

441 G St. N.W.  
Washington, DC 20548

May 15, 2013

Mr. James Gunn  
IAASB Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017

Subject: International Auditing and Assurance Standards Board January 2013 Consultation Paper, *A Framework for Audit Quality*.

Dear Mr. Gunn,

This letter provides the U.S. Government Accountability Office's (GAO) comments on the International Auditing and Assurance Standards Board (IAASB or "Board") Consultation Paper entitled *A Framework for Audit Quality*. We appreciate the IAASB's goal of developing a comprehensive framework for audit quality, including the factors that contribute to the consistent performance of quality audits.

We generally support the IAASB's efforts to raise awareness of the key elements of audit quality, encourage stakeholders to explore ways to improve audit quality, and facilitate a greater dialogue between the key stakeholders and users of the auditor's report. The document itself is well organized by conceptual area, and the graphics on the heading of each page and throughout the paper are well-conceived and helpful. However, we believe the value and usefulness of the consultation paper would be enhanced if it addressed how this document is expected to be used and its relationship with the other frameworks established by the IAASB. We also suggest clarifying if and how the Framework is to be used by the IAASB to develop future auditing standards.

The Board has asked respondents for comments on the specific matters discussed in the Consultation Paper and we have provided responses to these questions below. Along with these specific responses, we are providing additional comments for your consideration.

#### Request for Specific Comments

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

We believe that the Framework covers the key areas of audit quality. We noted that it does not fully consider issues common to governmental auditors and audits of public sector entities. For example, and as described in greater detail below, engagement acceptance and continuance decisions are not always possible for public sector organizations. The Framework is written primarily for a corporate or commercial audience, and while it includes a section on considerations specific to public sector audits, it does not fully address the issues that are often involved with audits of public sector entities. We suggest merging considerations specific to

public sector audits into the respective element discussions. As noted below, we also believe there are additional considerations applicable to public sector audits that could be addressed.

In addition, the Framework could be made more useful and relevant to a greater group of users by using terminology that applies to public sector entities as well as corporate entities. For example, though audit committees are an integral part of the corporate governance structure for private entities, they may not apply to public sector organizations. Applying terminology that applies to both the public and private sectors, or providing flexibility to governmental auditors in applying such terms, would enhance the framework's applicability and relevance.

The Framework would benefit from a discussion of risk assessment and the risk of material misstatement for different areas of the audit. For example, it might be advisable for auditors to assign a risk level of high, medium, or low for each of its engagements and give special attention to those engagements with higher risk levels. A discussion of risk assessment for individual engagements would help to auditors concentrate their efforts on those areas with the greatest risk of material misstatement.

*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?*

As currently written, the Framework's allocation of responsibility for audit quality between the auditor and other key stakeholders would be problematic. While we agree that interactions and communication between the auditor and stakeholders will benefit audit quality, the Framework's balanced responsibilities approach may not be reflective of the appropriate stakeholders' responsibility for audit quality.

We believe that responsibility for audit quality is ultimately shared between the individual auditor and the audit engagement team. Other stakeholders can play a role, but it should be considered less significant. An alternative model, with the audit engagement team serving as the "first line of defense" for audit quality, and with knowledgeable stakeholders outside the engagement team supporting the team, might better balance responsibilities for audit quality.

For example, a firm may establish a standardized methodology to be used on its financial statement audit engagements. The individual auditor and the audit engagement team are responsible for understanding and applying the methodology, but the firm can enhance the consistency of its application throughout the firm. The draft Framework should clarify the scope of authority between the audit engagement team, the regional audit office, and if applicable, the national level organization for public sector auditors. The differing authority between the engagement team, regional office, and national entity as outlined in the draft does not always fit the government auditing model. While the Framework exposure draft has a separate section for considerations related to specific audits, including considerations specific to public sector audits, we suggest merging these considerations into the respective element discussions. We also suggest expanding the discussion to cover the different levels of authority between the entity, its internal auditors and other oversight bodies, such as legislative oversight committees and government audit institutions.

*3. How do commenters 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?*

While the Framework provides a useful overview of the factors that can contribute to audit quality, it is not clear to what extent the new Framework would be used. An organization like GAO that already has an established engagement quality control system might consider comparing the IAASB's Framework to the existing system, and if any major differences are found, assess whether the framework offers guidance that would support potential improvements or enhancements.

*4. What are commenters' views on the suggested Areas to Explore? Which, if any, should be given priority and by whom? Are there additional Areas to Explore?*

We suggest that the Framework identify an action plan or additional steps that may be taken to prioritize the suggested areas to explore. The suggested areas to explore encompass many potentially significant issues, and it is important that additional steps and timeframes be established to address them. We also suggest that consideration be given to developing tools for applying quality control at the firm and national levels.

Additionally, we suggest ensuring that public sector auditors are involved in future work and research on the areas to explore. It is important to consider the perspective of government auditors, especially since these areas to explore could potentially result in significant revisions to auditing standards and current practices.

Other Items of Concern

Along with the responses above, we are providing the following comments:

- **National level category terminology** – The national level category in the Framework could be more appropriately named since not all audit input and output factors occur at the national level. To provide two examples of important activity not taking place at the national level, (1) in the United States, CPA licensing is regulated at the state level, and (2) IAASB standards are issued internationally. We suggest renaming the third category the “jurisdiction” level to help ensure consistent application of the Framework.
- **Consultations and Disagreement Resolution** - The Framework indicates that audit organizations should promote a culture of consultation on difficult engagement issues. However, it does not provide a discussion of how to resolve disagreements that may arise during consultations. The Framework would benefit from a discussion of actions to be taken when the engagement team and audit firm differ in their opinions on an important audit decision.
- **Safeguards Against Threats to Independence** - The Framework lists several threats to auditor independence, but does not describe any safeguards used to mitigate or reduce these threats to an acceptable level. The Framework would benefit from expanding upon the discussion of the possible safeguards that auditors might use to mitigate or reduce these threats to auditor independence.

- **Internal Governance Arrangements** - the Framework notes the importance of robust internal governance within audit firms to safeguard audit quality. While we agree with the importance of internal governance, we also recognize that there is no set definition, description, or list of attributes that comprises robust internal governance arrangements. The Framework would benefit from using commonly accepted criteria from internal control frameworks, such as the Committee of Sponsoring Organizations' *Internal Control Integrated Framework* or the GAO's *Standards for Internal Control in the Federal Government*, to provide greater clarity about internal governance. Illustrative examples of using these criteria in an audit organization and their application to internal governance arrangements would also be beneficial.
- **Engagement Acceptance and Continuance** - The Framework advocates a rigorous system for making client acceptance and continuance decisions. While a rigorous client acceptance and continuance system helps an audit firm mitigate the risk of an audit failure, such a system is not always appropriate in the public sector environment. The framework should address situations where the auditor is unable to make client acceptance and continuance decisions because it is statutorily required to audit certain entities.
- **Compliance with Laws and Regulations** – Public sector entities may be required to comply with laws and regulations beyond those applicable to the private sector. We suggest that the Framework include other contextual factors that are specific to audits of public sector entities in its discussions of compliance with laws and regulations.

We thank you for considering our comments on this important issue as the IAASB continues to clarify the factors that contribute to the performance of quality audits. If you have questions about this letter, please contact me at (202) 512-3133 or Eric Holbrook at (202) 512-5232.

Sincerely yours,



James R. Dalkin  
Director  
Financial Management and Assurance