



May 15, 2013

Mr. A Schilder
Chairman, IAASB
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017

Dear Mr. Schilder,

Re: Request for Comment on the Consultation Paper, *A Framework for Audit Quality*

Deloitte Touche Tohmatsu Limited (DTTL) appreciates the opportunity to provide input on the Consultation Paper, *A Framework for Audit Quality* (the “Framework”), developed by the International Auditing and Assurance Standards Board (“IAASB” or the “Board”). Executing high-quality audits is critical and essential to DTTL and we remain committed to restoring public trust in financial reporting.

Audit quality has, until now, been the responsibility of auditors, standard setters, and audit regulators through:

- Demanding professional qualifications
- Rigorous ethics and quality control standards
- Robust auditing and accounting standards
- Stringent public oversight by regulators
- Thorough peer review processes and regulatory inspections

Management and those charged with governance have also had a contributing role to audit quality through establishing a strong culture of corporate governance.

Given the continuing focus of key stakeholders on the important topic of audit quality, we acknowledge the timely and thoughtful efforts made by the IAASB in its deliberations to develop a framework which we believe will contribute to developing a broad consensus as to how to describe, identify and measure audit quality. In undertaking this project, we urge the Board to continue to:

- Consider in its deliberations both the research and results of related audit quality-focused projects currently being endorsed by other bodies, such as the Public Company Accounting Oversight Board¹, the Center for Audit Quality² and the Financial Reporting Council. This is particularly important to ensure global consistency on the topic of audit quality as perceived and articulated by the IAASB.
- Obtain and consider the views of key stakeholders globally, including audit committee members, institutional investors, senior management of both large and small entities, primary public sector stakeholders as well as audit oversight bodies.

Evaluating Audit Quality Using a Framework

We recognize the difficulty in establishing a uniform or singular definition of audit quality which is understood and accepted by all stakeholders. We believe that there currently exists a shared desire by all stakeholders for continual improvement to audit quality, but also understand that the interpretation of audit quality may differ by each stakeholder. A concise framework can be a means to draw the various facets (i.e., audit inputs, stakeholder interactions, and audit report and other outputs) underpinning audit quality together, so that the inter-relationships between them can be better understood by the stakeholders, and to enable a more consistent evaluation of audit quality.

We believe audit quality is achieved by auditors exercising appropriate professional skepticism, securing the necessary (audit) inputs and, through appropriate (stakeholder) interactions, delivering appropriate (reporting and other) outputs within the context (of the audit engagement) enabling the intended users of the financial statements to have an enhanced degree of confidence of financial information subject to audit.

A framework can also be useful as a basis to further develop high-quality auditing standards and support their effective implementation. Audit quality is in part based upon auditing standards that are relevant and have universal recognition and acceptance and are also capable of being clearly and consistently understood and applied. The application of such standards within the context of a versatile audit quality framework will ensure that the objectives of the auditing standards are consistently exceeded. We believe any final audit quality framework should have an integral part within the IAASB standard setting activity.

We support the development of a framework to achieve the objectives specified in the Consultation Paper. We believe the intended use and purpose of the Framework should be clarified, the content should be condensed, and there should be more focus on the responsibilities of all the stakeholders.

Recommendations to address these identified issues have been further detailed below.

¹ Public Company Accounting Oversight Board Strategic Plan: Improving the Relevance and Quality of the Audit for the Protection and Benefit of Investors 2012 – 2016 (November 30, 2012).

² The Center for Audit Quality (CAQ): The Audit Quality Indicator Initiative Task Force

Intended Use and Purpose of the Framework

The IAASB has articulated their vision for the objectives of the Framework. The purpose and anticipated use however are not clear. For example, it is unclear whether the factors and interactions included within the Framework represent the potential components of audit quality that may be considered or whether those factors represent criteria that must be in place in order for audit quality to be achieved.

The Consultation Paper states: “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.” However, without clarity as to the intended use of the Framework, we are concerned that the application of the Framework could have unintended consequences such as having each individual factor and interaction being used to directly benchmark or “scorecard” whether audit quality was achieved on an audit engagement.

We also recommend the IAASB consider and clarify how the Framework should be used and applied within the construct of the existing audit quality standards, International Standard on Auditing 220, *Quality Control for an Audit of Financial Statements*, and International Standard on Quality Control 1, *Quality Control for Firms That Perform Audits and Reviews of Financial Statements, And Other Assurance and Related Services Engagements*.

We believe the most appropriate use of the Framework would be for educational and informational purposes, to be used as a means of expressing the value of an audit, rather than as a description of audit quality in the form of factors and interactions. The framework also needs to be written in a way that it is engaging to the wider stakeholder group (see further comments on the length and presentation of the framework in the section below) in order to achieve a general consensus on audit quality and to establish a “common language” with respect to audit quality.

Length of the Framework

In its current format, the length of the Framework may undercut its effectiveness as a tool for evaluating audit quality. A simplified, principle-based framework would be easier to understand and employ. The framework itself should be:

- Simple, to encourage consistent application
- Versatile, to support the evolution of audit quality as it is a dynamic concept
- Succinct, to promote its use as a quick reference tool.

We support the concept of factors (audit inputs, output and engagement contextual factors as well as the interactions among stakeholders) as outlined in the Consultation Paper as a means of understanding and implementing the Framework. However, we believe this detail represents “application material” which underpins the Framework, rather than comprising part of the Framework itself. It is also important that the use of the factors be explained clearly and fully, since no one individual factor should be the sole measure of audit quality, rather all the factors considered and applied in their entirety will contribute to audit quality. Further, the adoption of a

simplified layout (i.e., concise framework with explanatory or application material) would also allow for the Framework itself to remain untouched, yet only the “application material” to be updated as and when necessary as certain factors that contribute to audit quality continue to evolve in a dynamic environment.

The Framework should also be written such that it is understood in the context of economic reality. Ensuring that the quality of an audit meets the expectations of all stakeholders in addition to the professional standards could ultimately take limitless resources, cost and time, and would not be feasible.

Responsibilities of All Stakeholders

Overall, we believe that the Framework should encompass more fully all participating stakeholders. While we acknowledge that the audit profession has primary responsibility for audit quality, there are many other contributing stakeholders involved and accountability should be articulated clearly and fully upfront in the vision for the Framework as well as in the application material, such that all parties are in a position to acknowledge their respective roles.

RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

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

While we believe that the Framework, as currently presented, is comprehensive with respect to the auditor’s roles and responsibilities given that the topic of audit quality is evolving, it is unlikely that the factors identified in the Framework will remain static. We further believe that if the factors were to be included as “application material” as suggested above, it would be an easier process to update the application material for current trends affecting the profession and the financial reporting environment, given that the Framework itself would not be affected.

The Framework, however, should be neutral in its discussions on audit matters that are currently being explored and debated in other IAASB projects or various professional bodies’ on-going projects. These include topics, such as audit firm rotation (paragraph 41) and the naming of partners in the audit report (paragraph 78).

Further, caution should be exercised in expressing views that indicate a factor may only have negative implications, when in fact in differing jurisdictions the opposite may be the case. For example, paragraph 121 indicates that methodologies which are too prescriptive have negative implications for other elements of audit quality. However, in certain jurisdictions, the underlying auditing standards are becoming more prescriptive and there are varying opinions on whether prescriptive or principle-based standards are more suitable.

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 do not believe that the Framework provides a balanced representation of the contributions of all stakeholders to audit quality. The factors contained in the Framework are focused on the auditing profession and, taken as a whole, could be used to understand audit quality only from the one-dimensional view of the auditor's role. However, no mechanism exists to evaluate the audit quality factors as they relate to the other stakeholders. A better balance needs to be achieved within the Framework about the necessary contributions of other stakeholders, and interactions between stakeholders to support audit quality. For example, we believe the Framework needs to recognize the importance of the impact of management's processes, controls, systems and governance with respect to financial reporting on 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 we are not in a position to definitely say how we would intend to use the Framework, we envisage that the Framework could be used for informational and educational purposes. Specifically, we believe the Framework could be used for the following:

- In conjunction with engagement letters to reinforce to all stakeholders the importance of shared quality
- In proposals to reinforce the stakeholders' commitment to quality
- In communications to management and audit committees about the shared commitment to quality
- To inspire and explain the ideals of the profession to potential future employees
- To develop focused auditor learning
- As a basis for ongoing constructive discussions about audit quality (for example, with audit regulators arising from review activities)
- To encourage our professional staff to consider how they can further contribute to audit quality

However, we believe that changes do need to be made to the proposed Framework. The purpose and intent of the Framework needs to be first clarified by the IAASB and then communication about its authority and use should be driven by IAASB. As noted above, we believe the Framework and supporting guidance need to be broadened to cover all key stakeholder contributions to audit quality. In addition, reworking the Framework into 2 parts, as discussed above (concise framework and detailed application material), will maximize its practical use. In order to enhance the document's functionality for other stakeholders, particularly audit committees (those charged with governance), we suggest that the core elements that would resonate with such stakeholders are extracted and reflected into a concise document as previously described.

We believe the terminology used in the Framework could be more engaging and audit focused. This could be achieved through using terms such as "engagement context", "audit inputs", "audit report and other outputs" and "stakeholder interactions" in place of "context", "inputs", "outputs" and "interactions" respectively.

We also recommend relocating the “Interactions” and “Contextual Factors” to earlier in the application material to the Framework, as these are the elements which are mostly impacted by other stakeholders, and underpin the audit engagement.

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 recognize that the Areas to Explore have arisen from the development of the Framework, which demonstrates its potential usefulness in identifying perceived gaps, and that these may be areas for further dialogue. However given the importance of the audit quality project and the desire to move forward with a Framework, these areas should be addressed in a separate forum and not linked to the further development of the Framework.

We would be pleased to discuss our letter with you or your staff at your earliest convenience. If you have any questions, please contact Sal Davide at +1 212 436 5459 or Jens Simonsen at +45 361 03781.

/s/ Sal Davide
Global Audit Standards & Methodology Leader

/s/ Jens Simonsen
Managing Director
Global Audit Services