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Audit • Tax • Advisory

International Auditing and Assurance Standards Board
International Federation of Accountants
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Dear Board Members and Staff:

Re: Consultation Paper - A Framework for Audit Quality

Grant Thornton International Ltd (Grant Thornton) is pleased to have the opportunity to comment on the consultation paper – *A Framework for Audit Quality*. We appreciate the International Auditing and Assurance Standards Board (Board) addressing this subject and respectfully submit our comments and recommendations. In addition to the specific comments provided in the body of this letter, responses to the Board's questionnaire are provided on the attached appendix.

Page 8 of the document describes the Board's three objectives in publishing this framework. In summary, those objectives are (1) to raise awareness of the key elements of audit quality, (2) encourage stakeholders to explore ways to improve audit quality and (3) to facilitate greater dialog between key stakeholders on the topic of audit quality. We support these objectives and we believe that the proposed content of the framework will allow the Board to substantially achieve these objectives. We hope the following comments will contribute to successfully realizing the positive outcomes that are being sought by the Board.

Intended use and distribution

We have a concern that, notwithstanding the caveat on page 9, an unintended consequence may be that the framework is viewed by some stakeholders as being authoritative. We therefore encourage the Board to (a) consider whether additional content needs to be developed to explain how the document should and should not be used and (b) explore the type of publication that would position the framework appropriately.

Given the robust content in the framework and the input that will be received from the consultative process, the Board may also wish to reflect and indicate whether they intend to use this information to recommend changes to the quality control standards or the ISAs.

We also encourage the Board to not include the present content of Appendix 1 of the framework within the main document of the final published paper. The content of the appendix is food for thought for future development of the framework and it is not clear as to who, when or how the outcome of the research will affect the framework.

Defining audit quality

Paragraphs 1 through 17 discuss the challenges of defining audit quality. Notwithstanding the challenges, we believe that a definition, or an expansion of the discussion in the section of the framework titled “The Challenges of Defining Audit Quality”, is needed to achieve objectives (2) and (3). Absent a common understanding of the topic within and between the stakeholders, it will be difficult to achieve these objectives.

Other industries strive to deliver high-quality goods and services. A definition of the quality of products or services is usually based on either a “fit for purpose” or “conformance to requirements” perspective. We believe that a lot of the existing content in paragraphs 1-17 does not relate directly to the topic of defining audit quality. Several paragraphs describe facts about an audit, but the link between the fact and an explanation of why audit quality cannot or is not defined is not clear.

We believe that the content of this section could be constructed to discuss the advantages and disadvantages of defining audit quality from the two perspectives identified above. For example, one challenge in using a “fit for purpose” definition is the close link between the audit being fit for purpose and the subject matter information (i.e., the financial statements) also being fit for purpose. If the subject matter information is missing the predictive or confirmatory value sought by users then both the information and the audit will be judged to be lacking (even when the audit is free from defect). An example of an advantage of defining an audit from a conformance to requirements perspective is that definition is in the domain of the audit itself and it is the perspective used by regulators in their inspections and practitioners in their quality monitoring systems.

Inputs into audit quality from the perspective of the entity

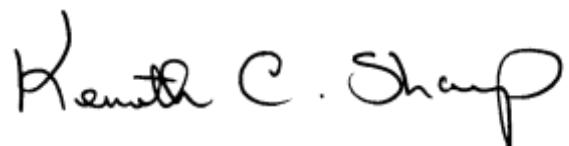
The document is structured into sections that discuss input factors, output factors, key interactions and contextual factors. The input section focuses primarily on the practitioner and the auditing profession. The entity’s role in audit quality is discussed primarily in the key interactions section.

We believe that the framework describes an environment that, if present, would have a higher probability of achieving quality audits, and therefore result in audit quality. We believe that key elements of an environment that increases the probability of achieving audit quality stems from the entity itself. For example, the probability of quality financial reporting and a quality audit is higher when the entity has robust controls, exhibits a positive attitude towards meeting the spirit of the financial reporting objectives, devotes appropriate resources to financial reporting and so on.

The input section describes attributes that are conducive to audit quality. Most of the concepts being expressed by the attributes in this section apply to the entity. Including content discussing the input attributes from the entity perspective would result in a much more robust discussion of the important role the entity itself plays in achieving audit quality. We believe that including such content would help the Board achieve its objectives.

We would be pleased to discuss this letter with you. Please contact Richard Wood at (905) 466-8710 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth C. Sharp". The signature is fluid and cursive, with a large, stylized 'K' at the beginning.

Kenneth C. Sharp
Global Leader - Assurance Services
Grant Thornton International Ltd

Appendix

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

Please refer to our comments in the main body of our comment letter. While the framework covers all the areas of audit quality we believe that enhanced content with respect to how the entity itself affects audit quality inputs would help the Board achieve its objectives.

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?

Please refer to our comments in the main body of our comment letter. While the framework does a good job in achieving balance, we believe that enhanced content with respect to how the entity itself affects audit quality inputs would enhance the balance that the Board desires.

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?

The timing of the publication of the consultation paper was fortunate as Grant Thornton was in the process of updating our global quality monitoring program and supporting tools. We used the framework as one of the inputs into the development process, for example, in determining items to consider in reviews and determining possible root causes of findings. We believe that framework will also be useful in developing training programs and other supporting materials for our member firms, their people and their clients.

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?

To some degree, there are ongoing activities for most of the items raised in this section. We believe priority should be given to those activities that are directed towards reducing the gap between the information and assurance expectations stakeholders seek and what the financial reporting model is delivering presently. This would mean continuing or increasing collaboration activities (for example, perhaps with IOSCO on items 9 and 10), better defining and enhancing the roles and responsibilities in the financial reporting process, addressing disclosures about the entity being sought by stakeholders through enhancements to accounting frameworks and regulatory disclosure requirements and enhancements to auditor reporting.

Comments on Specific Paragraphs

1. Paragraph 18 could be read as being prescriptive and perhaps even a definition of audit quality. We suggest rewording the content such that the points are presented as some or examples of the conditions that help achieve audit quality.
2. In paragraph 72, it is not clear how knowledge of the entity underlies professional skepticism. Paragraph 43 does a good job explaining this link. Consider whether some of the content in 43 should also be included in 72.
3. The content of paragraph 109 could be more balanced by including the positive aspects of using technology in addition to the negative.