

Gary Pflugrath
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Dear Mr Pflugrath,

Consultation Paper – A Framework for Audit Quality

The Financial Reporting Council (FRC) welcomes the opportunity to comment on the Consultation Paper – A Framework for Audit Quality.

We agree with the Board's belief that the development of the Framework is in the public interest and will contribute to improving audit quality. We are generally supportive of the Framework and believe it helps to provide to the public a degree of underpinning for auditing standards by helping to define the high quality audit that standards are designed to achieve. Many of the attributes in the Framework are reflected in the standards, both in ISQC1 and across the ISAs.

We believe that it may be helpful for stakeholders for the Board to develop a mapping of how the Framework relates to, and overlaps with, ISQC1 and the ISAs. As well as helping to underpin the standards, this would also highlight the attributes and elements which are not directly covered by the standards, such as many of the effective interactions and contextual factors. This, in turn, would support our view that, while the primary responsibility for achieving and delivering audit quality lies with the auditor, efforts to improve audit quality require a more holistic approach taking into account the contributions of other stakeholders, including audit committees, regulators and users of financial statements.

Responses to request for specific comments

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

We believe the Framework is comprehensive and appropriately addresses relevant aspects of audit quality in detail.

One area which would warrant more attention and detail, however, is the contribution of the audit firms' business models to audit quality and, in particular, the staffing models. Should

alternatives to the 'pyramid' model be considered? The Framework might address in more detail whether an audit team has the right mix of skills, experience and seniority to deliver quality; whether there is an effective progression through an auditor's career so that he or she develops a broad range of capabilities; and whether audit teams should include a range of relevantly skilled and experienced individuals in order to deliver an effective and skeptical audit.

Question 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?

The Framework appears to be primarily focused on aspects of audit quality which may only be visible to the auditor themselves, and to some degree to others inside the veil of corporate confidentiality, such as management, Audit Committees (those charged with governance) and audit regulators/inspectors. As described in our response to Question 3 below, we support leveraging the Framework to assist Audit Committees in relation to both their annual audit quality/effectiveness review for the incumbent auditor and in conducting audit tenders. However, to be useful in doing so, it will be necessary to draw out the most relevant audit quality attributes from their perspective and to consider how these may be assessed by them.

The Framework maybe less useful in assisting other stakeholders, such as shareholders, investors, policy-makers, other regulators, media and society more widely (who do not have direct sight of many of the attributes of audit quality detailed in the Framework) in assessing audit quality. We do, however, believe that it will assist (especially these) stakeholders in having a more effective dialogue on audit quality issues in the context of their contribution to fostering audit quality and enhancing their confidence in it.

It would not be helpful for the Framework to be revised to refocus on the needs of particular groups of stakeholders. However, further work could leverage the Framework to develop assistance for such stakeholders in engaging with and (at least partially) assessing audit quality, despite their lack of direct access to the auditor's work. This could be considered as an 'Area to Explore'.

Question 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?

The Framework is likely to be most useful to those audit regulators that have recently started audit inspections or where the reporting regime is less advanced, such as in relation to public reporting or interaction with Audit Committees. For other audit regulators, we believe it will be a useful reference point to key elements of audit quality, although may not have a significant impact on the nature of the inspection work or reporting. In the UK we believe we already cover most of these areas in our inspections and have benefitted from the existing Audit Quality Framework in the UK for a number of years. The Framework is also likely to help to address the needs of policy makers in assisting them in setting appropriate policy for audit.

We support the possibility of leveraging the Framework to maximize its utility to specific groups in assessing audit quality. Our most urgent area for focus in this regard is to assist Audit Committees in relation to both their annual audit quality/effectiveness review for the incumbent auditor and in conducting audit tenders.

We will consider the Framework as part of our major project to help repair confidence in the value of audit in the UK and will work with the IAASB to consider any issues raised by the project.

Question 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 largely support the suggested Areas to Explore and many are the subject of on-going FRC work and initiatives, such as continuous improvement to audit inspection activities and root cause analysis to address audit deficiencies. We believe it will be valuable and worthy of further work and resource for the IAASB to explore how the maximum benefit might be obtained by all stakeholders from the Framework in improving audit quality.

The IAASB could also consider exploring how evaluation of audit quality can draw on lessons learnt from a range of audits rather than looking at individual audits as stand-alone events.

The FRC would be happy to work with the IAASB on many of the identified areas, as appropriate.

Yours sincerely



Nick Land

Director of the FRC and Chairman of the FRC's Audit & Assurance Council

Enquiries in relation to this letter should be directed to Marek Grabowski, Director of Audit Policy.

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About the FRC

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We promote high standards of corporate governance through the UK Corporate Governance Code. We set standards for corporate reporting and actuarial practice and monitor and enforce accounting and auditing standards. We also oversee the regulatory activities of the actuarial profession and the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.