



5th July 2019

FAO: IAASB
529 Fifth Avenue
New York, NY 10017

Via IAASB website [Submit a comment](#)

Dear team

Exposure Draft: International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

The Corporate Reporting Users' Forum welcomes the opportunity to comment on this consultation. We appreciate the IAASB's efforts to improve the quality of audit.

1. The audit quality of listed companies must be consistent.

ISQM1 applies the concept of scalability. However, we would like to emphasise that the users of financial statements, at least in the case of audits of listed companies, place great importance on maintaining the same level and consistency of audit quality regardless of the size of the audit firm or audited company.

2. The disclosure of information on quality management systems to the users of financial statements should be enhanced.

(1)The transparency reports should be used actively.

We appreciate that the exposure draft includes the enhancement of the communication with external stakeholders but, if scalability is premised, the details of the quality management system of each audit firm should be fully communicated, not only to those who are in charge of governance but also to the users of financial statements including investors, for example by disclosures in transparency reports.

(2)The prospective shareholders and creditors, including investors, should be included in the scope of communication.

We strongly request that paragraph A146 of the ED-ISQM1 should be improved. We appreciate it includes the existing shareholders and credit providers, as the potential external parties which may use the information on the quality management system of the audit firms.

That said, we believe that the prospective shareholders and credit providers should also be included as such parties, as the existing shareholders and credit providers are not the only parties who would use the financial statements for their economic decisions on investments or credit provisions.



The other capital market participants also would use the financial statements prepared by an entity. The investors and financial institutions, other than the existing shareholders or creditors, may use those documents as an important source of information to judge if they can invest in, or provide credit to the company.

We believe an increasing number of market participants have become more aware of the importance of auditor's reports since the introduction of the key audit matters (KAM). We expect they will regard the auditor's report as a source of information as essential as the financial statements. They will become more interested in which firm is the auditor of the company, and how the firm maintains its audit quality.

For example, global investors and banks may find it useful for their investment or lending decisions in the overseas markets, if the local auditors unfamiliar to them provide the information on their audit quality management.

Even if auditors are commenting positively on management about quality management, they have to implement them as their commitment. Such statements about the quality management would enable users of such information to identify those auditors who may be obedient to their client entities and do not perform the audit process rigorously enough. Auditors adopting such a less rigorous approach would lose the confidence of the market, and consequently their market share. There is also the possibility that companies, where the directors have perpetuated fraudulent financial reporting, may find it difficult to replace an auditor with a lax approach, with a more rigorous one.

3. Professional Skepticism.

Professional skepticism is merely mentioned in ISQM1 because it should be manifested at engagement level. However, it is an important element of the audit quality control system to build a system to bring professional skepticism to the accountant, for example, to reflect it in the evaluation of individual accountants and audit teams We believe that it should be addressed in ISQM1.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.



Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

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