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Our ref SS/288
Contact Sylvia Smith

14 May 2013

Dear Sirs

Consultation Paper - *A Framework for Audit Quality*

We are pleased to have the opportunity to comment on the Consultation Paper *A Framework for Audit Quality* (the Consultation Paper), issued by the International Auditing and Assurance Standards Board (IAASB) in January 2013. We have consulted with, and this letter represents the views of, the KPMG network.

Overarching comments

We support the IAASB's initiative to develop an audit quality framework (the proposed Framework). Audit quality is important to many different stakeholders, yet it is not well defined or understood. Development of an audit quality framework may facilitate the engagement of all stakeholders by providing a common language to discuss the factors that drive audit quality.

We note that the Consultation Paper does not provide a definition of audit quality. It instead aims to set out the key factors, described in terms of inputs, outputs, interactions and contextual factors that are conducive to audit quality. While we are supportive of taking this type of approach to discussing the topic of audit quality, we set out a number of recommendations below that are aimed at improving the clarity and usability of the proposed Framework. Also, the Appendix to this letter includes our responses to the questions posed in the Consultation Paper.

Need to clarify the relationship of the proposed Framework to the IAASB's authoritative literature

The text box before the Foreword from the IAASB Chairman sets out the IAASB's vision for the proposed Framework. It emphasizes that the proposed Framework "is not a substitute for auditing standards and standards of quality control, nor does it establish additional standards or provide procedural requirements for the performance of audit engagements." It also states that "the objectives of the Framework include: raising awareness of the key elements of audit

quality; encouraging key stakeholders to explore ways to improve audit quality; and facilitating greater dialogue between key stakeholders on the topic.”

Given the above statements, it is not clear how the proposed Framework is intended to fit with the IAASB’s authoritative literature, in particular International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements*, and International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*. It also is not clear how the proposed Framework is to be used by auditors and their firms/networks to improve audit quality.

We therefore recommend that the IAASB clarify the authoritative status of the proposed Framework and how it is to be used by making conforming amendments to the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. More specifically, we recommend that the IAASB make the following change to paragraph 21 of the Preface:

Other Papers Published by the International Auditing and Assurance Standards Board

21. Other papers, for example [the IAASB’s Audit Quality Framework](#), Discussion Papers, are published to promote discussion or debate on auditing, review, other assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, review, other assurance, related services and quality control issues affecting the accounting profession. They do not establish any basic principles or essential procedures to be followed in audit, review, other assurance or related services engagements.

We also recommend that the IAASB include the following statements within the body of the proposed Framework:

This Framework is not a substitute for auditing standards and standards of quality control, nor does it establish additional standards or provide procedural requirements for the performance of audit engagements.

Need to clarify how the proposed Framework is to be used by other stakeholders

The proposed Framework is intended to encourage all key stakeholders to discuss audit quality and explore ways to improve it. However, we question whether the structure of the proposed Framework facilitates such discussion for the following reasons:

- The inputs and outputs are primarily focused on the auditor and it is unclear how the proposed Framework is intended to be used by other stakeholders to improve audit quality.

To help facilitate communications between stakeholders, we recommend that the IAASB consider setting out the types of inputs and outputs that can be influenced by other stakeholders to contribute to audit quality.

- The proposed Framework includes extensive discussion of additional views and areas to explore which adds to its length.

If the proposed Framework is intended to be used as a discussion paper for thought leadership, then exploring different views and the pros and cons for each input may be beneficial to encourage discussion among stakeholders. However, to be able to operationalize the proposed Framework we recommend it be simplified and focused by summarizing and discussing the key factors that are relevant to audit quality, as applicable by reference to ISQC 1 or ISA 220, with no discussion of pros and cons or additional views. Additionally, we suggest that the proposed Framework provide a hierarchy for the factors presented with prioritization of key inputs for different stakeholders. Alternatively, we recommend that IAASB consider publishing a separate document that sets out additional views and actions that may be taken by relevant stakeholders.

Need to clarify how paragraph 18 relates to the proposed Framework

Paragraph 18 of the proposed Framework discusses audit quality from the perspective of an engagement team. Paragraph 18 describes the characteristics that should be exhibited by an engagement team in order to achieve a quality audit. While we do not disagree with this description, it is difficult to see how it is intended to relate to the remainder of the proposed Framework because the characteristics described in paragraph 18 appear to be a subset of the engagement level attributes set out in the proposed Framework. To avoid confusion, we recommend revising paragraph 18 so that the engagement team characteristics better align with the engagement level attributes in the proposed framework.

In summary, we believe that the Framework as described may be difficult to operationalize without focusing on summarized inputs and clarification of the intended use for different stakeholders.

Please contact Sylvia Smith at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours faithfully

KPMG IFRG Limited

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cc: Jean Blascos, KPMG

Appendix – Responses to specific questions posed in the Consultation Paper

Overall considerations and scope

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

We are supportive of describing factors relevant to audit quality in terms of inputs, outputs, interactions and contextual factors. However, we suggest expanding section 1.8.5, *Rigorous Quality Control Procedures Are Established and Audit Quality Is Monitored and Appropriate Consequential Action Is Taken*, to include ‘proactive identification of emerging risks and opportunities to improve audit quality’ as an attribute at the firm level. We believe this attribute is a key factor to continuous improvement and should be considered in developing a framework for audit quality.

Further, we believe that an input factor that could be considered as an attribute that contributes to enhancing audit quality is industry specialization. Industry specialization interacts with attributes related to knowledge and experience and is a relevant factor in this context.

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?

While the auditor has overall responsibility for audit quality, other stakeholders such as management, those charged with governance and regulators, can play a role in contributing to audit quality. We therefore believe it would be helpful for the proposed Framework to set out how it may be used by different stakeholders to contribute to audit quality. For example, those charged with governance may use the Framework as a basis for interacting with their auditors, assessing the effectiveness of external audits or evaluating audit proposals.

Also, the inputs are primarily focused on the auditor. In outlining how the framework would be used by other stakeholders, consideration should be given to acknowledging that other stakeholders influence inputs that are relevant to audit quality. An example of such an input is management providing timely and relevant information to the auditor.

3. 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?

We support the IAASB’s initiative to develop a framework that may facilitate the engagement of all stakeholders by providing a common language to discuss the factors that drive audit quality.

We believe audit firms can use the proposed Framework to develop a common language to describe the factors that are most relevant to audit quality when communicating with partners

and staff, in developing training and when communicating with audit committees, management, regulators and other key stakeholders.

We have developed our own internal Audit Quality Framework. We believe it has been effective in providing us with a common language to describe what we believe drives audit quality and, importantly, to highlight how every partner and staff member at KPMG contributes to the delivery of audit quality. It is structured based on seven drivers of audit quality, and tone at the top sits at the core of our Audit Quality Framework and ensures the right behaviors permeate across our entire network

Our processes and activities are linked to these drivers.

As noted in our overarching comments to enhance the usefulness of the proposed Framework, it is important that the IAASB clarify how the proposed Framework is intended to fit with the current auditing standards, in particular International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements*, and International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*. We therefore recommend that the IAASB clarify the authoritative status of the proposed Framework and how it is to be used by making conforming amendments to the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. More specifically, we recommend that the IAASB make the following change to paragraph 21 of the Preface:

Other Papers Published by the International Auditing and Assurance Standards Board

21. Other papers, for example the IAASB's Audit Quality Framework, and Discussion Papers, are published to promote discussion or debate on auditing, review, other assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, review, other assurance, related services and quality control issues affecting the accounting profession. They do not establish any basic principles or essential procedures to be followed in audit, review, other assurance or related services engagements.

We also recommend that the IAASB include the following statements within the body of the proposed Framework:

This Framework is not a substitute for auditing standards and standards of quality control, nor does it establish additional standards or provide procedural requirements for the performance of audit engagements.

If the proposed Framework is intended to be used as a discussion paper to encourage dialogue among stakeholders then it may be beneficial to have additional views and pros and cons discussed within each input. However, to operationalize the proposed Framework by different stakeholders we recommend simplification with the focus on summarized key factors,

referenced where applicable to ISQC 1 and ISA 220, that are relevant to audit quality with no discussion of pros and cons or additional views.

We also suggest developing a hierarchy for the factors presented with prioritization of key inputs for different stakeholders.

Lastly, to avoid confusion, we recommend deleting paragraph 18 or revising it so that the engagement team characteristics that contribute to a quality audit are better aligned with the engagement level attributes in the proposed Framework.

4. 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?

We support IAASB's initiative to identify areas relevant to audit quality that need to be further explored. Doing this paves the way for dialogue with stakeholders regarding challenges relating to audit quality and the role they can play addressing these challenges. Examples of additional areas that may be explored include:

- Factors that may affect the attractiveness of the auditing profession;
- Establishment of global guidelines for knowledge sharing and greater coordination among regulators and standard setters; and
- Establishment of legal prohibitions on misleading auditors as a means of improving the quality of information provided by management to auditors.

Having said this, we believe that it is important that the IAASB separate these issues from the actual proposed Framework and that it focuses on establishing a framework that addresses what is achievable today and that it tables the areas to be explored for future consideration. As we noted in our overarching comments, this will help make the proposed Framework more focused and therefore enhance its usability.

In terms of priority areas, we suggest that the IAASB focus first on areas where it has greatest influence. In this context, we believe Area to Explore 7, "increasing the informational value of auditor's reports and improving perceptions of the value of the audit," and Area to Explore 8, "achieving improved two-way communication between auditors and financial and prudential regulators, particularly in the financial services sector," should be given priority as they are linked to current ongoing projects relevant to the IAASB.