10 May 2013

Our ref: ICAEW Rep 73/13

Submitted through the IAASB website

Gary Pflugrath
IFAC Director, Public Policy and Regulation

Dear Mr Pflugrath

IAASB Consultation Paper *A Framework for Audit Quality*

ICAEW is pleased to respond to your request for comments on the Consultation Paper *A Framework for Audit Quality* published by the IAASB on 15 January 2013, a copy of which is available from this link.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Chris Cantwell
Manager, Practice Regulation
Audit and Assurance Faculty

T   +44 (0)20 7920 8742
E   **chris.cantwell@icaew.com**

ICAEW REPRESENTATION

IAASB Consultation Paper *A Framework for Audit Quality*

Memorandum of comment submitted in May 2013 by ICAEW, in response to the IAASB Consultation Paper published in January 2013

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the Consultation Paper *A Framework for Audit Quality* published by the IAASB on 15 January 2013, a copy of which is available from this link.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Audit and Assurance Faculty is a leading authority on external audit and other assurance activities and is recognised internationally as a source of expertise on audit issues. It is responsible for technical audit and assurance submissions on behalf of ICAEW as a whole. The faculty membership consists of nearly 8,000 members drawn from practising firms and organisations of all sizes from both the private and public sectors. Members receive a range of services including the monthly Audit & Beyond newsletter. Some of the specific initiatives we are involved in of direct relevance to this consultation are covered below in our response to the IAASB consultation paper.

MAJOR POINTS

Support for the IAASB's Audit Quality project and how we hope to help

5. We support the IAASB's Audit Quality project. We believe it is vital to emphasise the importance of audit quality and its many contributory factors to international audiences. These factors include but are not limited to the impact of auditing standards. We recognise that the IAASB has done an enormous amount of good work on this project and that it has gathered together in this paper a great deal of important material that will help to raise awareness of the issues and prompt initiatives that will assist in driving a continual improvement in audit quality.

6. For a long time ICAEW has been a leading player in developing cutting edge thinking on audit quality. This includes our roles in hosting the influential Audit Quality Forum which is close to entering its second decade and brings together representatives of auditors, investors, business and regulatory bodies, and in setting up the AuditFutures initiative which brings together a wide range of stakeholders and looks at potential developments which we hope will enable audit to evolve to best serve society. We have also produced a variety of guidance materials which are of direct relevance to matters covered in the paper including a series of publications and webinars covering quality control, professional scepticism and the clarified ISAs. Much of this material is designed for an international audience and we are planning to issue further guidance, in particular a series of webinars, during the course of this year. We recently held the first of these: *ISQC 1 – Making it work for you in practice*.

7. We are keen to share our thinking from our various projects and to work with IFAC, the IAASB and others in developing best practice and improving audit quality for the benefit of all parties with an interest in audit and for society as a whole. We recently held a Practical Auditing Discussion Group event, attended by Jon Grant, Chair of the IAASB Audit Quality Task Force, to discuss the issues raised in the IAASB's paper. The feedback and ideas generated from that

event have informed the material in the section below headed 'Our ideas to take the audit quality debate forward'. In response to a final question 'How strongly do you support the Framework in its current proposed form?', about 75% responded with 'support with some reservations'.

Who should issue the Framework and when?

8. We consider that the IFAC Board should reflect on how to most effectively bring the ideas in the Framework to fruition. The Framework covers the broader aspects of the audit profession (not just the matters covered by the auditing standards) and IFAC is well placed to issue this type of material given its broad role on these matters. We therefore consider that it would be preferable for the finalised Framework to be issued by IFAC rather than the IAASB if it is to be issued at all. We believe that there is an argument for saying that it should not be issued formally as this might create confusion regarding its status, its purpose and to whom it is addressed. If it is to be issued by the IAASB, as the standard-setter for audit, there is a risk, despite all the clear statements regarding its status that the IAASB plans to include, that it will be perceived by auditors, regulators and other stakeholders as an additional standard with 'requirements' that firms should meet and be regulated against. This might create confusion regarding how this document sits alongside the formal standard ISQC 1. However, we agree that if it is issued by IFAC in line with our suggestion, the IAASB should continue to be involved in modifications to the document given that board's expertise on auditing matters.

9. There is a clear potential link between the Framework and the Statements of Membership Obligations (SMOs) which apply to IFAC member bodies. IFAC itself, rather than any of the standard-setting boards, has responsibility for these SMOs. The SMOs and a (linked) Framework issued by IFAC could be used to ensure that audit quality is at the heart of how member bodies deal with these matters or at least that member bodies have an obligation to promote the Framework's ideas for ways forward. There might even be scope for other quality frameworks to pick up other matters covered by the SMOs, for example on quality assurance review, accounting, ethics and education.

10. If it is decided to go ahead with issuing the document, the decision on the timing of final issue should only be made after considering the relevance of other ongoing developments and evidence regarding recent developments. For example, it would be useful to consider information gathered by the IAASB from the implementation of the clarified ISAs before finalising the Framework. It is also necessary to allow adequate time for thorough consideration of any innovative ideas to improve audit quality that are suggested in responses to the consultation paper. We hope that our ideas included below will be part of this debate. We agree that the status of the Framework document should be non-authoritative although we make the observation that this does then raise questions about the value of the document if it is issued by the IAASB and how it should be used. We consider that the best way forward would be for IFAC to issue the Framework and to consider whether a link with the SMOs might be established (see previous paragraph).

Reviewing and promoting the IAASB's quality control requirements

11. We consider that a higher priority for the IAASB, rather than issuing the Framework, is to review the IAASB's requirements that address the key issues, in particular ISQC 1. This is the authoritative standard for audit firms that should help, with effective implementation, to change auditor behaviour to improve quality but this has not been adopted in many countries. ICAEW views itself as a champion of this standard and we believe that the IAASB, IFAC and others should do more to promote the value of ISQC 1 and its adoption across the globe. The message should be conveyed very clearly, and made explicit in all material surrounding the ISAs, that it is not possible to carry out ISA compliant audits in the absence of compliance with ISQC 1.

12. With respect to possible modifications to ISQC 1 that should be on the agenda for its review, we consider that people issues, for example those matters covered in professional

development including communication and team working skills, should be looked at in particular. Part of this review should be consideration of the relevance of the material that the IAESB has produced in its project to revise IES 8 on professional development of audit engagement partners. ICAEW has argued in its response to the IAESB on the revised IES 8 exposure draft that this type of material is more appropriately directed to firms and therefore we consider that the appropriate vehicle would be ISQC 1. We consider that it should either be brought into ISQC 1 itself in the 'Human Resources' sections or dealt with through a new standard in the ISQC series. It is likely to be mainly, if not entirely, Application Material.

Our suggestions for amending the document

13. We consider that the wording in paragraph 18 in the paper is a helpful contribution in seeking to define 'audit quality', although we question the inclusion of the phrase 'relied upon' as we are seeking here description of the more general value of the audit to a wider group of stakeholders rather than just the narrow group to whom the audit report is addressed. We suggest that further views are taken on the paragraph 18 wording and that IFAC and the IAASB explore whether a workable definition of 'audit quality' can be agreed and included explicitly in this document or issued as a definition elsewhere. Over 80% of attendees at our Practical Auditing Discussion Group event agreed that high or medium priority should be given to agreeing a workable definition of 'audit quality'. We also consider that the first sentence of paragraph 153, linking the ultimate objective of an audit to the reliability of the financial statements, is helpful in this context. This sentence links well to the Audit Quality Forum paper on reliability that is referred to in paragraph 20 below.

14. We agree that the paper has collected much helpful material (as we make clear in paragraph 5 above) and provides an excellent opportunity to emphasise the importance of audit quality to a broad range of stakeholders and to demonstrate the value of the audit. However, we consider that the current structure and length of the document is unlikely to facilitate achieving the IAASB's goal of engaging stakeholders as outlined in the Foreword on pages 9 and 10. A much shorter document, perhaps with referenced material tailored to particular stakeholders, would be more helpful in our view rather than trying to achieve everything in one document. We suggest a short framework is produced (perhaps around 10 pages with a one or two page summary), with more detailed matters covered elsewhere (with links provided as necessary). We consider that the document should begin with the overarching and contextual issues that are relevant to all readers. This type of structure could be achieved in a number of ways and we would be happy to participate in any further discussions about how best to do this. There is some duplication of material already available elsewhere and again we believe this would be more effectively dealt with by simply being referred to where applicable, although we appreciate that some in the non-auditor community are less aware of the requirements of ISAs and therefore having some summaries of these requirements might be helpful for these users.

15. With respect to the use of the document by firms and regulators, it is important that the needs of smaller entities and firms are considered so that they have material which is helpful and that the expectations of regulators are tailored to the size and circumstances of entities and firms. Some of the material, for example on audit committee communications and communication with financial regulators, concentrates on those auditing public interest entities. In our view the Framework needs to be, and be seen to be, applicable to all audits and audit firms. The entire document should be reviewed taking account of the needs of smaller entities rather than there just being a short additional section in 'contextual factors'. The Framework should support the principle that an audit is an audit rather than creating any confusion regarding this amongst those using it. A similar point applies to public sector considerations.

16. We consider that the respective responsibilities of the various parties involved in the audit process could be made clearer in the document and more attention given to those with a direct responsibility for audit quality, for example those responsible for regulation and oversight. We consider that the emphasis on the role of management and those charged with governance in the document is too great as management and those charged with governance can have only

an indirect positive impact on audit quality (although of course they can have a substantial direct negative impact).

17. The document focuses only on audit. We believe that it would be helpful for reference to also be made to other assurance and related services engagements or, should our suggestions regarding the redistribution of the material between a shorter Framework and other supporting material be accepted, in a related document. In particular it would be helpful to indicate to what extent the matters covered in the Framework are also regarded as relevant to those engagements.

Our ideas to take the audit quality debate forward

18. We consider that if the purpose of the project is to drive behavioural change, which is a very worthy aim, then the appropriate mechanism for that is for the IAASB to consider amending auditing and quality control standards (see our comments on reviewing ISQC 1 above), and in particular to consider modifications to Application Material in the standards. One area that might be worthy of improvement is guidance in Application Material on the way oral and electronic communications can be used by auditors and the documentation of these. Other less traditional initiatives such as AuditFutures (see paragraph 6 above) are also likely to play a role in the evolution of auditor behaviour.

19. One idea which we believe merits further consideration would be to apply a threats and safeguards approach to audit quality. This is a familiar concept to auditors given the experience of using this approach on ethical matters, and it would therefore make it easier for audit firms to operationalize relevant issues covered by the Framework. Examples of issues where this threats and safeguards approach might be applied by firms are provided in the Annex to this response. In nearly all situations firms should be able to identify safeguards but if firms judge that they do not have adequate safeguards to deal with a threat, for example if they are unable to deploy sufficiently experienced staff for the audit that is planned, then they should not accept the engagement or, if already appointed, should resign. The threats and safeguards approach might also be used more broadly by other stakeholders to deal with possible inhibitors to audit quality, for example a lack of resources for regulators to carry out effective inspections.

20. The Audit Quality Forum (see paragraph 6 above) is looking at the concept of reliability in relation to audited financial statements. A paper on this subject will be published very shortly: *Reliability matters: reliability and the central role of the auditor.* This paper puts reliability at the heart of auditing and explores five key aspects of reliability and the challenges they pose for auditors. The focus on reliability and outcomes from the audit provides a unique platform on which to look at the broader issues around audit quality. It highlights a number of challenges and big questions which the Audit Quality Forum plans to engage with stakeholders on and which we believe are relevant to the IAASB project on audit quality. We would be pleased to discuss this further with you and we make further comments regarding this in paragraph 13 above and paragraph 25 below.

21. Our Practical Auditing Discussion Group event held on 24 April, as mentioned in paragraph 7 above, has generated a number of ideas and other feedback that we believe is worthy of further consideration. We have tried to reflect some of that discussion in this response but one of the key outcomes was that attendees found it helpful to have the discussion. We urge the IAASB and IFAC to encourage similar discussions in other countries. Ideally these should be attended by a wide range of stakeholders and not just audit firms.

22. As stated in paragraph 7 above, we are keen to offer our active support to IFAC and the IAASB to help take forward the various ideas to emerge from the consultation.

RESPONSES TO THE IAASB'S SPECIFIC QUESTIONS

Q1: Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?

23. See our major points above, in particular our suggestions for amending the document and our ideas to take the audit quality debate forward. Whilst we can see the merits in the inputs/outputs/interactions/context model adopted, we consider that the existing structure of the document is not entirely user friendly and that the Framework is currently far too long to be a helpful practical tool for those seeking to use it (see our suggestion in paragraph 14 above for a much shorter Framework but with material tailored to particular stakeholders being referenced as appropriate). We would not therefore support additional material being added if that made the document even longer, unless it is helpful material for specific stakeholders that is simply referenced to rather than included in the Framework.

24. One matter that might arguably be included in addition to the existing content is on identifying client or stakeholders' needs as part of the audit planning process, for example if there is client expectation of visits to branches that might not otherwise feature in the audit plan. Clearly the Code of Ethics must be complied with regarding any such activity but many stakeholders would regard such activity, where they deem it helpful to the business or stakeholder needs, as an important factor in determining the value or quality of the audit. Within the structure of the Framework it is probably part of 'interactions' but could also be a 'contextual factor'.

25. With respect to the perspective of end users of financial statements, we consider that the current Framework is quite limited and we would therefore support more debate around how the confidence of the end users (in the quality of the audit and thereby their perception of the reliability of the financial statements) can be enhanced. Part of this might be more effective engagement between the audit profession and the end users that helps those users value the audit more and provides them with confidence about the financial statements, and also between other stakeholders (such as regulators) and these users. Certain types of interaction might be detrimental to achieving this confidence, for example overly defensive responses from the profession to prima facie evidence of audit failure or public reports from regulators that lack balance by being unnecessarily negative when there is actually plenty of good news to report. These matters might be seen as relevant to 'outputs' (from the perspective of the end user which ought to be more than simply the published audit report), 'interactions' and 'contextual factors'. There might be merit in a wider understanding of the concept of 'outputs' in the paper so that it picks up matters other than the published reports, for example so that it also includes lessons learnt that play a key part in continuous improvement. Outputs should also include reports to government and any others provided in the public interest. It might be better to focus on 'outcomes' rather than 'outputs' as the key to the value of the audit is the practical benefit that users derive from an audit having been performed.

Q2: 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?

26. One positive aspect of the IAASB's project and this paper is that it recognises the complex nature of achieving audit quality and the wide range of parties that need to be involved to achieve this. However, as mentioned in paragraph 16 above, we consider that the current draft places too much emphasis on management's role. Management and those charged with governance have only an indirect positive impact on audit quality, unlike legislators and regulators. However, it is true that management and those charged with governance can have a substantial direct negative impact on audit quality and this might usefully be brought out rather more in the material.

27. As stated above in our answer to Q1, we consider that the current length and form of the document will mean that it is unlikely that most will use it that effectively in practice in its current form, although we will be very interested to review the responses that the IAASB receives on this question from both firms and other stakeholders. There is a danger that different parts will be picked up and acted upon by different users, leading to inconsistency that would hinder the IAASB's objective of achieving uniform behavioural change. However, initiatives that are taken as a result of the document are likely to have a positive impact, subject to them being undertaken in full appreciation of its non-authoritative status. The IAASB (or IFAC, if that is the body that issues it) should give greater clarity regarding how the document might be used by different stakeholders.

28. As we make clear in our major points section on reviewing and promoting the IAASB's quality control requirements, we consider that reviewing the IAASB's requirements that address the key issues, in particular ISQC 1, is a higher priority than issuing this document. We would also refer to our major points on ideas and suggestions for improving the document above, including exploring innovative ideas for enhancing audit quality. Some of these ideas might ultimately work better in practice than others but it is worthwhile exploring these with as wide a range of interests as possible.

Q4: 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?

29. Our comments on each of the suggested Areas to Explore are given in the next section. It is important to determine responsibility for exploring the areas prioritised and how those responsible parties will do it. Identification of some topics for academic researchers might be helpful in some of the priority areas.

30. In order to help achieve the objective of behavioural change, we consider that the priority is for the IAASB to review the authoritative guidance that the board has issued, ie ISQC 1 – see our major points above on the need to review and promote this standard. One example of possible change in this area is on people matters and how best to use the material that was included in the IAESB's revised IES 8 exposure draft (see comments in paragraph 12 above). As noted in our comments on Area 2 below, we do consider that people issues should be regarded as having the highest priority moving forward. Many parties, including IFAC, IAASB, IAESB, IESBA, education providers, regulators and professional bodies, have important roles to play in helping to ensure that auditors do have the appropriate competencies and personal qualities that lead to quality audits. We consider that the main role for the IAASB is in reviewing the quality control requirements on human resources for audit firms.

31. As stated in paragraph 13 above, we also consider that defining 'audit quality' requires further debate. We suggest that IFAC and the IAASB explore whether a workable definition of 'audit quality' can be agreed and included explicitly in this document or issued as a definition elsewhere. The advantage of having a definition is that it would provide greater consistency across stakeholders in thinking about and assessing audit quality.

COMMENTS ON THE SUGGESTED AREAS TO EXPLORE IN THE PAPER

Area 1: Establishing global guidance against which audit firms can assess their governance arrangements.

32. ICAEW is a leading advocate of promoting high quality governance arrangements for audit firms. We issued The Audit Firm Governance Code in January 2010 following an invitation from the UK Financial Reporting Council (FRC) to develop such a code. The Code applies to eight audit firms that together audit about 95% of the companies listed on the Main Market of the London Stock Exchange. For these firms, the Code sets a benchmark for good governance

which other audit firms may wish to voluntarily adopt in full or in part. We would encourage other countries to adopt similar codes and support IFAC playing a role in helping to bring this to fruition, perhaps through establishing key principles for this type of code and monitoring the position in different countries through member body returns.

33. However, it should be emphasised that our Code does have a restricted application (as above) and we do not consider it necessary to establish separate codes of governance for other firms including SMPs. Our Code does cover certain matters that are relevant to all firms, eg professionalism, compliance and risk management, but we consider that these matters are best dealt with through other guidance and support including ISQC 1 and other standards. Nothing else should be needed.

Area 2: Establishing a common understanding of capabilities, and how they are demonstrated and assessed, as they relate to audit quality for use by audit firms when recruiting, evaluating, promoting, and remunerating partners and staff.

34. We consider that this is an area of the utmost importance. Indeed two key findings from the 2009 CCAB audit conduct and training project were that having the best people to carry out audits is of critical importance to ensuring quality audits and that more should be done to promote the importance of auditors having good interpersonal skills and to help firms develop the interpersonal skills of audit staff. Professional accountancy bodies responsible for qualifications should ensure that this aspect is emphasised at the start of training for the qualification, for example in our ACA qualification professional development and ethics and professional scepticism are viewed as key components of the qualification.

35. We believe that many parties, including IFAC, IAASB, IAESB, IESBA, education providers, regulators and professional bodies, have key roles to play in helping to ensure that auditors do have the appropriate competencies and personal qualities that lead to the performance of quality audits and that audit firms do prioritise achieving audit quality as their main objective. We consider that a key role for the IAASB is in reviewing the quality control requirements on human resources for audit firms. The IAESB has done much important work in this area already in revising IES 8 and, as we make clear in paragraph 12 above, we consider that much of this material ought to be directed to audit firms and brought in as Application Material in the IAASB's standards.

36. ICAEW is prioritising developing thinking in this area and issuing guidance and support as appropriate. We produced a series of videos on professional scepticism that touched on many issues of relevance under this heading and we now have a group of volunteers that is exploring what more we can do going forward. AuditFutures (see paragraph 6 above) is also giving special attention to this area in its activity this year.

Area 3: Improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement.

37. Whilst we agree that this is an important issue to help improve audits, we consider that it is primarily a process issue rather than one to be prioritised as an audit quality matter by the IAASB or IFAC. This is a matter that is well regulated in the UK and indeed across Europe as a result of the implementation of the European Union's Statutory Audit Directive. Article 23(3) of this Directive states that: '*where a statutory auditor or audit firm is replaced by another statutory auditor or audit firm, the former statutory auditor or audit firm shall provide the incoming statutory auditor or audit firm with access to all relevant information concerning the audited entity'.* The ICAEW Audit and Assurance Faculty issued a Technical Release AAF 01/08 to deal with this topic which also covers the risk management issues that should be considered as part of suitable arrangements being established.

38. We accept that it is likely that practice varies internationally and therefore it would be helpful for groups such as IFIAR to promote best practice and encourage countries to introduce national law and regulation that provides for the necessary information flow between auditors.

39. We agree that audit inspection plays a key role in enhancing audit quality through the inspections themselves and the reports provided to those able to influence improvements in quality. Transparency of this process assists in communicating the key matters arising to a broad range of stakeholders. In the UK there has been increasing transparency which now includes public reports on specific large audit firms by the FRC and general public reports from the FRC and ICAEW. Audit reform across the European Union is currently addressing this topic and we believe that international convergence on these matters, encouraged by IFIAR, is to be welcomed. Striking the right balance on publication of reports can be a challenge as publication of reports can be counter-productive to transparency and competition in the market place unless sensibly positioned.

40. One area that we consider is worthy of further debate is determining the appropriate regulatory approach. Appropriate penalties need to be in place for poor performance but the public reports from regulators also need to be balanced so that readers are aware of both good and bad performance. If there is too much unbalanced emphasis on the latter, it is likely to be detrimental to the objective of promoting the value of audit. Regulators need to be constructive in suggesting improvements and effective approaches might evolve as an audit market matures.

41. It is also important not to over-emphasise the role of regulators as they are there to regulate and auditors themselves need to take full responsibility for running their audits. Audits are not performed for regulators and auditors should be clear on this fact. The quality of inspectors is a key issue and this might be of particular concern in those countries with a limited supply of people with the necessary skills and experience.

42. Of course neither regulators nor auditors are responsible for the standards and standards can play a key role in the way that auditors seek to apply them and the way in which regulators interpret them and review compliance with the standards.

Area 5: Exploring whether there would be value in national authorities responsible for determining sanctions on auditors exchanging information with a view to evaluating the relative effectiveness of their different arrangements.

43. We believe that this already happens between several countries and is to be encouraged. It is doubtful whether IFAC or the IAASB have any role to play here although those national authorities that are not currently part of this type of information sharing should be encouraged to participate going forward.

Area 6: Considering "root causes" and best practices by regulators, audit firms, and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues.

44. We are not entirely clear what is intended here but our Practical Auditing Discussion Group event did rate this as the highest priority of the possible areas mentioned in the paper. Unfortunately we did not have the time for any further discussion of this, for example to understand what attendees understood by 'root causes'. However, our audience included a high proportion of attendees from audit firms and networks, many of whom have responsibility for their firm's policies and procedures and it is clearly important for them to obtain evidence about deficiencies and systems (from reviews etc) and make appropriate changes.

45. Our view is that consideration of 'root causes' is happening continuously by all stakeholders closely involved in audit and its regulation, most particularly in recent times and in those countries where there have been significant difficulties leading to questions about the role of the auditor. It is hard to see that there is any specific new project for IFAC or the IAASB in this area, although clearly much of the IAASB agenda, such as that on audit reports, is driven by

significant concerns about perceived shortcomings with the current arrangements. The profession must always be prepared to learn and change in a way that provides value to society. However, in a broader economic context, it should also be noted that focussing on the past is not necessarily the best way to address the challenges of tomorrow.

46. ICAEW and the Audit and Assurance Faculty prioritise work in topical areas and, for example, our guidance tends to be focussed on those areas where there is a view that improvements can and ought to be made. Regulators can play an important role in conveying information about good and bad practice based on the findings from inspections. They should also be in a position to judge if a new emerging issue is systemic and be a medium through which to encourage and educate the appropriate quality response.

47. It is also important to emphasise that firms should continuously review their strategies, policies and procedures. Indeed this is already a requirement of ISQC 1 and so, if there is an issue, it is more to do with the implementation of that standard and monitoring of performance.

Area 7: Increasing the informational value of auditor's reports and improving perceptions of the value of audit.

48. We agree that these are key current objectives for the profession. We are fully supportive of the top priority that the IAASB is giving to its audit reports project and believe that good progress is being made on this to make reports more helpful. Communicating the value of audit and closing the expectations gap is not always easy but we agree that the profession and others closely involved with the audit process should strive to do this.

49. We consider that there is also a need for more effective engagement with end users of financial statements that will help to improve perceptions of the value of the audit and thereby their confidence in the reliability of the financial statements. We make more comments regarding this in paragraph 25 above.

Area 8: Achieving improved two-way communication between auditors and financial and prudential regulators, particularly in the financial services sector.

50. We support this goal and would encourage international adoption of good practice on this type of two-way communication. ICAEW has played a leading role in the UK in supporting the development of a framework to enhance dialogue between auditors and supervisors of regulated firms in the financial services sector. This should enhance both the effectiveness of audits and the auditor's contribution to prudential regulation. Similar approaches are to be encouraged in other sectors.

51. There is also a need for effective communication in many parts of the public sector and Audit Codes play a helpful role in facilitating this.

Area 9: Striving for greater international harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit.

52. We consider that this is a good objective as audit committees can play a vital role as we consider they already do in the UK. We understand that there is considerable inconsistency across countries in this area and therefore a greater degree of harmonisation is to be encouraged. We particularly support the active role of FEE on the future evolution of audit committees within Europe. Evaluation of the quality of the external audit is one of the audit committee's key tasks and it is important that audit committees feel they are supported by appropriate guidance in carrying out this responsibility.

Area 10: Encouraging audit committees to provide more information to users of the financial statements on the work they have undertaken, the main issues they have addressed, and the reasons for their conclusions.

53. We consider that encouraging greater transparency regarding the work of audit committees is an important objective. This is an evolving area and changes towards greater transparency are happening in the UK and in general across Europe. It would be helpful for greater adoption of this type of audit committee reporting model internationally.

OTHER DETAILED COMMENTS

54. Second sentence of paragraph 6 – comments are noted but it could be there were no material misstatements (particularly fraud related) because of the deterrent impact of the audit.

55. Paragraph 16 – it is important to recognise the duty of confidentiality. This has an impact on what information can be made available to stakeholders more widely.

56. Paragraph 29 – we suggest adding the audited entity's view on the value of audit as a factor that can have an impact.

57. Table after paragraph 30 – we see little point in reproducing requirements of standards, which is what these 'attributes' seem to be, unless the intended audience is not firms or others already familiar with those standards. We also consider that a better description might be desired behaviours rather than attributes. We consider that the international (and European for those in Europe) level is also very important and this ought to feature in the table.

58. Attribute 1.4.5 in that table – this refers to there needing to be 'a reasonable degree of staff continuity'. It seems hard to rationalise this given current proposals towards greater rotation of auditors. What is important is to facilitate knowledge transfer where new staff are involved.

59. Attribute 1.7.5 in the same table – is it clear that audit documentation is an input? It might be more typically viewed as an output.

60. Sub-section 1.1.5 on professional scepticism – it would be helpful to add challenges within the team about judgements being made and from the engagement quality control reviewer.

61. Paragraph 58 – the first sentence could be read as implying being sceptical leads to a less cost effective audit. This is questionable and we therefore suggest deleting 'if an audit is to be undertaken cost effectively'.

62. Paragraph 73 – it might be better to make clear that reference to non-audit work here is not to the same client. Perhaps the text could refer to gaining experience of other disciplines or service lines within a professional practice being potentially beneficial.

63. Paragraph 76 – it is perhaps understandable to give the involvement of the engagement partner special emphasis but this is just repeating what is already in the ISAs.

64. Sub-section 1.4.5 – this is very much based on the bigger firm structure which is unhelpful if the document is intended for all firms. If it is only about certain types of firm then that should be made clear.

65. Paragraph 82 – time pressure and fee pressure are not always linked. It should not be assumed that higher quality audits mean higher costs – in fact the most efficient audits, for example those that are appropriately tailored to the specific circumstances of the audited entity, can also be the most effective ones.

66. Sub-section 1.6.4 – this seems to be missing the motivational need for the work to be interesting and intellectually challenging and indeed to provide a valuable function for society. The attractiveness of the profession is not limited to status and money and it would be helpful for IFAC and the IAASB to convey this point.

67. Section 1.7 – sub-sections 1.7.1 and 1.7.2 summarise what is in the ISAs and sub-sections 1.7.3 and 1.7.4 are very much written with large firms in mind. This is unhelpful if this document is to be used by all sizes of firm. Paragraph 114 could be expanded to encourage smaller entity clients to set timetables. We consider that it would be better to refer to audit effectiveness rather than efficiency.

68. Sub-section 1.8.6 – this seems extremely brief compared to other sections which is strange given the importance of the engagement quality control review (EQCR). Reference In paragraph 133 to requiring the cooperation of the engagement partner does not sit well given the independence of the EQCR reviewer and this paragraph ought to be reworded. It might be helpful in paragraph 132 to give some other examples of situations where firms might want to undertake EQCRs.

69. Section 4 on contextual factors – we question the ordering of this section in the sequence as it sets the background for the reasons why views on audit quality may vary in different countries. As stated in paragraph 14 above, we believe that the document should begin with the overarching and contextual issues that are relevant to all readers.

70. Paragraph 218 first bullet point about the time given to dealing with accounting complexities – this is a valid concern but it is unclear what is being proposed here. Is the IAASB arguing that the current accounting framework is too complex?

71. Section 4.7 on broader cultural factors – we agree that it is important to have a section that emphasises the importance of these factors. We consider that it would be worthwhile to also cover different types of business that may be subject to audit and the impact this can have on the audit and the attitudes of those charged with governance. The director of an owner-managed business is likely to have a different attitude to the audit compared to a main board director of a listed company. Regulated smaller entities such as charities might have a more positive inclination towards internal controls and the audit and its purpose compared to small owner-managed companies that might view these matters as 'red tape'.

72. Section 5.2 on considerations specific to audits of smaller entities – we consider that there should be much greater attention given to the position of smaller entity audits and SMPs throughout the document (see our major point in paragraph 15 above). The section also seems to imply that SMEs will only be audited by SMPs and the distinction between the two needs to be made clearer. A similar point applies to public sector considerations – readers interested in that need to be clear about doing more than simply referring to section 5.1.

73. Stakeholder survey in Appendix 2 – this summary of the survey is helpful background information to the development of the Framework. However, we suggest that it is deleted if the Framework is issued in final form and instead included or linked to in background comment about the project on the IFAC website.

E chris.cantwell@icaew.com

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

icaew.com

ANNEX: EXAMPLES OF ISSUES WHERE A THREATS AND SAFEGUARDS APPROACH TO AUDIT QUALITY MIGHT BE APPLIED

Threat	Possible safeguards include
Audit methodology that is not designed for specialist audits being undertaken	• appropriate acceptance procedures to consider whether the firm can provide the necessary specialist knowledge • modify methodology so it can be applied for these audits or acquire new methodology • ensure guidance from regulatory bodies and others on these specialist audits is followed • seek guidance from specialists or experts and/or involve them in the audit • increase direction, supervision and review during the course of the audit • consider whether an engagement quality control review is needed
Audit staff with insufficient skills or experience for this audit work	• train staff with specific tailored training • review how staff are assigned to particular audits • acquire new staff with the appropriate skills/experience • increase direction, supervision and review during the course of the audit • consider whether an engagement quality control review is needed
Unhelpful or poor management	• apply professional scepticism in communications with management • obtain evidence from other sources rather than relying on management explanations or representations • factor into fraud risk discussions • recommend audit committee enhances role to ensure management commitment to providing reliable financial information • use more experienced/senior/confident staff to lead interactions with difficult individuals
Culture in parts of the firm places insufficient emphasis on audit quality	• provide leadership from the top to ensure all firm staff are aware that the firm places paramount importance on achieving quality • review policies and procedures so that they promote this quality culture • recruit and develop staff so they have the necessary attributes and mindset
No consultation happens on difficult or contentious issues when it should do	• have a policy and procedures on consultation so that it is clear when consultation is needed • promote a culture where consultation is seen as the right thing to do • ensure that all relevant staff are trained on

	the above mentioned policies and procedures, and 'buy in' to what the firm is trying to achieve • ensure that the firm has arrangements in place so that effective consultation can happen in a timely manner when needed
Consultation does happen but is not properly documented or acted upon	• ensure there are clearly agreed expectations for the consultant's communication to the audit team and the documentation of that • have processes in place to ensure appropriate action is taken • ensure appropriate review happens
There are unresolved differences of opinion between the engagement partner and the engagement quality control reviewer	• procedures ensure that differences of opinion are acted upon and resolved between the partner and reviewer if at all possible • firm has dispute resolution procedures to deal with situations where this proves not to be possible
Appraisal and remuneration processes place too great an emphasis on matters other than quality	• ensure the firm has human resources policies and procedures that emphasise the importance of achieving quality and reward staff accordingly • set performance objectives linked to quality of work • have effective post audit reviews that are linked to appraisal processes • give clear leadership from the top regarding the values of the firm and the commitment to quality
Failure to deal with a serious complaint or inadequate response to such a complaint	• firm to have clear policy and procedures regarding complaints that ensures they are dealt with appropriately • firm culture is to value providing a quality service and to take complaints seriously and view this positively as part of continuous improvement