



National Audit Office

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Date 14 May 2013

Dear Gary,

### IAASB Consultation A Framework for Audit Quality

The National Audit Office (NAO) is pleased to comment on the IAASB consultation issued in January 2013 on the Framework for Audit Quality. The NAO, on behalf of the Comptroller and Auditor General, carries out the external audit of all United Kingdom central government departments and a wide range of other UK and international public bodies.

The National Audit Office applies ISAs (UK and Ireland) issued by the UK Financial Reporting Council and therefore has a direct interest in any developments in international standards and guidance affecting audit quality.

#### **Overarching comments**

We believe that the Framework will be most useful to stakeholders such as shareholders, those charged with governance, governments and regulators. Audit entities should have appropriate expectations of audit quality from the detailed requirements set out in ISQC 1, ISAs and ethical standards which are referred to in the Framework. Reviewing and promoting compliance with, ISQC 1 should enable audit firms and audit agencies to focus on improving audit quality.

The document would have greater impact if it were much shorter, which could be achieved by targeting it at those stakeholders mentioned above. The Framework could begin with the overarching and contextual issues and then explore 'National' level factors. This could include setting out the required 'quality' culture that audit entities need and governments and regulators can help to shape.

#### **Responses to the IAASB's specific questions**

Our responses to the detailed questions set out in the consultation document can be found in the enclosed annex.

If you have any queries in relation to the content of this submission, please feel free to contact me.

Yours sincerely

**Maggie McGhee**  
Director General, Financial Audit  
(Submitted through the IAASB website)

## Annex: Responses to questions in consultation document

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

Generally we do not believe that any other areas of quality should be added to the document, particularly given its current length. However, we do have suggestions for a small amount of additional material to be included in section '5.1 Considerations specific to public sector audits' if the focus and structure of the current draft Framework remains.

#### **Comments on section 5.1 (considerations specific to public sector audits)**

We believe the section should set out that, to ensure value can be obtained from audits of central government bodies, Supreme Audit Institutions (SAIs) should: be independent of government; have confidence that they will not be removed from post; have access to any information considered relevant to the audit; and be able to report findings directly to Parliament. These conditions may be set out in statute.

If included, we believe paragraph 244 (Values, Ethics and Attitudes – Engagement Level) should acknowledge that often in the public sector an auditor is appointed under statute and cannot decline or withdraw from the engagement. However, public sector auditors should have the statutory authority to publicly report matters that may otherwise have caused withdrawal from the engagement. In addition, public sector auditors can establish policies and procedures equivalent to those envisaged within accepted ethical standards to adequately mitigate threats to independence.

If included, we believe paragraph 245 (Knowledge, Experience and Time – Engagement Level) should specifically set out that, more widely than 'providing assurance on compliance with law', a public sector audit can commonly include reporting whether expenditure and income have been applied in accordance with a parliament/government's intentions. This takes account of various factors, such as whether public resources have been deployed responsibly in the public interest, and public sector auditors need to be sensitive to the expectations of the taxpayer (being a key stakeholder) to ensure a quality audit. This requires a public sector auditor to make difficult judgements and, therefore, their policies and procedures, staff competence and time allocated to an engagement need to reflect this.

### **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?**

See our overarching comment above on the focus of the Framework, which would mean more emphasis being placed on governments and regulators to help drive up audit quality.

### **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 maximise its value to you?**

We do not envisage using the Framework in its current form for staff training programmes or developing our office wide procedures addressing audit quality as we believe that ISQC 1 and the relevant ISAs provide the necessary guidance. Our staff may use it to inform discussions with those charged with governance or other stakeholders on audit quality, but we would likely need to distil and adapt the relevant material from the current document.

**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?**

**Areas that should be given priority**

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.' To drive continuing improvement in audit quality, it will be important that communication on key issues affecting audit quality is coherent between stakeholders for important matters to be received and addressed by audit entities.

Area 7 — increasing the informational value of auditor's reports and improving perceptions of the value of the audit. We believe that this area should continue to be prioritised and are encouraged at the progress made, for example through the separate project being undertaken by the IAASB on auditor reporting.

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. As the principal conduit between key stakeholders and the audit entity, reviewing the reliability and integrity of assurances provided, the role of the audit committee in increasing audit quality is key.

**Areas that should be given lower priority**

Area 1 - we believe that ISQC 1 provides appropriate guidance against which audit firms can assess their governance arrangements.

We have not identified any other areas to explore.