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30 June 2008

Ref:

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Dear Mr Grant

The Audit Quality Framework

1. Ernst & Young LLP welcomes the opportunity to offer its views on the APB's Audit Quality Framework (the "Framework"), as published in February 2008.

OVERALL OBSERVATION

2. We stated in our response to the FRC discussion paper *Promoting Audit Quality, November 2006*, that we: 'wholly support the FRC's objective of seeking to define with precision what constitutes audit quality', adding that in our view the FRC will need to 'remain focused on the significant (or key) drivers of audit quality'. We went on to say that 'because the definition and measurement of audit quality, and the means used for its evaluation are relative and highly complex, it raises the question of how much detail is enough'. We concluded that guidance on this matter should be high level and principles-based which means, by implication, that it should be relatively unchanging.
3. We stand by these comments today and are delighted that the APB's Framework, as currently drafted, reflects many of our views. For this reason, and subject to our specific comments that follow, we encourage the APB to launch the proposed Framework. However, it is very important that firms are allowed time to understand and analyse the changes, if any, to ensure audit teams have sufficient time to be trained and supported in the implementation of guidelines.

SPECIFIC COMMENTS

4. We have three specific comments: Firstly, we noted your reference to the Statutory Audit Directive Transparency Reports, and how these could provide firms with the opportunity to market their audit quality in reference to the Framework. In our view this should remain as an "opportunity", and not a "prescriptive requirement", in keeping with the ethos of principles-based guidelines. We believe that firms should choose how they position and

promote themselves, which might include some or all parts of the Framework, with perhaps the inclusion of other “drivers” of audit quality.

5. For example, we encourage the AIU to inform us of our successes as well as areas that we could improve further. This provides a positive reinforcement of audit quality and offers firms like ours a means of differentiation. This was not included in the Framework despite suggestions from us and other respondents. We regard this as an important driver of audit quality and a substantial omission from the Framework.
6. Secondly, one of the key drivers of audit quality - the ‘reliability and usefulness of audit reporting’¹ - is positioned as the sole responsibility of the auditor. However, because the report template and guidance is produced by the APB, the APB should be seen to take its fair share of this responsibility.
7. Our third specific comment refers to the reference that auditors should ‘properly conclude as to the truth and fairness of the financial statements’². This may be too fundamental to be regarded simply as a means of driving or enhancing quality. It implies that auditors can and do make improper conclusions, which in our view has less to do with quality, and more to do with probity and legality.

CONCLUSION

8. To conclude, we support the principles of the Framework and encourage the APB to launch the proposed version, subject to our specific comments and the need to allow it time to be implemented effectively.
9. We hope our response is helpful and respectfully ask the FRC to publish it alongside other responses shortly after the consultation closes. If the FRC would like further clarification on the points raised by Ernst & Young, please contact me at your convenience.

Yours sincerely



Jan Babiak
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¹ Page one, paragraph three, Audit Quality Framework

² Page six, second bullet, Audit Quality Framework