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May 15, 2013

VIA ELECTRONIC SUBMISSION

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017

RE: Invitation to Comment: *A Framework for Audit Quality*

BlackRock, Inc. ("BlackRock") appreciates the opportunity to respond to the Invitation to Comment ("ITC"): A Framework for Audit Quality (the "Framework"). BlackRock is a global investment manager, overseeing $3.94 trillion of assets under management at March 31, 2013. BlackRock and its subsidiaries manage approximately 3,400 investment vehicles, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and collective investment trusts, in addition to separate accounts. Certain of BlackRock's wholly-owned subsidiaries operate as U.S. registered broker/dealers, U.K. registered life insurance companies, a U.S. registered bank trust company and numerous investment advisory companies registered in jurisdictions throughout the world, including Hong Kong.

As an investment manager, BlackRock is in the position to provide commentary on the Framework from the perspectives of a) a corporate preparer, b) an investment fund preparer and c) a user (*i.e.,* BlackRock's internal research analysts and our Corporate Governance and Responsible Investment team responsible for proxy voting). As such, our comments take into account all three of these distinct perspectives.

<u>Overview</u>

Audit quality is an important aspect in achieving many of the goals set out by audit firms and organizations, including the reliance on the auditor's opinion on the financial statements. Achieving audit quality requires the balance between having the appropriate staffing model, comprehensive process, and effective reporting mechanisms at the engagement team level and the appropriate oversight, monitoring and culture at the firm level. We believe that the Framework achieves the objectives set out by the International Auditing and Assurance Standards Board ("IAASB") of raising awareness of the key elements of audit quality, encouraging audit quality improvement and facilitating greater dialogue related to audit quality. This Framework can enhance the structure of audits and assist auditors in providing the type of transparency required in today's environment.

While challenges exist in defining audit quality, we evaluate audit quality on the basis of, among other things, how well an audit detects and reports material misstatements of financial statements, how efficient the audit process is performed and the level of dialogue about processes and controls that takes place.

As the Framework indicates, audit quality can be affected at various levels (*e.g.,* engagement, firm, national) and by a number of factors (*e.g.,* input, output, interactions, context). We agree that these levels and factors play an integral role in attaining audit quality. At the engagement level, the team needs to exhibit the qualities one would expect from a qualified auditor, including professional skepticism, integrity and objectivity. The engagement team also must have the

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appropriate knowledge of the audit approach and industry, and be sufficiently supervised in the execution of those services. At the firm level, culture is a critical success factor in ensuring that the appropriate governance exists and interactions and consultations are encouraged to ensure that the right answers are achieved. The firm also needs to ensure that they have an audit methodology that is relevant and up-to-date based on the landscape of regulatory and environmental changes. At the national level, auditing standards must be clear on requirements during planning, fieldwork and execution, and the reporting of results.

Another key aspect of this Framework is the interaction between the relevant parties, such as auditors, management, regulators, users and those charged with governance, involved in achieving audit quality. Through formal and informal communications, all parties can influence others and aid in the advancement of audit quality. We agree that audits and audit quality are important to the relevant parties noted and consultation and discussion can enhance that quality.

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The following comments are in response to questions set forth on the Framework set out by the IAASB.

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

Yes. The Framework sets out a clear outline of audit quality. Key components that define audit quality include contextual factors (*e.g.,* business practices, commercial law and regulations relating to financial reporting), effective and objective interactions between audit firms, regulators, users, management and those charged with governance, certain input factors (*e.g.,* ensuring that the engagement partner is actively involved in risk assessment, planning and supervision), as well as critical output factors (*e.g.,* improvements and enhanced transparency to the financial reporting process and internal control over financial reporting).

Does the Framework reflect the appropriate balance in the responsibility for the 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?

The Framework is properly weighted toward the responsibilities of the auditor (engagement team and firm) and the interaction amongst the relevant parties in creating the appropriate transparency to the financial reporting process and internal control over financial reporting. Effectiveness of the audit process must be monitored through appropriate policies and procedures and should be evaluated, at regular intervals, by competent third parties who can provide an objective assessment in light of the professional auditing standards, regulatory requirements and best practices utilized by all accounting firms. A final cornerstone is effective communication between the auditor, the entity and the other stakeholders (e.g., audit committee) to ensure open and clear dialogue, transparency of data/information and a vetting process for significant risks and issues identified during the audit.

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?

We intend to use the Framework as a means to continue our focus on the various factors noted affecting audit quality and the interactions with our auditors, regulators, users and those charged with governance. Audit quality is critical to finance professionals, investment analysts and the investing public. However, it is difficult for a financial statement user to judge the quality of an

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audit, absent reported deficiencies or a restatement. We encourage enhancement of the oversight and inspection of audit firms by both peer review and a strong national or regional audit examining body which has the requisite experience and expertise with regard to auditing standards, regulatory requirements and best practices. We further encourage development of measurable audit quality criteria that can be provided to financial statement users to help ensure that the Framework and other professional standards are being properly applied. We also encourage an increased emphasis in first year audits to understanding and analyzing the pertinent risks and complex systems utilized, in order to properly assess the appropriate procedures and expertise required. Finally, we encourage enhanced guidelines on Section 3.5, *Interactions between Management and Those Charged with Governance ("TCWG")* to expand communications to TCWG about areas of high risk, audit procedures to address those risks and the results thereof, a qualitative discussion of management's accounting policies and critical internal control areas, and where financial statement disclosure can be enhanced to provide users with a more comprehensive understanding of the reporting entity's results of operations and financial conditions.

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?

As noted in that section, we believe that one of the most effective factors to ensure audit quality is for the auditor to be hired by and to report directly to an audit committee. It is also important for the auditor to have comprehensive professional standards and a clear financial reporting framework to follow for the conduct of the audits. These standards and this framework should be reinforced through ongoing training.

As noted above, we suggest a strong external monitoring framework by competent third parties to ensure that auditors are exercising professional skepticism, objectivity, and adhering to professional standards. However, we believe the Framework would be enhanced by an expansion of the firm-level attributes that help ensure independence, including a determination that:

- Non-audit services do not involve any activities that may, at a current or future date, be part of the entity's internal controls, such as system design or implementation or internal audit outsourcing,
- Management or human resource functions have not been performed, and
- TCWG, such as the audit committee, have approved all non-audit services.

We further encourage disclosures to shareholders of the specific nature of all non-audit services so users of financial statements can make a more informed conclusion on auditor independence.

Finally, we do not support mandatory rotation, but would not object to mandatory tendering, which would provide the audit committee with the flexibility to select the most qualified auditor and would encourage a periodic review of a company's policies and practices. We believe there are risks associated with mandatory rotation, such as loss of auditor institutional knowledge and a reduced incentive for audit firms to invest in the audit relationship by relocating the most qualified personnel or investing in travel and training. Audit risk may be highest during the first few years after an auditor transition given the lack of in-depth and historical knowledge. Accordingly, the audit committee is in the best position to dictate the timing of any change. We further recommend that the frequency of tendering be left to the discretion of the audit committee. However, as noted above, we would not object to a requirement that mandatory tendering occur within a specified time period such as every ten years, provided that exceptions are permitted for unforeseen events, such as changes in key members of an audit committee, those charged with governance, or personnel in key financial oversight roles, such as the chief financial officer.

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We appreciate the opportunity to share our viewpoints on the Framework. If the International Auditing and Assurance Standards Board has any questions regarding our comments, please contact me at (212) 810-3501.

Sincerely,

Steven E. Buller
Managing Director
New York, N.Y.