

15 May 2013

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear James,

IAASB Invitation to Comment, *A Framework for Audit Quality*

Thank you for the opportunity to comment. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachments to this cover letter.

The NZAuASB is supportive of the IAASB's initiative to develop a Framework for Audit Quality and consider that it will contribute greatly towards raising awareness of key elements of audit quality, encourage key stakeholders to explore ways to improve audit quality and facilitate greater dialogue between key stakeholders on the topic. Exploring options that may improve audit quality is timely and is in the public interest.

In formulating this response, the NZAuASB sought input from New Zealand constituents in several ways. The first was an invitation to comment placed on the NZAuASB website with an accompanying notification sent to subscribers. The NZAuASB also hosted two "roundtable" discussions on the proposed Framework for Audit Quality with key stakeholders representing preparers, auditors, regulators, management and those charged with governance, academics and users.

The NZAuASB's response is set out in two attachments:

- Attachment 1 outlines the NZAuASB's key comments and recommendations, and
- Attachment 2 includes our responses to the IAASB's specific questions and areas for comment.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,



Neil Cherry
Chairman – New Zealand Auditing and Assurance standards Board
Email: neil.cherry@xrb.govt.nz

ATTACHMENT 1:

Submission of the New Zealand Auditing and Assurance Standard Board

Consultation Paper 2013, *A Framework for Audit Quality*

Overall key comments

Introduction

The NZAuASB commends the IAASB in undertaking the difficult task of developing a Framework for Audit Quality. It is widely recognised and acknowledged that audit quality is a complex subject and very difficult to define. One of the principal challenges in developing a comprehensive, holistic Framework is that there is no one overall stakeholder that is accountable for audit quality. The NZAuASB agrees with the view that while the primary responsibility for the performance of a quality audit rests with the auditors, improving audit quality is best achieved in an environment where there is support and engagement from all participants or stakeholders in the financial reporting supply chain.

The NZAuASB hosted two “roundtable” discussions on the proposed Framework for Audit Quality with key stakeholders representing preparers, auditors, regulators, management and those charged with governance, academics and users. As part of the roundtable discussions the NZAuASB asked participants for their view of what audit quality is or what it looks like. It was very clear from the discussions that the definition and understanding of audit quality very much depends on the perspective and expectations of the person who is asked to define it. Because the definition and purpose of an audit is not well or universally understood, the quality of an audit is measured and defined differently by different users, based on their expectation and perceptions. The continued existence of the expectation gap was confirmed by some of the responses, and is a contributing factor to the inconsistent understanding of what audit quality is.

The NZAuASB has the following key comments on the IAASB’s Audit Quality Framework:

1. We consider that the Framework is potentially a very useful and important document for all those responsible for increasing audit quality in the financial reporting chain, and that it is important that the IAASB complete it.
2. We strongly support the development, completion and issuing of a holistic, stakeholder-neutral Framework. To do so some changes are required to the current structure and content of the Framework which, in our view, is too auditor-centric.
3. To make it more useful for a wider group of stakeholders, we recommend that the structure of the document is revised to make it more user friendly for all stakeholders, and that the overall detail in the Framework is abbreviated so that it is a much shorter document, covering a wider stakeholder base, with the ability to draw down to the detail.

We discuss these key comments in more detail below.

1. Value of the Framework

The NZAuASB supports and acknowledges the work that has gone into developing the draft Framework, and commends the IAASB for taking the lead in this given the multiple stakeholders identified in as having a significant role in maintaining or improving audit quality. Having done so, it is important that the IAASB now completes the task by addressing the weaknesses and deficiencies in the current draft Framework. We acknowledge that the difficulty arises in that there is no definition or analysis of audit quality that has achieved universal recognition and that there are a broad number of different stakeholders and conditions that must be present in order for enhancements in audit quality to be achieved.

The general consensus is that the Framework is a very important and useful document, but that some changes are required to the content and the structure to improve its usefulness for all those responsible for maintaining or increasing audit quality in the financial reporting chain, and to ensure that the IAASB's vision for the Framework is met. Roundtable participants consider that the Framework could potentially be used as a conceptual framework for education broadly.

Once the Framework is finalised, the External Reporting Board (XRB) sees value in bringing together all the key stakeholders to commence a joint project to analyse how the proposed Framework would apply in the New Zealand context and to identify which parties need to be involved in using the proposed Framework to improve audit quality in New Zealand, recognising that many parties, including the XRB as the standard setter, regulators, practitioners, and users all have a role to play in order to improve audit quality in New Zealand.

The NZAuASB considers that the Framework could be helpful in addressing the expectation gap, provided:

- the definition of the role and purpose of an audit is clearly explained;
- the Framework is written in plain English;
- if users understood what factors are required as a minimum to be present in an audit, and the contribution and influence stakeholders other than the auditor have on audit quality; and
- if users understood how to 'measure' the quality of the audit.

It may be that this issue could best be addressed at a national level. For example, a useful exercise to complete at a national level once the Framework is finalised could be to inform shareholders about the key elements of audit quality within the Framework that applies in that country (for example, those that are required by auditing standards or other legislation), and how it is monitored.

2. Holistic Approach to the Development of the Framework

Overall purpose

A significant matter is the overall purpose of the Framework, and the intended users of the Framework. There are two ways to view the purpose of the Framework - a comprehensive way that reflects the perspectives and contributions of all stakeholders and will require their buy in, and an auditor centric way that, principally, reflects the perspective of the auditor but acknowledges the respective role and responsibilities of other stakeholders.

The NZAuASB strongly supports a holistic stakeholder-neutral approach to the development and finalisation of the Framework. The NZAuASB believes that for the sake of addressing current issues affecting audit quality and in order to appropriately serve the public interest the usefulness of the Framework will be maximised if it is comprehensive and reflects the perspective of all stakeholders. If that is too difficult to achieve, and if the Framework can only be written from the perspective of the auditor, it is still important to complete it in a way that all stakeholders can relate to it. However, the NZAuASB considers that potentially will be an opportunity lost.

If the intended purpose of the Framework is for it to be used by all stakeholders to evaluate audit quality in their areas of responsibility, it needs to comprehensively address the roles and obligations of all stakeholders for audit quality within their areas of responsibility. If the intended purpose is for the Framework to be used by auditors to assess their responsibilities for audit quality, it only needs to comprehensively address the roles and responsibilities of the auditor, and refer to other stakeholder's roles

and obligations for audit quality where they interact with the auditor's role (i.e. from the auditor's perspective).

The question for the IAASB is therefore whether the Framework is developed so that it comprehensively address the roles and obligations of all stakeholders so that those stakeholders can use the Framework to evaluate audit quality issues in their areas of responsibility or whether its purpose is for the use of auditors to assess their responsibilities for audit quality, and to refer to other stakeholders roles and obligations for audit quality. The NZAuASB recommends that the responsibilities of all parties are equally emphasised and are well understood, and that it is clear how those responsibilities are reflected in the Framework.

Balance of responsibilities

The response to the question whether the Framework reflects the appropriate balance in responsibilities differed depending on the perspective of the stakeholder. The major response from auditors was that the Framework is too 'auditor centric', whereas non-auditors generally did not share that view. Having said that, it was generally considered that the detail provided will enable auditors to evaluate gaps or deficiencies in audit quality, however the same is not true of other stakeholders as the IAASB has not sufficiently and appropriately detailed this.

The NZAuASB considers the Framework would be strengthened by referring to the responsibilities of the various participants in the financial reporting cycle for audit quality upfront to explain the context of the Framework, and also how those responsibilities are reflected in the holistic Framework.

Firstly, the NZAuASB strongly suggests that the Framework as a minimum should flow from the context, and not from the input factors. As it is currently structured the context is lost and its importance not appropriately emphasised. The quality of financial reporting is not well linked to the concept of audit quality in the Framework - there should be greater emphasis on the quality of financial reporting required and the competence and responsibilities of management and those charged with governance. The contextual factors should be up front, and should recognise that audit quality is a component of financial reporting.

The context should also highlight the importance of the role of the entity, management and those charged with governance and should explain the responsibilities of the various stakeholders in the financial reporting chain, and how those responsibilities are reflected in the Framework. It is also not sufficiently clear what the relationship is with other assurance products, for example reviews.

Secondly, the relative contribution of each of the stakeholders to audit quality needs to be more clearly articulated within the Framework. It would be helpful to articulate the relative contribution to audit quality by each stakeholder to highlight where the concentration of effort is needed to maximise improvements in audit quality.

Thirdly, the Framework is written from the perspective of an auditor, which is understandable given that it has been developed by the IAASB. To be more useful as a holistic Framework, ideally each stakeholder's area of responsibility should be written from their perspective by setting out their responsibility for audit quality within a separate section of the Framework, and linking it to each element of the Framework.

For example, when covering the responsibility of the audit committee, their responsibilities for audit quality should be summarised within one section, starting with the contextual factors applying to them, and should be linked to the inputs, outputs and key interactions elements of the Framework (where applicable). It should also consider similar categories as for the auditors (for example, categories such as their values, ethics and attitudes, knowledge and experience, effectiveness of their governance arrangements and quality control procedures). The best practice guidance for audit committees that is being considered as an area to explore in attachment 2, Question 9, can then be developed off the Framework.

This will allow stakeholders to refer to one section in the Framework for an overall view of their specific role in audit quality and to identify the factors that require their attention. This will also avoid all stakeholders having to read the entire document, and to concentrate on the detail from their perspective as required. Another way to envisage it is as a number of sub frameworks within the overall Framework, all interlinked through the interactions of the stakeholders.

Completeness of the Framework

The overall view of participants at the roundtable was that the Framework broadly covers the main elements of audit quality one would expect. There is good support for and acknowledgement of the work the IAASB has done in putting together a Framework that recognises the responsibility for audit quality across the various key participants in the financial reporting supply chain, as well as the importance of the key interaction between the various participants.

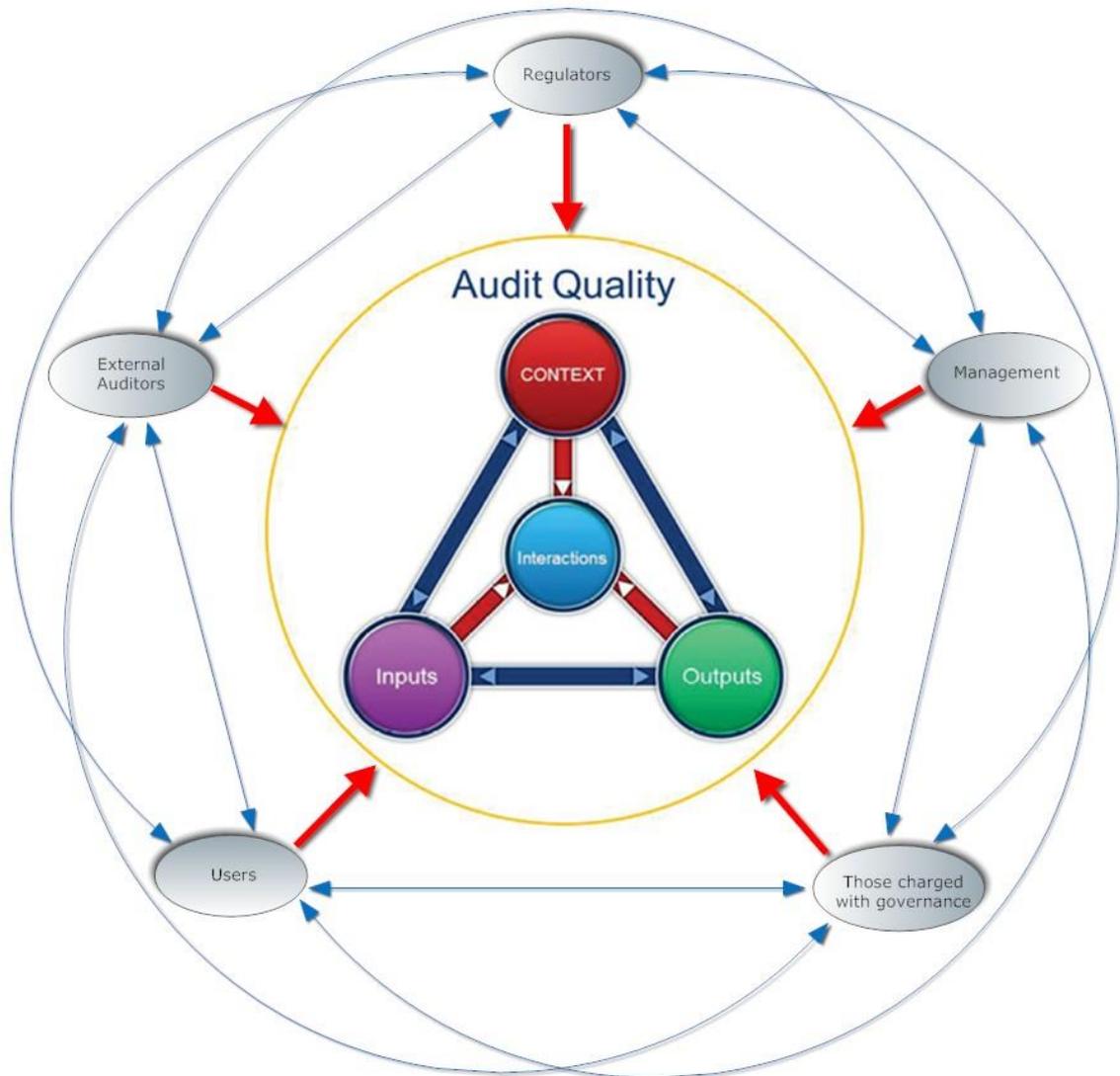
Based on the results of the roundtable discussions the NZAuASB has identified some attributes within the main elements that need to be emphasised, and others that need to be added (refer to our response to the IAASB's specific Question 1 in Attachment 2). For example, a significant element that has not been addressed in the Framework is the effect that the manner of appointment of auditors by the entity and the fee setting regime has on auditors' independence, and hence on audit quality, real or perceived. This is an important factor that should be considered and addressed.

We further note that standard setters are not explicitly included as a stakeholder group in the Framework and suggest that the Framework includes standard setters as another key stakeholder.

Diagram to emphasise the holistic approach

The NZAuASB agrees that the inclusion of a diagram that outlines the key elements that contribute to audit quality is important. However, as discussed above, the importance of the respective, and relative, contribution by individual stakeholders is equally important to a complete and consistent understanding of an audit quality Framework. The NZAuASB therefore strongly recommends that the identification of key stakeholders is more explicitly included in the diagram. A single framework diagram that reflects both the elements and stakeholder dimensions would be a significant enhancement to the current diagram.

The NZAuASB has attempted to do this through proposed changes to the framework diagram as set out below.



We have drawn the interactions between the various stakeholders based on the interactions described in paragraph 176 of the Framework. We acknowledge that it could be simplified in the diagram but consider that the representation achieved in the diagram may in fact be entirely appropriate as it shows that audit quality is a complex multi-dimensional subject, that there is no one overall stakeholder that is accountable for audit quality and that, fundamentally, the interactions between all stakeholders and the framework elements are important to achieving audit quality outcomes.

3. Framework Structure

The Framework will be more user friendly for a wider group of stakeholders if the Framework is structured differently.

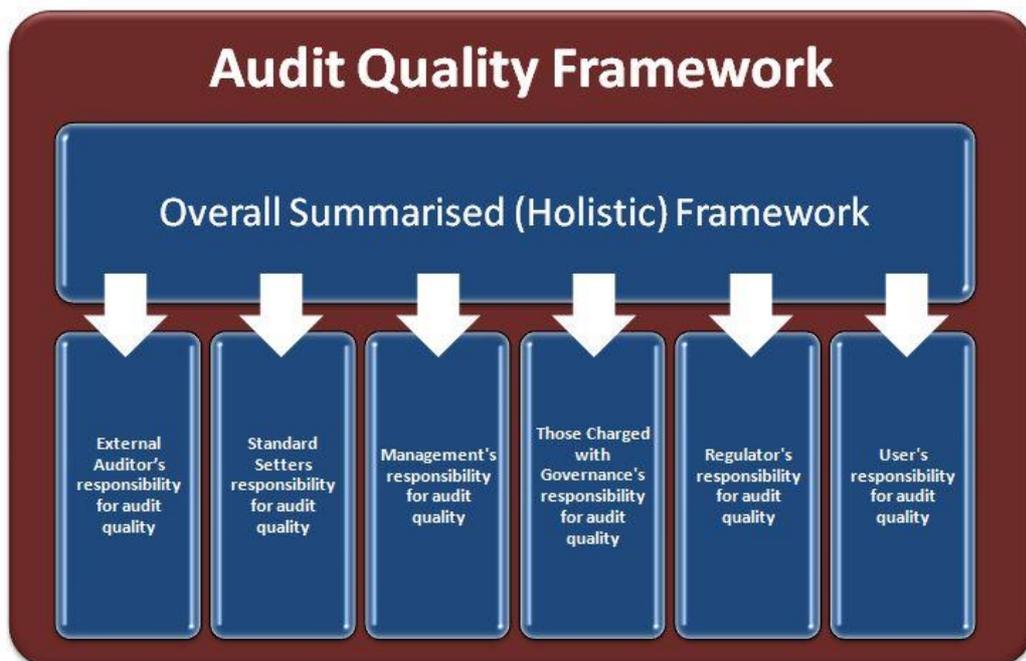
To make it more useful for a wider group of stakeholders, the overall detail in the Framework should be abbreviated so that it is a much shorter document, covering a wider stakeholder base, with the ability to draw down to the detail. We recommend that the Framework contains the guiding principles for all

stakeholders, with references to the detail contained elsewhere in standards or other documents. (For example, some of the detail in the draft Framework that replicates the auditing standards should be replaced with a reference to the applicable standard).

We recommend that the Framework is restructured by using a two tiered approach:

- The first tier should consist of the summarised Framework, and explain the context of audit quality in the financial reporting chain, the purpose of an audit and audit quality, including that audit quality is an important contributing factor in the protection of investors. The context should also highlight the importance of the role of the entity, management and those charged with governance in audit quality and should explain the responsibilities of the various stakeholders in the financial reporting chain.
- The second tier should consist of a number of 'silos', with each 'silo' setting out the more detailed roles and responsibilities of each of the key stakeholders. We consider that the Framework in its current form comprehensively describes the 'Audit Silo', and that the 'silos' for other key stakeholders need to be developed in a similar way by other key stakeholders, starting with the contextual factors applying to them, and should be linked to the inputs, outputs and key interactions elements of the Framework (where applicable). Another way to envisage it is as a number of sub frameworks within the overall Framework, all interlinked through the interactions of the stakeholders.

This can be envisaged as follows:



4. Overall recommendation

There is general consensus among those that the NZAuASB has engaged with that the Framework is a very important initiative and will be very useful in New Zealand and internationally. The development of a Framework presents a strategic response to a critically important and complex issue that has the benefit of enhancing confidence in auditors, the audit process and, more broadly, capital markets. It is vitally important that having commenced work on the development of an audit quality framework, that the IAASB now complete the task and that resources are allocated to this work that appropriately reflects the relative priority of the project.

We strongly recommend that the IAASB develop a holistic framework, and complete the 'Audit Silo' part of it by addressing the weaknesses and deficiencies identified as a result of the consultation process. All key stakeholders are critical, and having a holistic stakeholder-neutral framework with the guiding principles will facilitate engagement with stakeholders, and allow stakeholder groups in each jurisdiction to pick it up and develop it to the next step. It will also allow it to be further developed to be used for education, raising awareness, developing other guidance (for example guidance for audit committees) and to reduce the expectation gap.

The NZAuASB acknowledges the difficulties in developing a Framework that covers the perspective of all key stakeholders as it would require significant resource and the buy in from all key stakeholders, and may be the ideal to strive for in the long term.

Responses to the IAASB's Specific Questions

Our responses to the IAASB's specific questions are set out in attachment 2.

Schedule of Responses to the IAASB's Specific Questions

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

NZAuASB response

The overall view of participants at the roundtable was that the Framework broadly covers the main elements of audit quality one would expect, and there is general acknowledgement and support for the work and the leadership role that the IAASB has taken in putting together a Framework that recognises the responsibility for audit quality of the various key participants in the financial reporting supply chain, as well as the importance of the key interaction between the various participants. There was also positive feedback on the structure of the Framework in distinguishing between the engagement level, firm level and national level.

Based on the results of the roundtable discussions the NZAuASB has identified some attributes within the main elements that need to be emphasised, and others that need to be added or considered:

- The Framework does not cover interaction with all users and needs a wider context group. For example, it only mentions shareholders, and does not include or consider the interaction with users outside of shareholders, for example users in the non- profit sectors, banks, customers and suppliers.
- The education and competency of those charged with governance and other professionals are not included in the Framework. Competency is needed at all levels, and not only for the auditors. For example, the starting point for audit quality is the preparation of high quality financial statements, and good interactions with the auditor.
- The relationship with other assurance services, for example reviews, is not covered.
- The manner of appointment of auditors is not sufficiently emphasised. The appointment of the auditor by management or those charged with governance is one of the biggest threats to auditor independence, and there should be more emphasis on the shareholders appointing the auditors or an independent body such as a strong audit committee group.
- More emphasis is needed on audit client acceptance and continuation. For example, auditors should be more willing to walk away from an engagement where there are factors outside their control that compromises audit quality.
- It is not clear to what extent the Framework covers non- financial information. The Framework should be able to apply to all information, including an environment where integrated reporting is in effect.
- Additional contextual factors to consider:
 - The difference in understanding between all interested parties based on their level of knowledge and the existing expectation gap.
 - The manner of appointment of auditors.
 - The fee setting regime and competition in the audit market and market incentives.
 - Liability of auditors.

- 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?**

NZAuASB response

The answer to this question differed depending on the perspective of the stakeholder. Auditors generally considered that the Framework is too 'auditor centric' and that the importance of other stakeholders are understated. Other non-auditor participants considered the Framework very informative and educational, and not overly 'auditor centric', looking at it to apply to auditors and not as something they 'own'. They saw it as more useful for auditors even though it outlines their responsibilities. The non-auditors were generally unaware that most of the input factors are a repeat of existing requirements in the existing New Zealand auditing standards (equivalent to international auditing standards), whereas auditors considered it unnecessary to repeat the requirements in the existing auditing, ethical and quality control standards in the Framework.

The NZAuASB is of the view that because the overall responsibility of the various players in the financial reporting chain is not clear, some changes are required to the Framework to more accurately reflect the appropriate balance in the responsibility for audit quality between the auditor, the entity and other stakeholders. The role of the auditor is widely misunderstood, and can only be better understood if the responsibilities of all parties are equally emphasised and adequately explained.

To be useful to all contributors to audit quality, ideally each stakeholder's area of responsibility should be written from their perspective by setting out their responsibility for audit quality in more detail within a separate section of the Framework, and linking it to each element of the Framework. The NZAuASB supports the development of a holistic Framework that will be useful for all stakeholders, and encourages the IAASB to strive to develop such a comprehensive Framework. If however it is going to end up just for the use of the auditor the responsibilities of all parties should be equally emphasised and set out in more detail in the Framework.

For example:

- The role of regulators needs to be clarified, particularly in respect of when audit failures occur, and who is responsible for what.
- There should be greater emphasis on the quality of financial reporting required, and the role and required competencies of those charged with governance.
- The responsibility and required competencies of the audit committee need to be clarified and emphasised more.
- Stakeholder relationships and stakeholder perspectives need to be clearly highlighted as contributory factors for success.

- 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 maximise its value to you?**

NZAuASB response

The general consensus from the roundtable is that in its current form the Framework is a very important and useful document for auditors, but that some changes are required to make it more useful for all stakeholders.

The NZAuASB is of the view that:

- The Framework as a minimum should flow from the context, and not from the input factors. The quality of financial reporting is not well linked to the concept of audit quality in the Framework- there should be greater emphasis on the quality of financial reporting required and the competence and responsibilities of management and those charged with governance. The contextual factors should be up front, and should recognise that audit quality is a component of financial reporting.
- The context should also highlight the importance of the role of the entity, management and those charged with governance and should explain the legal responsibilities of the various stakeholders in the financial reporting chain.
- The IAASB should consider writing the Framework from the perspective of each stakeholder in sufficient detail to allow each stakeholder to evaluate audit quality issues in their areas of responsibilities, linked to the inputs, outputs and key interactions elements of the Framework (where applicable). It should also consider similar categories as for the auditors (for example, categories such as their values, ethics and attitudes, knowledge and experience, effectiveness of their governance arrangements and quality control procedures).
- The document is too long and detailed. This is compounded by the lack of balance and detail for some parts of the Framework. The NZAuASB considers that an upfront section of guiding principles with the ability to draw down to the detail, and abbreviating the detail relating to auditors, would make it more useful for a wider group of stakeholders.
- A clear diagram is crucial to the Framework. The NZAuASB considers that in addition to showing the interactions between input, output and context, the interactions between the auditor, management, those charged with governance, users and regulators should also be emphasised. The NZAuASB has included a revised diagram in Attachment 1 showing how this can be achieved.
- The arrows for “interaction” in the diagram need to flow both ways.
- The relationship to other assurance products should be clarified, for example reviews.
- To increase its possible use the Framework should be written in plain language and use less jargon and acronyms that only auditors understand.

Once the framework is finalised, the External Reporting Board (XRB) sees value in bringing together all the key stakeholders to commence a joint project to analyse how the proposed framework would apply in the New Zealand context and which parties need to be involved in using the proposed framework to improve audit quality in New Zealand, recognising that many parties, including the XRB as the standard setter, regulators, practitioners, and users all have a role to play in order to improve audit quality in New Zealand.

Other potential uses of the Framework are as follows:

- A conceptual framework for education broadly (university, management and those charged with governance, accounting firms training of junior staff).
- Useful in the regulatory space to frame conversations between auditors and regulators, and management and regulators -will assist in addressing the expectation gap.
- Audit committees could use it as a framework to monitor the quality of the auditor.

- Politicians and their public sector advisors could use it as a framework for refining legislation by addressing identified gaps in legislation that impact on audit quality.
- It could be a useful tool to address the expectation gap of users.
- Regulators could use it as a framework to monitor audit quality, and by sharing the common findings with firms, standard setters and interested parties, the lessons learned can be considered and addressed.

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?

NZAuASB response

1. Establishing global guidance against which audit firms can assess their governance arrangements

Governance arrangements in firms are an extremely important contributing factor to audit quality, and in principle the NZAuASB supports the development of global guidance against which audit firms can assess their governance arrangements. The NZAuASB considers this will promote consistency and, if external disclosure is required, will also allow comparability to entities and users, and will encourage audit firms to meet the best practice guidance. However, in developing this guidance the IAASB should be careful to ensure that it can be applied proportionately based on the nature and size of a firm, and that it does not disadvantage smaller firms.

2. Establishing a common understanding of capabilities, and how they are demonstrated and assessed, as they relate to audit quality for use by audit firms when recruiting, evaluating, promoting and remunerating partners and staff.

The NZAuASB acknowledges that experienced and competent audit practitioners are critically important to a quality audit. However, the key capabilities and competencies of auditors are already emphasised in the International Education Standard IES 8 *Professional Development for Engagement Partners Responsible for Audits of Financial Statements*. The required competency and level of experience of auditors established by the registration process in different jurisdictions may also evolve to similar levels of competency. For example, registered company auditors in Australia also qualify to audit issuers in New Zealand, based on the similar levels of competencies required for registration in New Zealand and Australia. On that basis we do not consider that there is a high value in pursuing this option.

3. Improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement

The NZAuASB considers that it is important to share information on any professional matters which the proposed assurance practitioner should be aware of before deciding whether or not to accept the appointment, and once the appointment has been accepted, to limit the information sharing to information required by the incoming practitioner to form a basis of reliance on the opening balances.

The NZAuASB has imposed more stringent requirements than those contained in the IFAC Code of Ethics on information sharing when a proposed assurance practitioner is to replace an existing

assurance practitioner. The IFAC Code adopts the threats and safeguards approach, and puts the onus on the incoming assurance practitioner to take actions to mitigate the risk of accepting a new engagement. If the threats cannot be eliminated, then under the IFAC Code the proposed assurance practitioner shall not accept the engagement.

The NZAuASB has already elevated the safeguards outlined in the IFAC Code to a mandatory requirement for the incoming assurance practitioner to have to make enquiries of the outgoing practitioner on any professional matters which the proposed assurance practitioner should be aware of before deciding whether or not to accept the appointment. There are no circumstances identified where it would be inappropriate for the proposed incoming assurance practitioner to request permission and make enquiries of the existing assurance practitioner. Furthermore, the incoming assurance practitioner is prohibited from accepting an engagement where the client refuses permission for the existing assurance practitioner to discuss the client's affairs, except in exceptional circumstances.

The NZAuASB recognises that in exceptional cases it may still be appropriate to accept the engagement where the client refuses permission for the incoming assurance practitioner to contact the previous assurance practitioner. An example of such an exceptional case may be where there are questions over the honesty of the existing or former assurance practitioner, for example, if the former assurance practitioner has been struck off a professional body's register. Circumstances where the client represents to the incoming assurance practitioner that they have lost confidence in the former or existing assurance practitioner would not constitute an exceptional case.

The NZAuASB considers that there is value in exploring this area and for the IAASB and the IESBA to work together in setting requirements and/or providing guidance to auditors on information sharing.

4. Considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users

Regulators perform audit inspection activities in many jurisdictions, communicate the detailed results to the audit firms involved, and also publicly report the common findings at the end of each review cycle.

The NZAuASB firmly believes that timely, regular and thoughtful inspections of audit firms, performed by regulators and/or professional bodies, and greater transparency of the inspection results will assist in improving audit quality as follows:

- Knowing that audit files will be subject to quality reviews and that either all or some of the results could be made public will provide a good incentive for firms to improve their audit quality process.
- Communication of the common findings (including positive findings) annually to other audit firms will allow all firms to consider the lessons learned and to improve their own quality processes.

- The communication of common findings will assist standard setters in evaluating whether changes are required to auditing standards, or whether further guidance should be issued on a particular subject.
- It will assist with increasing the confidence of users knowing that audit quality is monitored.
- It will allow users to measure audit quality at the firm and national level.

5. Exploring whether there would be value in national authorities responsible for determining sanctions on auditors exchanging information with a view to evaluating the relative effectiveness of their different arrangements

The NZAuASB supports the principle of national authorities sharing arrangements to allow national authorities to assess their own arrangements, and to implement a best practice arrangement regime that is tailored to their country's circumstances. This will also promote knowledge, consistency and transparency in sanction arrangements across national authorities. The NZAuASB considers there is value in exploring this option.

6. Considering 'root causes' and best practices by regulators, audit firms, and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues

The NZAuASB strongly supports 'evidence based standard setting' and the consideration of root causes and best practices by regulators, audit firms and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues. The NZAuASB considers that there is value in global academic research into the link between corporate collapses / failure and the role / quality of audit. The NZAuASB considers that the regulators are the most suitable bodies to initiate this research, given their role and background knowledge and records of past reviews undertaken, and their access to audit files.

7. Increasing the informational value of auditor's reports and improving perceptions of the value of the audit

The NZAuASB's response to this is contained within its submission to the IAASB's Invitation to Comment on *Improving the Auditor's Report*, dated 12 October 2012.

In summary, the NZAuASB:

- supports the IAASB's initiative to consider a fundamental review of auditor reporting at this time;
- supports the proposal to move the opinion to the beginning of the auditor's report, and clarifying the respective roles of the auditor and those charged with governance;
- considers there is a risk that adding key audit matters (even if relevant) to the auditor's report could further increase the expectation and information gap, and may have other unintentional consequences and associated risks;
- is concerned that the proposals on key audit matters and statements on going concern seek to overlay the existing statutory obligations of management, those charged with governance, and the auditors, and go beyond the role and objective of the audit. Changes to the scope and content of the audit report by way of auditing standards requirements should not seek to override existing statutory obligations;

- believes that the proposal on key audit matters is likely to create much more practical tension between the auditors and those charged with governance as regards what the auditor is stating about the entity. This is likely to result in significant pressure which we are not sure will be helpful to achieving a quality audit. It may also change the dynamic of the informal discussions between the auditor, management and those charged with governance;
- acknowledges that the audit report on its own does not provide sufficient information to users. However, this needs to be further considered in the context of other available information sources. Different users have different needs and those charged with governance, investors, funders and regulators can (and do) obtain further information they need from other sources;
- considers there is no need for audit reports of different size entities to be different – an audit is an audit, and the principle to be applied should be scalable across all entities; and
- considers the IAASB should give more careful thought to ensure that there is an appropriate balance between the informational value added by the proposals on key audit matters and statements on going concern, and the implications of those proposals on the role of the audit, auditor liabilities and other associated risks.

8. Achieving improved two way communication between auditors and financial and prudential regulators, particularly in the financial services sector

The NZAuASB supports improving two way communication between auditors and financial and prudential regulators. The NZAuASB considers that effective two way communication will improve the auditor's understanding of key risks and areas to consider, whereas regulators will get a better understanding of the audit process and its outcomes.

9. Striving for greater international harmonisation in the role of audit committees with regard to the evaluation of the quality of the external audit.

The NZAuASB considers that there is merit in developing best practice guidance for audit committees with regard to the evaluation of the quality of the external audit given their role in corporate governance. The IAASB could develop such best practice guidance off the back of the Framework.

10. Encouraging audit committees to provide more information to users of the financial statements on the work they have undertaken, the main issues they have addressed, and the reasons for their conclusions

The NZAuASB supports audit committees providing more information to users about their responsibilities and activities and considers that fuller disclosure will benefit both actual audit quality and user perception of it. As recommended in question 9 above, the IAASB could similarly develop guidance on this off the Framework.