

July 17, 2018

Re: IOSCO Consultation Report, *Good Practices for Audit Committees in Supporting Audit Quality*

To: The Board of the International Organization of Securities Commissions

The Institute of Internal Auditors (IIA) is pleased to share feedback on the International Organization of Securities Commissions' (IOSCO) consultation report, *Good Practices for Audit Committees in Supporting Audit Quality*. The IIA has aided sound governance and risk management efforts in public- and private-sector organizations for more than 75 years. Our more than 190,000 members are part of a global voice that encourages strong internal controls and an enterprise-wide approach to risk management.

The IIA believes strong audit committee oversight of external audit quality is an integral part of the governance process, and having qualified and independent audit committee members is crucial to effective oversight.

The consultation report offers an impressive and comprehensive analysis of the audit committee's role in selecting, managing, and reviewing the external auditor as well as the importance of the audit committee's role in ensuring the external auditor's qualifications, knowledge of the business, and independence.

The answers provided below reflect The IIA's general support for the consultation report and related good practices. However, The IIA would be remiss if it did not discuss the role of internal audit as it relates to both external audit and the audit committee.

The good practices outlined in the consultation report can be grouped into two key areas: the audit committee's responsibility to ensure external audit quality, and the audit committee's responsibility to ensure external audit independence. The audit committee has a similar

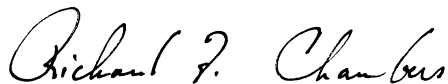
responsibility to internal audit. As an independent, objective assurance and consulting activity designed to add value and improve the organization, internal audit serves a vital role in supporting good governance within the organization. This includes providing assurance on the accuracy of financial reporting and regulatory compliance.

When internal audit is allowed to operate at the highest levels, it can become a trusted advisor to executive management and the board, providing assurance as well as insight and foresight on risk management and control issues across the organization. In these circumstance, internal audit can provide significant support to external audit, as well. A well-resourced and independent internal audit function can not only provide reliable work on which the external auditor can depend, it also can bring transparency to internal control and governance processes that supports external examination of financial reporting and related processes.

The IIA has concerns about the wording regarding external audit's reliance on the work of internal audit. We urge IOSCO to consider the suggested wording changes (see response to Question 5).

The IIA thanks IOSCO for the opportunity to comment on this important aspect of good governance and encourages IOSCO to continue its efforts to strengthen good governance and encourage transparency in financial reporting.

Sincerely,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive style with a large initial 'R'.

Richard F. Chambers, CIA, QIAL, CIA, CCSA, CRMA
President and CEO
The Institute of Internal Auditors

Questions relating to the role of audit committees and audit quality (Chapter 2)

1. Do you agree that audit committees can have an important role in supporting audit quality in the interests of market confidence in the quality of information in the financial reports of issuers (see Section 2.1)?

Yes. What's more, The IIA believes the audit committee plays a vital role in assuring good governance in the organization by providing oversight and support for both internal and external audit.

2. Do you have any comments on the background material on audit quality (see Sections 2.3 and 2.4)?

External auditors provide an important service to ensure investor confidence by providing reasonable assurance on the accuracy of financial reporting by publicly traded companies. Audit quality is driven by a number of factors including the external auditor's independence, and its knowledge of the business and its risks. The external auditor also must understand the strength of governance within the organization and how it is influenced by risk appetite, corporate culture and the strength, independence and reliability of the organization's internal audit function.

3. Do you have any comments on the proposed description of the roles and responsibilities of audit committees and auditors (see Sections 2.5 to 2.7)?

The proposed descriptions of the roles and responsibilities of audit committees and external auditors should include a discussion on the role of internal audit and its ability to influence and support good governance and provide assurance on the reliable financial reporting.

Questions relating to proposed good practices (Chapter 3)

4. Do you have any comments on the proposed good practices for the features of audit committees that may facilitate a committee in being more effective in promoting and supporting audit quality (see Section 3.2)?

See comments on related proposed good practices in the itemized list below.

5. Do you agree with the good practices for audit committees outlined in Sections 3.3 to 3.9?

3.4 Assessing Potential and Continuing Auditors

The wording on the "Proposed good practice" leaves an undeserved and unnecessary negative impression of internal audit. What's more, a discussion about such a significant issue should be elevated above the level of a footnote. The IIA urges IOSCO to consider rewording "Proposed good practice 31" to the following:

The audit committee should consider the extent to which:

31. The auditor should rely on the work of internal auditors to support and complete their work and the extent of the auditor's understanding of the relevant rules and regulations in the jurisdiction.

6. Do you have any additional suggestions on good practices to be adopted by audit committees (see Sections 3.3 to 3.9)?

See comments on related proposed good practices in the itemized list below.

7. Would you suggest any other changes to the proposed good practices outlined in this report? If so, in what manner (see Sections 3.3 to 3.9)?

See comments on related proposed good practices in the itemized list below.

8. In some cases a good practice is introduced with the words “The audit committee should take reasonable steps to ensure that” and in other case the words “The audit committee should consider the extent to which”. Is the wording used for each good practice appropriate (see Sections 3.3 to 3.9)?

Yes, with noted exceptions. See comments on related proposed good practices in the itemized list below.

9. It is proposed to provide good practices at principles level and not to include detailed procedures to support those principles. Do you agree with this approach (see Sections 3.3 to 3.9)?

While detailed procedures for each proposed good practice could make the consultation report overly cumbersome, The IIA recommends IOSCO consider following up with additional guidance on practices that may need elaboration.

10. Given the differing governance structures for issuers in different jurisdictions, to what extent should any final good practices report deal with the roles of the governing board, audit committee and management in relation to financial reporting, systems and processes (see Section 3.6)?

Reports with specific recommendations on financial reporting, systems and processes can create conflicts with local jurisdictional rules. However, The IIA supports any report that helps identify and clarify the roles of the governing board, audit committee, and management in support of independent and quality financial audits.

11. What frameworks, practices, methodologies, or tools have audit committees found to be helpful in evaluating the following:

- a) Professional skepticism of auditors;
- b) An auditor’s commitment to audit quality;
- c) Whether an audit firm’s culture supports audit quality;
- d) Whether an audit firm has or makes available during an audit an appropriate level of resources with appropriate skills and expertise; and
- e) Whether audit quality has been compromised by reduced audit fees?

For internal auditing, we know audit committees rely on the International Professional Practices Framework (IPPF).

Questions relating to other matters (Chapter 4)

12. Should the proposed report include a section mentioning the possibility of public reporting by audit committees on how they support audit quality? If so, should such reporting be described as “voluntary” or as a “good practice” for the majority of jurisdictions where there is no mandatory requirement? Should more detailed reporting criteria be provided in any final report (see Section 4.1)?

The IIA supports public reporting that provides information on the state of governance and risk management in publicly traded organizations. This includes whether the organization has an independent internal audit function that operates in conformance with the IPPF.

13. Are there any other comments that you have on the proposed good practices report and the material that may be included in any final report.

See detailed comments on related proposed good practices in the itemized list below.

IIA itemized responses and comments to “Proposed good practices”

1. The IIA agrees.
2. The IIA agrees.
3. IIA supports the practice of having the audit committee chair or other member possessing good knowledge of financial reporting or audit (including accounting, auditing, and audit independence requirements). However, as written, the practice could be interpreted as suggesting only a single member of the committee should have such qualifications. The IIA recommends clarification that “at minimum” the chair or another audit committee member should have a good knowledge of financial reporting or audit.
4. The IIA agrees.
5. The IIA agrees.
6. The IIA agrees.
7. The IIA agrees. Footnote 6 refers to the good practice matter being derived from the principles outlined in the IOSCO Statement, *Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence* issues in Oct. 2002. The IIA recommends periodic review of this document. While principles for auditor independence should remain consistent, there have been significant changes in risk landscapes since 2002 driven by factors such as changes in technology, cyber security, and the speed with which risks emerge and mature. These should be considered for their potential impact on the principles that drive auditor independence.
8. The IIA agrees.
9. The IIA agrees.
10. The IIA agrees.
11. The IIA agrees. See above comment on Footnote 6.
12. The IIA agrees.
13. The IIA agrees.
14. The IIA agrees.
15. The IIA agrees.
16. The IIA agrees.
17. The IIA agrees.
18. The IIA agrees.
19. The IIA agrees.
20. The IIA agrees. See above comment on Footnote 6.
21. The IIA agrees.
22. The IIA agrees.
23. The IIA agrees.
24. The IIA agrees.
25. The IIA agrees generally but suggests stronger language in the final sentence. The audit committee should do more than consider encouraging, it should insist that the external auditor consult the audit committee on changes in partners or key team members.
26. The IIA agrees.
27. The IIA agrees.
28. The IIA agrees.
29. The IIA agrees.
30. The IIA agrees.
31. The IIA believes a robust and independent internal audit function is integral to good governance and can be a valuable source of reliable information to the external auditor. The “Proposed good practice” is negatively worded leaving a similar negative impression on the work of internal audit. The IIA believes the audit committee has an equally important and significant responsibility to

ensure the success and independence of the internal audit function. A discussion about the external auditor's reliance on the work of internal audit is a significant issue that should be elevated above the level of a footnote.

32. The IIA agrees.
33. The IIA agrees. It should be noted that this practice assumes the external auditor is sufficiently resourced to take on each of the recommended audits.
34. The IIA agrees.
35. The IIA agrees.
36. The IIA agrees generally but suggests stronger language in the final sentence of this section. The audit committee should routinely question (if not challenge) reasons for any reduction in audit fees.
37. The IIA agrees.
38. The IIA agrees.
39. The IIA agrees.
40. The IIA agrees.
41. The IIA agrees.
42. The IIA agrees and encourages specific language that supports internal audit as an assurance provider over internal controls and policies that impact the quality of financial reporting, timely reporting, and facilitation of the audit process.
43. The IIA agrees.
44. The IIA agrees and recommends review of the whitepaper produced by The IIA in cooperation with the Center for Audit Quality, [*Intersecting Roles: Fostering Effective Working Relationships Among External Audit, Internal Audit, and the Audit Committee*](#).
45. The IIA agrees.
46. The IIA agrees and recommends the policy also consider the issuer management's influence including creating the proper atmosphere and tone at the top that encourage independence.
47. The IIA agrees and urges stronger language to report perceived or real conflict of interests relating to provision of non-audit services. Also see above comment on Footnote 6.
48. The IIA agrees. See above comment on Footnote 6.
49. The IIA agrees.
50. The IIA agrees.
51. The IIA agrees.
52. The IIA agrees.
53. The IIA agrees.
54. The IIA agrees.
55. The IIA agrees.
56. The IIA agrees.
57. The language in this proposed good practice is unclear. IOSCO should consider redrafting language to say: The audit committee and management inform the auditor of the business purpose behind any complex new transaction that may affect the accounting treatment, or create uncertain accounting estimates.
58. The IIA agrees.
59. The IIA agrees.
60. The IIA agrees.
61. The IIA agrees.
62. The IIA agrees.
63. The IIA agrees.
64. The IIA agrees.
65. The IIA agrees.

66. The IIA agrees there is considerable benefit to having the audit committee meet with the external auditor without management present. However, there may be instances where management might benefit from reviewing minutes of the private discussion between the audit committee and external auditor.
67. The IIA agrees.
68. The IIA agrees.
69. The IIA agrees.
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71. The IIA agrees.
72. The IIA agrees.
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74. The IIA agrees.
75. The IIA agrees.
76. The IIA agrees.
77. The IIA agrees.
78. The IIA agrees.
79. The IIA agrees.