and the wording made more consistent throughout. Further, the fact that the Framework is expressly described as not being sufficient for the purpose of evaluating the quality of an individual audit may be seen as a practical impediment to the usefulness of the Framework. Staff believes that an Area to Explore should be a consideration of how to bridge this gap. Staff makes reference to this further in the discussion of Areas to Explore below.

Key interactions

A key message of the Framework is that audit quality is best achieved where there is support from other participants in the financial reporting supply chain. This is also reflected by the fact that interactions are positioned at the centre of the Framework diagram. However, the descriptions of the interactions, particularly between the external auditor and other participants, are very general. Staff believes that more detail is necessary if the Framework is to meet its objective of encouraging key stakeholders to explore ways to improve audit quality. By way of specific example, paragraph 185 dealing with how those charged with governance are in a position to influence the quality of the audit covers only three matters and at a very high level. While recognizing that the role of the audit

committee may be different in different jurisdictions, staff still believes that some further suggestions could be provided as to how the audit committee might enhance audit quality. For example, paragraph 185 could be significantly expanded to address such things as:

- Indicators that an audit committee might look for to confirm that a high quality audit was performed.
- When discussing planning matters with the auditor (referenced in paragraph 184), how the audit committee can relate the audit plan to its own understanding of the business or financial risks facing the entity.
- When discussing significant findings with the auditor at the end of the engagement (referenced in paragraph 184), how the audit committee can evaluate whether the auditor has exercised professional skepticism and performed a quality audit.
- How the audit committee considers independence issues and assesses their resolution.
- How management was challenged by the auditor during the audit, particularly with reference to assessment of fraud risk, management's estimates and assumptions and the choice of accounting policies.
- Assessing the quality of insights and observations provided by the auditor on the entity's financial reporting, internal controls and operating performance.
- Reviewing matters the auditor discussed with the engagement quality control reviewer and how these matters were addressed by the auditor.

Staff also notes that there may be some overlap of the matters presented above with those discussed in paragraphs 220-226 of the Framework dealing with corporate governance contextual factors. Staff believes that there should be some level of consistency between the discussion in paragraphs 182-185 and the discussion in paragraphs 220-226.

Staff believes that the Key Interactions section of the Framework needs to be strengthened to be more specific as to how interactions can enhance audit quality. In this respect, the Framework may be made more robust if the interactions that can enhance audit quality are referenced where appropriate to relevant inputs. For example, if the audit committee takes action to protect the independence of the auditor, this could be referenced to input 1.1.3.

Contextual factors

The section on contextual factors is not consistent in clearly indicating how the various factors identified influence audit quality. As a result, participants in the financial reporting supply chain other than auditors may have difficulty understanding how contextual factors in their environment affect audit quality in their jurisdiction. By way of example, paragraph 218 provides a number of audit challenges resulting from the evolution of financial reporting frameworks. However, a similar analysis is not provided for such things as business practices and commercial law, laws and regulations relating to financial reporting and information systems.

Staff believes that the Contextual Factors section of the Framework needs to be strengthened to be more specific as to how the identified factors may influence audit quality.

Changing expectations and perceptions

Over time, users' expectations and perceptions of the audit and audit quality may change. For example, what may be a high quality audit today may not be considered to be a high quality audit tomorrow, all other things being equal, if users' expectations and perceptions change. Further, these expectations and perceptions may also be specific to a particular jurisdiction depending on events and circumstances. These dimensions are not reflected in the Framework.

Staff believes that the "The Challenges of Defining Audit Quality" section of the Framework needs to be expanded to reflect these dimensions.

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?

See our response to question 1 which explains some areas where the Framework could be expanded. Staff recognizes that the Input Factors section is quite long but believes that this is appropriate in raising the awareness of stakeholders in the elements of 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?

Staff believes that there may be fertile ground for using the Framework in multiple ways to enhance audit quality if the changes staff is proposing in this letter are made. Some of the potential uses of the Framework staff have identified include:

- Providing guidance to assist audit firms benchmark their audit quality at a firm level
- Providing guidance for audit committees to evaluate the quality of the external audit
- Discussing with audit inspectors the root causes of audit deficiencies and potential responses
- Discussing with securities regulators means of enhancing audit quality through improvements to regulation

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?

The following are our comments on the suggested Areas to Explore:

- All of the proposed areas to explore may benefit audit quality to varying degrees.
- Area 2 appears to be the project currently being jointly undertaken by the UK Financial Reporting Council and the Institute of Chartered Accountants of Scotland on the skill and competency requirements of auditors in today's complex global business environment. Staff agrees that this is an area to explore.
- Area 6 is currently being addressed to some extent in Canada and other jurisdictions by audit inspectors, audit firms and professional accounting bodies. Staff supports exploring this area and considers it to be a high priority.
- Area 7 is already being addressed by the IAASB. Staff supports the IAASB's project.

- Area 8 is consistent with the views expressed by some Canadian respondents to the IAASB’s auditor reporting proposals dealing with going concern. Staff therefore supports exploring this area.
- Area 9 is currently being considered in Canada as part of the collaboration between the Canadian Institute of Chartered Accountants and the Canadian Public Accountability Board into the role of the audit committee in external audit oversight. The following is a link to the Discussion Paper of the Audit Committee Working Group issued in January 2013 that provides views on this topic: <http://www.cica.ca/enhancing-audit-quality-canadian-perspective/item71922.pdf>. The AASB believes that this Discussion Paper would be helpful to the IAASB and others exploring this area.

In our view, the following identifies the projects staff believes should be given priority and by whom:

Area to Explore	By Whom
1. Area 9: Harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit	IOSCO, IAASB, ICGN
2. Area 6: Considering root causes and best practices to learn from past audit deficiencies and to identify and address systemic issues	IFIAR, IAASB, Forum of Firms
3. Area 7: Increasing the informational value of auditor’s report and improving perceptions of the value of the audit	IAASB
4. Area 4: Considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to uses	IFIAR, IAASB

In our view the IAASB should add to its Areas to Explore whether and, if so, how it could augment the Framework to aid in evaluating the quality of an individual audit (as discussed under question 1 above). In this respect, staff understands that the US Public company Accounting Oversight Board and the US Center for Audit Quality both have projects underway to develop definitions, indicators and measures of audit quality, among other things. These projects may be relevant to this proposed Area to Explore. In our view, it is important that efforts in this area be made on a collaborative basis so that there is a consistent understanding and approach to such matters.

Other comments

1. There are some paragraphs in the Framework that may become outdated over time because they reflect today’s environment but may not be relevant in the future. Staff identified the following paragraphs that staff suggests the IAASB may need to revise or remove as appropriate: 17, 71, 78, 139, and 154. Staff also suggests that the Areas to Explore be removed from the final Framework for the same reasons.
2. Paragraph 78 deals with disclosure of the engagement partner name. This discussion does not appear to be relevant to the heading under which it is placed “The audit engagement partner is actively involved in risk assessment, planning, supervising, and reviewing the work performed.” It may be more relevant if placed in 2.1.1 “Auditor’s Report to Users of Audited Financial Statements.”