



For the attention of Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
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Submitted via IAASB website

15 May 2013

Dear Sir

IAASB Consultation Paper – A Framework for Audit Quality

We appreciate the opportunity to comment on the IAASB's consultation paper on audit quality.

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft (ED). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Importance of continuing focus on audit quality

Audit quality is of paramount importance to our business. Our reputation as auditors is built on the quality of the audit work we perform – a reputation that could be quickly lost if we did not have a commitment to continuous improvement in audit quality at the core of our priorities.

The IAASB's January 2011 thought piece on audit quality started a thought-provoking dialogue about audit quality because it took a holistic view, pointing out that different stakeholders are likely to have different views on what audit quality is and how it can be enhanced. It emphasised the importance of sharing perspectives, and understanding the perspectives of others, as a basis for constructive exchange that could move the audit quality agenda forward.

This consultation paper furthers that aim by exploring in more depth attributes of audit quality and factors that can increase the likelihood of quality audits being consistently performed. We were pleased that it retained a broad perspective, recognising that interactions among key stakeholders and contextual factors have a part to play alongside the vitally important input and output factors. In so doing, the paper should encourage a valuable and wide ranging dialogue among key stakeholders on ways to support and improve audit quality.

Responses to questions

We found it useful to frame our views on the Consultation Paper using the questions asked in the Request for Comments, although we answer them in a different order than they were asked to reflect our view of the priority of the respective responses.

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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?

As noted in our opening remarks, the paper should serve a very valuable purpose in furthering dialogue about audit quality and the factors that can promote it being consistently achieved, as well as what different stakeholders can do to both support and promote it. We certainly intend to use it in this way.

What is less clear to us is how the document relates to the IAASB's authoritative literature.

Nature of the document

The proposed Framework is of a different nature than the IAASB's International Framework for Assurance Engagements, or the IASB's Conceptual Framework. Those Frameworks set out core definitions and concepts underlying the respective bodies of authoritative standards. This document, on the other hand, captures current thinking regarding factors that influence audit quality at different levels – engagement, firm, profession and broader. It is at a more granular level of detail.

As was noted in the IAASB's 2011 publication, audit quality intrinsically is a concept that evolves over time and the pursuit of audit quality is not a program with a definitive outcome. The topic may, therefore, not lend itself to a similar type of conceptual framework.

The draft is, in many ways, more in the nature of a "white paper" – a document that helps to create awareness in a topic, to educate by being explanatory in nature, and to encourage an exchange of information and analysis. Such a paper could also more easily be kept evergreen. Positioning it this way may, therefore, better reflect the Board's intended objectives.

Relationship with existing quality control standards

The introduction to the paper states that the "Framework is not a substitute for such standards, nor does it establish additional standards or provide procedural requirements for the performance of audit engagements". However, sections 1 and 2 of the proposed Framework get into a fair bit of detail regarding input and output factors. The topics addressed in those sections, and the level of detail in them, overlap significantly with the IAASB's existing audit quality standards— ISQC 1 for audit firms, and ISA 220 for audit engagements – which inevitably raise questions regarding the relationship of the paper with those standards (and perhaps even, inadvertently, the quality of those standards).

One of the stated purposes of the paper is to assist auditing standard setters on whether there are areas in the standards that may require attention. To the extent that the IAASB's consultation around the paper surfaces areas in the standards that the IAASB concludes should be revised, a standard-setting project should be initiated and due process followed for the revision. The paper does not provide the Board's views on whether there are gaps or weaknesses in the standards and, therefore, it is unclear whether the Board believes the current standards remain robust. At the same time, the paper indicates that it hopes that the paper will encourage firms to reflect on how to improve audit quality and better communicate information about it.

Auditors are, therefore, left with mixed messages.

For these reasons, it is important for the Board to be clear on the intended purpose of the document and its relationship to the Board's authoritative literature. We believe the paper is a very valuable



document – it will serve to draw attention to audit quality and its drivers, and facilitate meaningful dialogue about ways in which it can be supported and improved. We fully support it being published as long as it is published separately from, rather than in conjunction with, the IAASB’s authoritative literature to avoid any confusion.

Definition of audit quality

The draft avoids defining audit quality. That seems entirely appropriate—audit quality is an evolving concept and, in many ways, better positioned as an ambition that promotes a commitment to continuous improvement rather than a destination.

There is a risk, however, that paragraph 18 (which is also repeated in the Chairman’s forward) could be interpreted as being a de facto definition. If so, there are inherent weaknesses in it—the characteristics listed in that paragraph are not all *necessary* preconditions to achieving audit quality, and there may be compensating factors that can be brought to bear that can overcome weaknesses to ensure that audit quality is achieved.

We agree that the characteristics listed are all factors that can contribute to audit quality being achieved, and indeed that is how they are addressed in the remainder of the document. We suggest, however, that the paragraph be rewritten to avoid any ambiguity and the risk that it could be misinterpreted and misused.

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?

We agree with the assertion in the proposed Framework that auditors are responsible for the quality of individual audits, and that they are supported by the quality control systems, policies and procedures of their firms. It is for that very reason that ISAs play such an important role in setting out the overall responsibilities of an auditor when conducting an audit, and ISQC 1 and ISA 220 in setting out the firm’s and engagement leader’s and team’s responsibilities for quality control. We also agree that standards alone cannot deliver audit quality because there are other factors that contribute to increasing the likelihood of quality audits being consistently performed. In fact, many of those factors underpin the ability of auditors to comply with principles-based auditing standards.

Other participants in the financial reporting supply chain and contextual factors can play an invaluable role in both supporting auditors in their pursuit of audit quality and promoting audit quality within the overall corporate reporting/corporate governance/audit model. We are therefore pleased that the IAASB has continued to adopt a holistic view of the dynamics that collectively promote audit quality.

Balance and coverage

Overall, we found the paper, in addressing input factors, output factors, key interactions and contextual factors, is reasonably comprehensive. Subject to the comment below regarding the section on interactions, we found the paper reasonably balanced as well.



Structure of the paper

There is no inherently right or wrong way to organise the document. The fact that input factors are addressed first and that discussion of them is quite detailed, does give emphasis to the individual responsibility. That may be entirely appropriate. At the same time, however, that structure and style also reinforces the questions about the relationship of the document with ISQC 1 and ISA 220 and this would be less the case if the contextual factors were discussed first.

It could be argued that there are others in the supply chain who through their roles also *input* to audit quality. For example, as discussed further below, audit committees play a very valuable role in supporting and promoting audit quality. In the end, however, the structure may be less important than ensuring that the contributions of various players are comprehensively described.

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

There is a greater level of focus and detail on the responsibility of auditors and audit firms for audit quality than other stakeholders but that seems appropriate as, ultimately, the delivery of audit quality on a particular engagement rests with those performing it.

Audit as an integral part of the overall corporate reporting supply chain

Audit quality is not, however, a pursuit in isolation. Audit is an integral part of the corporate reporting supply chain and the ultimate aim is having the public trust in the corporate reporting information system necessary to support healthy, successful and growing economies. Audit alone cannot fully compensate for significant weaknesses in other parts of that supply chain. It is only one element of the overall model and it can be positively or negatively influenced by the strength or weaknesses of other elements. Therefore, it seems entirely appropriate that those aspects should be recognised too.

Key interactions could be enhanced

The discussion of key interactions is, perhaps, the least developed part of the document. Those interactions can have a very positive effect in both supporting and promoting audit quality. In our view, it would enhance the document to develop that section further.

For example, the introduction by a number of jurisdictions of audit committees comprised of non-executive directors has had a demonstrably positive role in promoting audit quality. Other jurisdictions have introduced other methods of auditor oversight in their corporate governance models. Even in those jurisdictions which have robust audit committee/corporate governance in place, however, there is plenty of evidence that the importance and value of their role is underestimated because their activities are frequently not very visible.

We were, therefore, disappointed to see that there are only four paragraphs discussing audit committees, with two of those paragraphs simply describing their broader role in the overseeing the entity's financial reporting process. The section could, for example, discuss the important role those charged with governance can play regarding auditor independence, in the appointment process and in the evaluation of audit quality of the auditors on behalf of shareholders. In addition, through robust inquiry in their exchanges with the auditors, they can have a positive influence in reinforcing the



auditor's professional scepticism. We believe the IAASB could give higher profile to the important role that audit committees play.

Efficiency and effectiveness

Section 4.6 in the discussion of Contextual Factors discusses the financial reporting timetable and the timeframe within which the audit needs to be completed. The section discusses how accelerated reporting regimes limits the extent to which the auditor can perform detailed work after the end of the reporting period and, therefore, it has become increasingly necessary for the auditor to place reliance on systems of internal control and audit procedures performed before the period end – all of which we agree.

The paper does not, however, acknowledge that there is a point when increasingly accelerated deadlines will begin to have a negative effect on audit quality. Efficiency and effectiveness improvements can often be met simultaneously – for example, innovation in audit tools and methods can do both. However, there are other circumstances when efficiency and effectiveness can be at odds with one another.

For example, it is understandable that investors and capital markets value timely reporting and assurance. Our global survey of investment professionals last year showed that many would value having the financial statement audit be substantially complete, if not completed, at the time of the preliminary release of results to the market. At the same time, however, we observe that auditors are increasingly finding it necessary to perform more substantive tests of details as it can be difficult to design substantive analytical procedures that are able to provide the necessary assurance. By its nature, certain elements of such testing can generally only be performed at or after the end of the accounting period, putting pressure on audit reporting deadlines.

Such pressures are not limited to individual audit engagement leaders and teams. Accelerated reporting deadlines – together with the fact that in most jurisdictions, listed and perhaps other entities as well, have the same reporting timeframes – also puts increasing pressure on quality control processes at a firm level (e.g., technical consultation, quality control reviews).

We believe it would be valuable to bring out these points more fully in the document. They are a good example of how objectives that certain stakeholders would value as increasing their perception of audit quality can decrease it from another perspective. It is important that such trade-offs are recognised and weighed.

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?

The list of areas to explore covers many of the topics we would expect to see where actions could be taken that would have a positive impact on audit quality – for example, improving the auditor's report, enhancing the role of the audit committee, root causes and best practices. Action is already being taken by the profession on many of these and we would welcome further dialogue on how action on others could be encouraged.

What is less clear is how the list is intended to be used. We assume that the IAASB's intention is not that it would be included in the final published document because the list could quickly become out of date – certainly much quicker than the document itself. It is also not clear to whom the recommendations are directed and how action on them would be initiated and measured.



We appreciate the desire of the IAASB to use the document as an agent of change. That aim might be better met by the IAASB facilitating the type of dialogue among key stakeholders that the Board promoted in its 2011 thought piece. The IAASB is well placed to be able to bring together key stakeholders and both encourage and facilitate dialogue. This list of areas to explore could be very effectively used as a basis for roundtables or symposiums about different aspects of audit quality. Proactively using it in this way would ensure that the document serves its intended purpose. We would be keen to participate in any such initiatives.

Concluding remarks

In conclusion, we applaud the IAASB for this contribution to the dialogue on audit quality. We share the Board's commitment to promoting continual improvement in audit quality and also the Board's view that a focus on not only input factors, but also outputs, interactions and context is important. This position paper will be valuable in promoting dialogue among stakeholders.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@uk.pwc.com, or myself, at richard.g.sexton@uk.pwc.com.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Richard G. Sexton', written in a cursive style.

Richard G. Sexton
Deputy Global Assurance Leader
For and on behalf of PricewaterhouseCoopers International Limited