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Mr Gary Pflugrath
IFAC Director
Public Policy and Regulation

Dear Mr Pflugrath

IAASB CONSULTATION PAPER - A FRAMEWORK FOR AUDIT QUALITY ('the Framework')

Moore Stephens International Limited is pleased to comment on the above-mentioned Framework.


We are generally supportive of the Audit Quality project. We believe that thoughtful discussion and consideration of the importance of audit quality and the factors which enhance and support audit quality can only benefit the international profession.

We hope that a continued focus on this area will result in meaningful initiatives which drive improvements in audit quality in a constructive manner.

Our detailed comments and our answers to the specific questions included in the consultation paper are set out in Appendix 1.

Yours sincerely



 Moore Stephens International Limited

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GENERAL COMMENTS

We believe that further consideration should be given to the body that is to issue the Framework. The Draft Framework has been issued by IAASB, and while we can see the logic involved in this decision, we believe that, since the framework itself acknowledges that audit quality should be discussed in a wider context than IAASB's natural constituency, this could best be facilitated by the issuer being IFAC itself with reference to the underlying work of IAASB, IESBA, IAESB and other authoritative bodies as relevant.

In our view, the scope of the Framework should extend beyond audit to cover also non-audit assurance engagements based on limited assurance. This would facilitate much needed analysis of the implications for engagement quality of the degree of assurance sought and the practical implications of both reasonable and limited assurance engagements in the context of stakeholders' expectations.

Restructuring the document to focus on the obligations of the auditor (or practitioner) would place the material better into context. Highlighting the interactions needed to determine and then meet expectations of stakeholders would emphasise the range of contributions necessary to establish the characteristics of a quality audit (assurance engagement) without blurring the fundamental responsibility of the auditor (or practitioner) alone to deliver that quality.

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?

We believe that the Framework is too unwieldy and, consequently, has lost necessary focus. In our view, it includes extensive content on matters that are not determinants of audit quality but rather needs that must be recognised when establishing the nature of a quality audit.

In our view, the value of the Framework would be enhanced significantly if it not only emphasised the attributes of a quality audit that are to be delivered by the auditor, but also recognised that the deliverables from a quality audit involve interactions with a wide range of stakeholders (including those in a particular engagement and not just generally). The Framework should identify the characteristics necessary for effective interactions with such stakeholders. These should include the manner in which the expectations of those stakeholders are formalised – most importantly the characteristics of engagement subject matter that can be the subject of a quality audit. Examples might include a financial reporting framework established in an open and consultative manner. These could be extended to include integrated reporting frameworks if appropriate. This approach would be facilitated by the extension of the scope of the Framework to non-audit assurance engagements (see our comments above) as it would, logically, then address a wider range of subject matter and a wider range of reports.

As stated above, we believe that the Framework should be extended to cover non-audit assurance engagements. If it is decided to retain the current restricted scope of the Framework to audit engagements then we suggest that the Framework should recognise the contents of ISA 200 – *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*. Paragraphs 3, 4 and 5 of this standard place the audit process into context and, in our view, continue to be appropriate.

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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?

In our view there is too great a focus on (non auditor) stakeholder inputs. ISA 200 – *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* provides an overview of a quality audit in the context of a financial reporting framework. Paragraph 18 of the Framework is also useful in this context. ISA 610 – *Using the Work of Internal Auditors* states that the audit opinion is the sole responsibility of the external auditors and this is indicated less explicitly by the audit report format included within ISAs. This being the case, other stakeholders cannot determine audit quality, although they may be able to influence the outcome of the audit. If stakeholder inputs regarded as necessary by the auditor are not provided by those stakeholders then the auditor may either undertake compensating procedures or make appropriate reference within the audit report, without detracting from the quality of the audit. We therefore feel that the role of other stakeholders is over-emphasised in the Framework as drafted.

Q3: 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 believe that the utility of the Framework would be improved by a fundamental change in its structure. A “threats and safeguards” approach similar to that applied to ethics and independence matters by IESBA would give greater focus to the hierarchy of determinants of audit quality and to the potential ways in which audit firms and individual auditors might act to either protect or improve audit quality. This type of approach would also lend itself better to ‘operationalisation’ within firms, and in particular to constructive and effective training initiatives.

A hierarchy of ‘quality determinants’ might include (but not necessarily be restricted to) the overarching issue of the selection of appropriate standards by relevant legislators, consistent implementation, appropriate professional and regulatory environments and the necessary characteristics of professional personnel. Other classifications within a hierarchy might well be justifiable; the key quality determinant of an engagement is the people actually carrying it out, but it is easier for them to achieve the necessary quality if the other elements are also in place.

A key benefit to IAASB/IFAC from adopting such an approach would be the opportunity to further promote ISAs, while the undesirability of both carve-outs and add-ons. Other benefits might include a more cohesive approach enabling the ‘folding in’ of relevant material from the rest of the ‘IFAC family’ including SMOs, the IESBA Code and standards issued by IAESB.

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?

We believe that the Framework also needs to address stakeholders’ perceptions of audit quality, which to some extent has been termed the “expectation gap”. The Framework could usefully provide a clearer explanation of the nature of an audit and its inherent limitations to enable stakeholders to view the issue of audit quality through the lens of realism rather than that of idealism. We appreciate that critique of earlier drafts of the framework articulated concerns about seeming too defensive, but in our view a more nuanced balance could be struck. Once the issue of perceptions of quality has been addressed, this may enable subsequent constructive involvement of stakeholders in the derivation of frameworks for the delivery of various types of subject matter such as financial statements or integrated reports; the form of audit or other reports to be issued as a matter of routine (after consultation with auditors and understanding what scope and degree of assurance is feasible and the cost implications); other potential outputs from the audit process such as reporting to audit committees distinguishing those to be prepared as a matter of routine and those established for a particular engagement; and other potential interactions between the auditor and stakeholders. There needs to be clear understanding on all sides of the stakeholders’ expectations and the extent to which those expectations can be met by the audit processes in compliance with relevant standards and authoritative guidance from time to time.