

May 15, 2013

Technical Director
IAASB
529 Fifth Avenue - 6th Floor
New York, NY 10017 USA

Re: IAASB request for comments on “A Framework for Audit Quality”

PKF International Limited administers the PKF network of legally independent member firms. There are approximately 300 member firms and correspondents in 440 locations in approximately 125 countries providing accounting and business advisory services. PKF International member firms have \$2.68 billion aggregate fee income (year end June 2012) and the network is a member of the Forum of Firms – an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.

Overall comments

We are supportive of this initiative by the IAASB to facilitate dialogue about audit quality, and welcome the opportunity to provide comments on the Consultation Paper “A Framework for Audit Quality”. One of the difficulties with this project, acknowledged in the paper, is that there is no one definition of audit quality. We encourage the IAASB to take the lead and continue developing its thinking in this area, while being cognisant of recent developments in jurisdictions such as the USA and Canada.

One key observation is that there is perhaps little new content in the paper (most information related to specifically input and output factors is already contained in the IAASB’s auditing and quality control standards), but the paper crucially combines a large number of factors into one comprehensive document. We consider that the biggest advantage to be gained from the Framework is probably broader stakeholder involvement (and education).

A substantial part of the content in the paper focuses on the audit profession (Input and Output Factors). We suggest that Contextual Factors, specifically section 4.4 on Corporate Governance, should be significantly expanded in order to emphasize their importance. In our view Corporate Governance is the single largest contributor, or hurdle, to audit quality, other than the audit inputs, process and output. In addition, the impact of preparers of financial statements on audit quality, and factors impacting the quality of preparation, need to be explored further. Many of the Contextual Factors could perhaps even be classified as Input factors (e.g. the quality of financial reporting). We do not suggest reclassification, but these areas should receive more emphasis.

While we understand that this paper is exploratory in nature and more research and dialogue is necessary, we suggest that the IAASB develop criteria early on in this project by which it could determine whether to include certain elements in any future publications or projects. This is necessary to avoid inclusion or further exploration of factors that encourage actions that reduce audit quality or skew priorities, thereby having unintended negative consequences, or that simply have very marginal impact on audit quality. By way of illustration, network transparency reports may be interesting and useful for a number of reasons, but their impact on audit quality may be questionable. Encouraging or requiring such reports may therefore result in resources being misallocated.

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PKF International Limited is a company limited by guarantee incorporated in England registered number 3816253 and has its registered office at Farringdon Place, 20 Farringdon Road, London EC1M 3AP.

PKF International Limited administers a network of legally independent member firms which carry on separate businesses under the PKF Name. PKF International Limited is not responsible for the acts or omissions of individual member firms of the network.

Responses to questions

We set out below our responses to the specific questions asked in the paper:

1. Does the Framework cover all of the areas of audit quality that you would expect?

Yes, although we believe that greater emphasis is required on Contextual Factors, specifically the role of Corporate Governance, in achieving a quality audit. In addition, the role of preparers needs to be explored further.

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?

No. It is perhaps natural that responsibilities of the engagement team and firm constitute the bulk of the paper, given their direct impact on audit quality and the IAASB's ability to influence these responsibilities through standard setting, but we believe that there should be more emphasis on the role of Contextual Factors, specifically other stakeholders and the role of Corporate Governance. As these areas fall outside the direct authority of the IAASB, the greatest potential advantage from the publication of this paper is to encourage their further development.

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?

In its current form it is most likely that PKF International will use the Framework to stimulate discussion within the network and as an educational tool. We can also see that the Framework may be used to inform dialogue with client management and those charged with governance. For the audit profession it would also be useful to have a stronger link to ISQC 1 and ISAs.

We encourage the IAASB to determine the status / authority of the Framework, which will determine how firms use the publication. We recommend that the IAASB also use the Framework to inform their own agenda, including standard setting and outreach.

4. What are your views on the suggested Areas to Explore? Which should be given priority and by whom? Are there additional areas to explore?

We believe some of the greatest value could flow from these Areas To Explore. In accordance with our comments in the opening paragraph, we would like to prioritise items 9 and 10 which explore the work of the audit committee.

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

Item 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.

However, we believe the focus should be changed to "those charged with governance" so that this applies to all external audits and not just those with an audit committee. Areas to explore in this context need to include a requirement for a designated individual (the financial expert) who understands and takes responsibility for the financial statements and the underlying accounting policies.

Communication from those charged with governance (including the audit committee and financial expert) to users of the financial statements can be significantly enhanced, for all audits. Specifically, thought needs to be given to how the role of the audit committee or others charged with governance in evaluating the quality of the external audit, can be better communicated.

We also consider there would be benefit in the IAASB exploring item 6.

Item 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.

Exploration of further areas should include the major standard setters globally, as well as regulator groups who have jurisdiction over securities exchanges and corporate governance developments.

Additional comments

Item 2 in *Areas to Explore* refers to establishing a common understanding of capabilities for use by audit firms when recruiting, evaluating, promoting and remunerating partners and staff. In doing so, we encourage the IAASB to consider the International Education Standards, and not to deviate unnecessarily from the content of those standards.

Item 3 *Improving information sharing between audit firms when one firm decides to resign from, or is not appointed to an audit engagement*, is potentially very important, but it is particularly difficult especially due to the competitive environment in which firms operate. Further thought needs to be given to how this would be practically achieved and monitored. E.g. there may be competitive advantage in withholding information, and it would be difficult for regulators to monitor whether all relevant information has been shared between firms. Additional guidance or specified requirements in the client acceptance process may be needed.

During the course of our review we also noted the following items for you to consider:

Paragraph 29	On line 3 the word "Among" should be written in lower case.
Paragraph 71	Refers to the recent exposure draft of IES 8. Content like this will render this document outdated too soon. We suggest that references be less specific, or be done by way of Appendix.
Paragraph 167	2.1.7 Providing information on individual audits We ask that the IAASB consider the appropriateness of this statement in a document of this nature. It is not clear whether the IAASB believes this should be encouraged or further explored. We believe this may have unintended consequences.
Paragraph 170	2.2.2 Annual Reports We question whether there is any evidence that the intended purpose or benefit of such reports has been achieved.

PKF International Limited appreciates the opportunity to provide comments and we hope to continue to contribute to the ongoing dialogue seeking a broader understanding of audit quality and its underlying elements. If you have any questions, please do not hesitate to contact me.

Sincerely



Theo Vermaak
Chairman: PKF International Professional Standards Committee