



15 May 2013

The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue, 6th Floor
New York, New York 10017

Submission via IAASB website

Dear Arnold Schilder

Consultation Paper *A Framework for Audit Quality*

The Institute of Chartered Accountants Australia is pleased to respond to the consultation paper *A Framework for Audit Quality (The Framework)*. We set out our overall comments in the body of this letter and provide responses to your specific questions in the Appendix.

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world. Representing more than 70,000 professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest. Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpins the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets. The Institute is a founding member of the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide. charteredaccountants.com.au

Overall comments on the consultation paper

Continual development of principles and transparency in relation to audit quality is appropriate and we welcome this paper as part of that development. We support the aim of a common understanding of audit quality. This can not only help provide a clear framework for evaluation of proposed changes, but may also assist a consistent definition of the audit service. We recognise that various definitions are currently used, for example a lack of material misstatement in financial reports, but that these tend to be only a partial representation of actual audit quality. A common understanding will assist the development of a plain language, clear and succinct, internationally accepted definition or framework.

As a start in this process, the paper is helpful and has generated discussion. Overall, however, our view is that the framework will need further development to be useful as an education tool. We believe the value of the matters explained in the paper are obscured by the length of the text. Also we feel the various context and elements are not fully aligned. Quality cannot be evaluated in isolation and this point could be more clearly made in the paper. We provide more detail on these points in the Appendix.

Customer Service Centre
1300 137 322

NSW
33 Erskine Street
Sydney NSW 2000

GPO Box 9985
Sydney NSW 2001
Phone 61 2 9290 1344
Fax 61 2 9262 1512

ACT
L10, 60 Marcus Clarke Street
Canberra ACT 2601

GPO Box 9985
Canberra ACT 2601
Phone 61 2 6122 6100
Fax 61 2 6122 6122

Qld
L32, Central Plaza One,
345 Queen Street,
Brisbane Qld 4000

GPO Box 9985
Brisbane Qld 4001
Phone 61 7 3233 6500
Fax 61 7 3233 6555

SA / NT
L29, 91 King William Street
Adelaide SA 5000

GPO Box 9985
Adelaide SA 5001
Phone 61 8 8113 5500
Fax 61 8 8231 1982

Vic / Tas
L3, 600 Bourke Street
Melbourne Vic 3000

GPO Box 9985
Melbourne Vic 3001
Phone 61 3 9641 7400
Fax 61 3 9670 3143

WA
L11, 2 Mill Street
Perth WA 6000

GPO Box 9985
Perth WA 6848
Phone 61 8 9420 0400
Fax 61 8 9321 5141

We trust you find our comments of value and should you require further information on any of our views, please contact Liz Stamford, Head of Audit Policy via email at liz.stamford@charteredaccountants.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L White', with a horizontal line underneath.

Lee White FCA
Chief Executive Officer

APPENDIX

Introductory comments

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

We recognise the difficulty in defining audit quality but support attempts to find a commonly accepted, international definition, or at least a definition of the elements of audit quality. This would assist the profession, stakeholders and regulators to work from a common understanding of audit quality. Quality of the audit service is determined by an appropriately experienced, trained, resourced and controlled team, who are working in an environment, and with parties, which support the audit process, and are undertaking rigorous procedures with robust judgement to evaluate, report and opine on the financial report.

It is important to recognise that the effectiveness of the audit process is dependent on other parties. Without ability to gather evidence, for example if management or third parties are not responsive, the quality of the audit process is potentially impaired. If regulatory focus is on areas which are not relevant to key risks, this may focus audit work on areas which do not support a quality delivery. These points are covered to a certain extent in the paper but we believe they could be more clearly explained. We also note that the heading “interactions” perhaps also downplays the importance and impact of other parties in quality.

The paper currently focuses extensively on the role of the auditor and in doing so, covers details already contained in ISQC 1 and the ISAs. The Framework could simplify much of this with higher level commentary and appropriate references to the standards. In this way the Framework could be shorter and could spend more time addressing the other elements of audit quality, namely the “contextual factors”, the inputs that are outside the control of the auditors such as national standards and governance requirements, and the key interactions in the financial reporting supply chain. This may also make the Framework more user friendly.

We would note, in passing, that we did not find the diagram particularly intuitive. The purpose of a diagram is to allow immediate visual explanation of the detail and in our consultations we have not found that to be the case for this diagram.

We would also note that the paper explores, almost exclusively the inputs to audit quality. We support the idea that once the inputs are agreed and aligned, this may assist a common definition focusing on the impact of the audit, that is, trust in the information presented by the company.

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 no, which areas of the Framework should be revised and how?

The Framework still focuses mostly on the responsibilities of the auditors and, as commented above, in doing so covers ground addressed in the existing standards. We acknowledge that the auditor plays a fundamental role in achieving audit quality and have no intention to suggest otherwise. However the current focus may reinforce the perception that it is only the auditor's responsibility. See our comments above for point one on possible ways to revise the framework.

Consideration also could be given to explaining the importance of avoiding unnecessary increases in the compliance measures with which auditors and audit firms need to comply. Audit quality and quality audits require the auditors to have time to spend on the complex and

judgmental areas of the audit. Increasing mandatory compliance measures may detract from the auditors being able to spend time on the elements of performing the audit that are also vital to achieving audit quality.

3. How do you intend to use the Framework? Are there changes that need to be made to the form of content of the Framework to maximise the value to you?

As a professional body, we would anticipate using material from an updated Framework to support our own *Framework for Sustainable Audit Quality* in quality review programs, in member education, and in work with standard setters and regulators in support of a strong sustainable auditing profession.

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 Areas to Explore are all of interest, though again, we note a predominant focus on the auditor and their role rather than pieces of work to address the contextual and national elements. We urge against too broad consideration of further areas to explore before further refining and enhancing the current Framework.