Ref: 427980

15 May 2013

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

Dear Sir/Madam

**SAICA SUBMISSION ON AUDIT QUALITY FRAMEWORK CONSULTATION
PAPER**

In response to your request for comments on *Audit Framework Consultation Paper,*
attached is the comment letter prepared by The South African Institute of Chartered
Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Ashley Vandiar
Project Director – Assurance and Members' Advice

cc: Assurance Guidance Committee

OVERALL COMMENTS

We support the IAASB's work in developing a framework describing the components of audit quality and believe the Framework is a good summary of many current requirements and practices. We also agree that improving audit quality involves all participants in the supply chain, and believe the publication of the Framework will help to start that dialogue.

We believe that this is a step in the right direction, however, it will still be difficult to achieve consistency across firms and jurisdictions since there are some factors that will be subject to different interpretations – we will still have the expectation gap.

Although the framework will help to close the expectation gap, we believe that this type of document should not be too prescriptive. Consideration should be given to the cost of the audit because if the framework is enforced, the cost of the audit will be high.

We are unclear as to the intent of the Framework, or how the IAASB sees it being used by stakeholders and the following questions have risen as a result:

- Will the framework be used by all stakeholders or is it intended for auditors as a guide, and for regulators to use to assess audit firms?
- Will the document be issued as a standard or is it an educational tool?
- Is framework meant to be a checklist or not? If yes, can you choose what is applicable to you?

Some clarification on the intended use would be beneficial.

As auditors, we appreciate that the framework recognises that the responsibility for audit quality expands to other responsible stakeholders.

To make the framework useful and also depending on who this document is intended for, it is suggested that:

- Research be conducted by engaging with the various stakeholders (auditors, audit committees, management).
- Application material be added for audit committee, management, auditors.
- Refer to our responses to question 1 to 4.

Large versus Small entities

The framework does not differentiate between large audit clients and small audit clients. There will be challenges for small audit clients who do not have audit committees, that is, how to apply audit committee principles articulated in the framework to small entities.

Neutrality of discussions:

The Framework should be neutral in its discussions on audit matters that are currently being explored and debated in other IAASB projects or various professional bodies' projects. These include topics such as audit firm rotation (paragraph 41), the naming of partners in the audit report (paragraph 78) and improvements to the auditor's reports (paragraph 154).

Furthermore, in certain instances the Framework expresses a view on a factor which may not be the general view of various jurisdictions, and therefore we suggest the views expressed are a more balanced representation of the matter. 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.

RESPONSES TO THE SPECIFIC REQUEST FOR COMMENTS

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

   Response: No, we suggest that the following additional areas be included in the framework:

   - Auditing in the public sector should be taken into account.
   - The litigation environment and the potential impact this will have on audit quality (could increase effectiveness and at the same time decrease efficiency).
   - Increased consideration of dealing with the challenges of reviewing files or work papers from multiple locations.
   - Developing Nations – we see challenges in applying concepts in part 3 – Key Interactions. We would like to see some guidance on expectations, or suggestions on how to deal with situations in developing nations where these types of relationships are not typical, or the types of discussions intended are challenging to have.
   - Auditors, audit committees and management's joint responsibility on the risk assessment as currently the perception is that it is the auditor's responsibility to assess risk, whereas management has the responsibility for identifying and responding to the business risk.
   - Audit committees approving audits to be conducted at less than the actual fee, this compromises the audit quality.
   - How to ensure quality of the audit with low audit fees.
   - Guidance on joint audits and professional responsibilities which the auditors undertake in accepting such appointments as joint auditors.

   In addition to the above, we would like to highlight that, although item 1.7.2 discusses the use of information technology, a critical aspect of enhancing audit quality is remaining up to date and responsive to changes in the environment – for example use of data analytic techniques has become necessary for many audit engagements. Such a responsibility would be at an engagement and a firm level, since it is important that firms provide the tools and training to practitioners to support them with the use of innovative audit techniques. With regard to this, additional factors that should be included to the framework are:

Framework element	Level	Attribute
Inputs – Value, Ethics and Attitudes	Engagement level	- The audit partner sets the appropriate "tone at the top". - Financial considerations do not drive actions that reduce audit quality. - The engagement partner consults appropriately and obtains technical support when necessary.
	Firm level	- The firm establishes independence and ethical policies, and the firm as well as the engagement team, is independent of the entity.
	National level	- Regulators and standard setters also demonstrate ethical and professional behavior (i.e. set the example to practitioners).

Framework element	Level	Attribute
Inputs – Knowledge Experience and time	Engagement level	• The partners and staff have appropriate industry expertise, knowledge of the relevant accounting framework, auditing standards and the firm's methodology. • Experts are identified and used when appropriate.
	Firm level	• The firm has in-house experts or procedures for sourcing appropriate experts. The firm supports and promotes the use of the experts.
	National level	• Regulators / standard setters actively monitor international practices and are involved with matters affecting the profession, which facilitates improved standards at a local level and support for practitioners.
Inputs - Audit process and quality control procedures	Engagement level	• The engagement team is responsive to changes in the environment with new audit techniques. • The engagement partner understands and accepts responsibility for quality on the audit (i.e. doesn't rely on EQCR processes). • The administrative elements of the audit are well planned and managed.
	Firm level	• The firm provides adequate IT systems to support the performance of the audit, including performing CAATs and other innovative audit techniques.
	National level	• Auditing standards are well balanced between prescriptive requirements and application of principles to ensure consistency, yet flexibility in contributing to audit quality. • Cross-border sharing of information is not restricted i.e. in respect of group engagements access to the component auditor's working papers may assist the group auditor in evaluating the work performed by the component auditor. • Regulators performing inspections have appropriate knowledge and competence to do so. Inspections are focused on the principles of the auditing standards and matters that could contribute to the audit failure rather than insignificant findings.
Outputs	Engagement level	• Auditor's reports on integrated reports
	Entity level	• Integrated reports, including corporate governance matters
Interactions	• Interactions where the entity operates in multiple regions including those between the group auditor and the component auditor.	
Contextual Factors	• Regulations of the financial markets (e.g. JSE Listings Requirements) • Regulations affecting auditors.[1] • The economy as a whole, a country's history and its maturity.[2]	

---

[1] Regulations may directly impact the auditor and the performance of the audit. Regulations may impose additional obligations and responsibilities on the auditor, such as requirements to report fraudulent or irregular activities identified during the conduct of the audit, as well as legal liabilities. Furthermore, in more litigious environments, there may be an increased incentive to conduct audits of high quality to reduce the risk of litigation.

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?*

Response:

a) This question asks about appropriate balance in responsibility for quality, yet the Framework makes very little mention of responsibilities of management. In addition to comments made under question 1:
   - We suggest the inclusion of management's responsibility to report on time (and provide the auditor with timely and accurate information).
   - We realize it is difficult to impose or enforce responsibilities on management in this type of document, however, while the framework appropriately focuses on the auditor's responsibilities we believe that the importance of others such as management and those charged with governance may not be fully recognized.

b) For smaller engagements – we would also like some additional guidance on applying the framework to smaller audit engagements and how the ideas generated in the document can be applied to owner managed businesses that do not have very complex governance structures.

c) Below are some of our comments or concerns arising from paragraph 30, Attribute *1.2.3 – Financial Considerations Do Not Drive Actions and Decisions that May Have a Negative Effect on Audit Quality*
   Increasing challenge of responding to fee pressures:
   - Users/those charged with governance need to be educated about the inputs to audit quality so that those factors other than price are the deciding factor when selecting an independent auditor.
   - Auditors are faced with the challenge of clients expecting reduced fees while changes in standards are leading to an increase in the cost to perform an engagement with no perceived difference to the user.
   - How do you enforce framework concepts, or apply consequences to audit firms who are continually awarded appointments through various ways of lowering audit fees. A reporting mechanism would be required so that all teams 'play fair'.

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?*

Response:

a) As indicated above in the overall comments, we are not clear on how this framework is intended to be used, to guide audit quality at this point, other than to increase awareness, and start discussions. If we had a better understanding of the intent, we might better be able to answer this question. It is also unclear as to whether this framework will be prescriptive or not.

---

[2] The economy as a whole, a country's history and its maturity may directly impact the available skills and experience to perform quality audits i.e. a lack of basic education or population with poor health does not provide a foundation for developing professionals.

b) The framework can potentially be used as support for the importance of existing policies and procedures to various members of the engagement team.

c) Our suggestion to increase the value of the Framework is to review for inconclusive comments. For example, paragraph 40 seems to be an inconclusive comment that is, familiarity threat is created by using the same staff year over year on an engagement, however using staff familiar with the company leads to efficiencies and insightful recommendations. It seems that there should be a summary comment included to better explain the purpose of the paragraph. Some other examples of this are in paragraphs 78, 80, 109, and 110.

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?*

Response: We recognize that the areas to explore have arisen from the development of the Framework, which demonstrates its potential usefulness in identifying gaps and developing programs to address these gaps. 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.

Area to explore	Comments	Priority
Item 1 – guidance for assessing governance arrangements	None	Low
Item 2 – common understanding of capabilities	The International Education Standards (IES) should properly define competencies of professionals.	Low
Item 3 – information sharing with respect to engagement acceptance and continuance	Furthermore, we see this as a potential challenge, and agree with further investigation into this area. There is a competitive aspect of firm intellectual property to consider when providing access to files. Although in South Africa, before accepting a new engagement, the proposed auditor usually sends a request to the predecessor auditor as to whether there are any professional reasons not to accept the engagement, we are also concerned with the enforceability of 'honest' answers in a request for information from predecessor auditor to potential successor auditor as to why the firm is no longer engaged by the client. There are likely legal ramifications in certain jurisdictions to consider when responses to these requests for information are drafted.	Low
Item 4 – audit inspection activities	This exploration could include the following:	Low

Area to explore	Comments	Priority
	• An evaluation of whether public reporting on audit firm findings has resulted in improved audit quality. • Considering whether disclosing details of disciplinary actions, including the identity of the practitioner and the reason for the disciplinary, would contribute the enhancement of audit quality.	
Item 5 – national authorities exchanging information	None	**Low**
Item 6 – "root cause" analysis, best practices	This is currently addressed through various forums. Most audit firms' outcomes of reviews are analysed to identify root causes and these are addressed. Perhaps there could be improved information sharing on root causes between the audit firms and with the regulators.	**High**
Item 7 – revisions to auditor's reports	None	**High**
Item 8 – improved two-way communication between auditors and regulators	Generally, improved two way communication between all stakeholders is necessary. Additional guidance may be useful to support this.	**Medium**
Item 9 – greater international harmonisation in the role of audit committees	Providing audit committees with tools to evaluate the quality of the audit may be useful.	**Medium**
Item 10 – audit committees providing greater transparency on their oversight		**Medium**
Additional areas to explore:		
Considering whether audit firm transparency reports have assisted with the selection of audit firms and the impact this has had on overall audit quality		**Medium**
Consider whether audit inspectors seeking views of TCWG on the quality of the audit would provide additional insight and value to inspection activities.		**Medium**
A focus on smaller entities, or smaller firms and how they will apply this framework differently.		

Area to explore	Comments	Priority
We would also like to see some more investigation into the application of this framework in developing nations.		