23 April 2019

Dear Sir Donald,

Review into the quality and effectiveness of audit

Thank you for leading the development of this discussion paper which has many interesting parallels with the APB's Future Development in Auditing (FDA) which you were involved in writing over 25 years ago. I was appointed APB's first Executive Director in 1996 and can confirm that FDA, and the subsequent 'Audit Agenda', informed much of APB's work in the two decades after they were published. I have summarised in an Appendix 1 to this letter, subsequent developments. I believe that much has been achieved in the areas of independence, audit reports and regulation and useful progress has been made in most other areas. As I will return to below, I believe that the knowledge, skills and experience of auditors remains a priority area.

Despite these substantial changes to the regulatory environment surrounding auditing it is remarkable how similar the current 'crisis' in confidence in auditing seems to be to when FDA was written. To a large degree I believe this is because few understand, or are prepared to acknowledge, the inherent limitations of an audit that are clearly described in auditing standards. Investors and others are quick to blame auditors for corporate failures and thereby distract discussion away from wider failings in corporate governance for which they themselves have responsibilities. This is not, of course, to say that auditing cannot be improved.

The so called 'expectation gap' has been much debated over the years. Professor Brenda Porter is an academic whose work I commend to you. She splits the gap into two elements – reasonable expectations and unreasonable expectations. The reasonable expectations are further split into deficient performance and inadequate standards. Professor Porter has found that in the UK between 1998 and 2008:

- the deficient performance gap narrowed,
- the inadequate standards gap narrowed, but
- overall the expectation gap widened as developments in the external environment stimulated an increase in society's unreasonable expectations of auditors.

Over many years as a member of APB and also as a member of IAASB I have tried to engage with investor groups to better understand their needs and concerns. I have invariably been disappointed by their lack of understanding of the practicalities of auditing and, in particular, of the nature of the inherent limitations that exist regarding obtaining adequate audit evidence in relation to accounting estimates, fraud, related party transactions and going concern. I am forced to the unhappy conclusion that they deliberately turn a 'blind eye' to them when it suits them.

I have been involved in much research, debate and consultation over the years and reference in my response some of the papers that I think will be of most value to you and your team. If I am allowed to single out just one it would be IAASB's Framework for Audit Quality published in 2013. I had the privilege of chairing the working party that developed this and I think that the different elements that we identified – inputs, process, outputs, interactions and contextual factors – may help you. I hope that at the end of your review you will share my view that, while all these elements are important, the single most important element is the knowledge, skills, experience and time of the auditors (the ‘skills’ referred to in FDA all those years ago). This area has, I believe, been neglected by regulators and audit firms and I believe that this is where action in now needed to achieve a step change improvement in audit quality.

The Audit Quality Framework also shows that audit flourishes in an environment with supportive legal, financial reporting and corporate governance arrangements. In my view there is still work to be done in the UK in these areas and this might be something that your review could usefully signal.

I note the many distinguished names on your Advisory Board and Auditor’s Advisory Group but observe that none of them were closely involved in the work of the Auditing Practices Board between 1992, when it was established, and 2011 when its activities were taken over by the FRC Standards Committee. The APB was the first independent standard setting activity in the world and, I believe, its work was highly regarded both in the UK and Internationally. We were immensely fortunate in having many outstanding members (both practicing and non-practicing) who debated, and consulted on, many of the topics that you are currently exploring. It is of course vital that there should be a fresh thinking on these issues but it would be a great shame if all that has been learnt in the past was to be lost. I hope my response, which is a personal one, will in a small way help bridge this gap.

I wish you well with this important project.

Yours sincerely

JEC Grant

The main ideas in the Future Development of Auditing - Subsequent developments.

Role and scope	Some change but management and investors have not generally supported a major extension in the scope of an audit
The APB proposes that the purpose of an audit should be defined as providing an independent opinion to those with an interest in a company that they have received an adequate account of:	Law has not changed to extend the scope of an audit to those with 'an interest in a company'. Auditors claim that there are many different groups that could claim to have 'an interest in a company' and it is impractical to address such varying interests and perspectives. The litigation threat will, no doubt, also be a factor.
1. the proper conduct of the company's affairs including fraud and illegal acts.	Reform in this area has centred around the auditors' role in relation to the Cadbury (later the UK Corporate Governance) Code. The APB consulted widely and received much 'push-back' from companies who doubted that auditors had the requisite skills and were concerned that audit oversight would over-formalise and slow down important processes. Ultimately it was agreed that auditors should only review the 'objectively verifiable' Code provisions relating to accountability and audit (APB Bulletin 2006/5). There was extensive debate about both managements' and the auditors' roles in relation to internal control following the Enron debacle. Widespread consultation led to FRC guidance which avoided the significant costs of the Sarbanes-Oxley approach. Changes to ISA (UK and Ireland) 315 were made around this time mandating the auditor to consider internal controls when planning the audit. The IAASB is currently revising this standard. FDA highlighted particular concerns in relation to fraud. APB carried out very extensive work in this area which culminated in its Consultation Papers 'Fraud and Audit: Choices for Society' (1988) and later 'Aggressive Earnings Management' (2001). The message of both was that

	auditing standards could (and have been) tightened but to make a major impact in these areas the audit would need to be significantly redesigned and an audit would necessarily become more invasive and costly. Management and investors who responded to our consultations opposed this. FDA also articulated concerns relating to illegal acts. Since 1992 there have been major changes to anti-money laundering legislation and auditors have greatly increased reporting requirements. ISA (UK and Ireland) 250 has been strengthened accordingly.
2. The company's financial performance and position including information outside the financial statements and disclosure of the significant assumptions and judgements made by directors in preparing the financial statements.	Accounting Standards and the UK Corporate Governance Code now require disclosure of significant assumptions and judgements made by directors. These are addressed by auditors and reflected in the expanded audit reports. Auditing Standards for the financial audit have been progressively strengthened since 1992 (indeed at the time FDA was written the UK's first Auditing Standards were still being developed). Many believe that UK standards (largely equivalent to international auditing standards) provide a robust regulatory framework. The FDA was correct in predicting much more disclosure of information of interest to investors within the Annual Report but outside the financial statements themselves. This is a difficult area as it is not uncommon for Annual Reports to be several hundred pages in length and containing information that is well outside the scope of a financial statement audit and indeed auditor competence. That said APB progressively strengthened ISA (UK and Ireland) 720 and further work has been done on this standard subsequently.
3. Future risks attaching to the company	Much progress has been made in this area though the expanded audit report. The change in accounting standards to move from historical costs to valuations also requires the auditor to understand future risks more than in the past.

	Going concern remains problematic despite ISA (UK and Ireland) 570 having been strengthened over the years. Problems include the genuine uncertainty that exists about future events and the concern that an emphasis of matter paragraph in an audit report usually becomes a self-fulfilling prophecy- not least for banks.
Independence	**Significant change**
Perception that auditors are not sufficiently independent	Independence has been a major focus of attention since the post- Enron investigations of 2003. Following this the APB was given responsibility for issuing Ethical Standards – the first in the world. EU legislation has also had a major impact on issues such as rotation and non-audit fees. Investors continue to question whether auditors are sufficiently independent but, in my view, with much less validity than in the past. The core of the problem remains that the directors appoint the auditors and inevitably personal relationships develop. An effective audit committee can do much to reduce the resulting familiarity threats.
The audit report	**Significant change**
Demand for greater disclosure in the audit report	As noted in your discussion paper auditing standards introduced in 2013 require disclosure of: - Those risks that had the greatest effect on the audit, - Materiality, and - An overview of the scope of the audit. As a consequence, audit reports are far longer than the were when FDA was written. It appears that investors value the additional information provided.
Competition	**Little change on competition but audit committees have been given responsibility for agreeing audit fees**
Concern that excessive competition combined with the directors' desire to reduce audit costs may have lowered audit quality.	Interestingly it is <u>lack</u> of competition which is today's concern and there is currently a CMA investigation that threatens audit quality. Competition needs to be balanced with competence. Some question whether audit firms, other than the 4 largest, have the

	skills, resources and international reach to audit the very largest companies. Auditing Standards and the UK Code of Corporate Governance have changed significantly since FDA was written to require increased communication between auditors and audit committees. Audit committees have been given more responsibility for audit fees and the FRC has consistently urged them to give emphasis to audit quality. As changes in audit firms has become more frequent (EU legislation has impacted rotation) audit quality seems to feature more in audit firm tenders.
Litigation	**Some change**
The prospect and scale of potential litigation may be a barrier to proactivity and change.	When FDA was written litigation was a major threat to audit firms. My impression is that litigation is less of a problem than it was although, no doubt, the audit firms will contest this. The law has been changed to allow audit firms to become Limited Liability Partnerships. This protects the assets of individual partners but does not prevent the LLP from being sued for considerable sums. As noted in IAASB's Audit Quality Framework, maintaining some threat of litigation is an important driver of audit quality.
Adherence to principles	**Some change but not necessarily in the right direction.**
	FDA rightly highlighted the importance of principles. At an early stage APB issued the Auditors Code and this was later embedded in its Statement of Scope and Authority of Audit and Assurance Pronouncements. The Auditors Code was also used by APB when developing Auditing and Ethical Standards. However, these standards have become increasingly prescriptive over the years and the description 'principles based standards' has little meaning. Objectivity and scepticism, or rather the lack of it, is frequently cited by audit regulators as a cause of audit failure

Governance and regulation	**Significant change**
Concern that the system of audit regulation is ineffective as it lacks the necessary independence, objectivity and impact.	Following the post-Enron investigations regulation of the auditors of Public Interest Entities (PIEs) has been undertaken by an independent body – currently the FRC. Much good work has been done although there are many challenges with assessing audit quality and taking action when it seems to be absent. The recent Kingman Review has made a number of recommendations but I doubt that these will overcome all of the problems in this area which relate to the judgemental nature of audit.
Skills	**Little change?**
The necessary changes to audit require considerable investment in training and development of auditors.	Audit firms will claim that they make massive investments in training and, no doubt, accountancy bodies will claim more rigorous professional exams. I am not convinced and fear that the quality of 'training' will have deteriorated not least because the advent of electronic working papers and increased pressure to complete audits quickly will have led to a reduction in 'on the job training'. The continuing professional development (CPD) requirements of the accountancy bodies are far from robust.
Accounting standards	**Some change but new challenges**
Some commentators drew attention to the flexibility permitted by existing accounting standards.	While flexibility has been reduced the movement towards greater valuations in financial statements has made auditing more difficult. I would argue that the 'reasonable assurance' provided by audit reports is lower than it was in the past.

Appendix 2

Responses to questions in Review into the quality and effectiveness of audit

Q1	**For whose benefit should audit be conducted? How is it to be of value to users?** I believe the audit should continue to be undertaken for the benefit of shareholders. There are many different groups that could claim to have 'an interest in a company' all having varying interests and perspectives. It is impractical to expect auditors to be able to understand and respond to these differing needs. Expanding the users of an audit report would also expand litigation threat.
Q2	**Should the audit be designed to enhance the degree of confidence of intended users in the entity or just the financial statements?** The focus should remain on the financial statements where 'true and fair' and accounting standards provide reasonable criteria for the audit opinion. I can not imagine that 'suitable criteria' can be constructed for wider responsibilities and the opinions of different auditors will not be comparable. That said regulators and the profession need to continue to explore ways of clarifying responsibilities for going concern.
Q4	**Do respondents consider there is an expectation gap?** Yes there is and there probably always will be.
Q5	**If so, how would respondents characterise that gap?** I favour Professor Brenda Porter's approach. She splits the gap into two elements – reasonable expectations and unreasonable expectations. The reasonable expectations are further split into deficient performance and inadequate standards. Professor Porter has found that in the UK between 1998 and 2008: • the deficient performance gap narrowed, • the inadequate standards gap narrowed, but • overall the expectation gap widened as developments in the external environment stimulated an increase in society's unreasonable expectations of auditors. This does not surprise me. Few investors understand, or are prepared to acknowledge, the inherent limitations of an audit that are clearly described in auditing standards (ISA (UK and Ireland) 200). Investors and others are quick to blame auditors for corporate failures and thereby distract discussion away from wider failings in corporate governance for which they themselves have responsibilities.

Q5	**Is there also a significant delivery or quality gap between auditors existing responsibilities in law and auditing standards and how those responsibilities are currently met?** Audit inspections frequently reveal instances where detailed auditing standards have not been complied with. This is hardly surprising as there are over a thousand detailed requirement in auditing standards – in my view they are far too detailed. The description 'principles based' standards has little meaning. What is more worrying is that people think that complying with auditing standards necessarily results in a high-quality audit. Auditing standards define the audit process,but as explained in IAASB's Audit Quality Framework, there is much more to audit quality than this and unfortunately much of this is not observable to audit inspectors. As noted in Q56 I think there are difficulties with trying to apply a quality model designed for manufacturing to a service industry.
Q7	**What should be the role of audit within wider assurance?** Suitable criteria are generally not available to support public reporting on broader aspects of assurance. I believe there is a useful role for external auditors to report privately to regulators and/or management on specific areas such as internal controls. This approach was illustrated in an APB Briefing Paper 'Providing assurance on the effectiveness of internal control' issued in 2001.
Q8	**Can the level of assurance vary?** This is an important question. I am afraid that the concept of 'reasonable assurance' and its complement 'sufficient and appropriate audit evidence' is very judgemental – some would say very vague. I believe that current accounting requirements (with their emphasis on valuations and fair values) means that the reasonable assurance provided by audit opinions is lower than in the past. Reasonable assurance is defined in auditing standards as 'a high, but not absolute, level of assurance' – but what is 'high'? Historically some have thought of high as being about 95% certainty but this is clearly unachievable given that financial statements now contain many valuations that are judgemental. Most certainly the level of assurance obtained varies between auditors and between entities being audited. A high (perhaps even 95%) might be achieved on a small cash business where a lot of detailed substantive testing is performed by the auditor. It will be much lower for a bank trading in financial instruments where much audit evidence comes from reliance placed on internal controls.
Q9	**Are the existing boundaries between internal and external audit clear?** I believe they are clear in Auditing Standards but are unlikely to be clear in the minds of investors and management. This is in part because the nature and quality of internal audit varies greatly between entities. The external auditor is therefore allowed to judge how much to rely on internal audit work.
Q10	**To what extent should external auditors be able to use evidence obtained from work performed by internal audit in drawing conclusions?**

	Prohibiting the external auditors from using evidence obtained from work performed by internal audit could mean that the external auditors miss important risks that are known to the internal auditors. It would also significantly add to audit cost.
Q11	**Do current eligibility requirements for external auditors focus too much on independence at the potential expense of market innovation and the quality of the audit product?** Auditor independence has been a major focus of regulatory attention since the post-Enron investigations of 2003 and much has been done through APB's Ethical Standards and later EU legislation. Investors continue to question whether auditors are sufficiently independent but with much less validity than in the past. It is an interesting question as to whether these reforms have gone so far as to damage market innovation and the quality of the audit product. I suspect that, to date, there has not been an adverse effect but I am very worried by the recent CMA proposals to require companies to appoint a mid-sized audit firm or joint auditors. I believe this would give rise to a number of substantial quality issues. The proposed separation of the audit function within the largest firms is less risky from a quality standpoint although it could impact the availability of audit experts in areas such as tax and technology. More interestingly separation will impact profitability and raises the question of whether 'audit only' entities will be sufficiently profitable to allow them to remunerate the best graduates and retain them for long careers. This is a vital issue as I believe that the single most important factor in delivering audit quality is the knowledge, skills and experience of the individual auditors. Already too much of the detailed work is undertaken by junior staff and the so-called staff pyramid' needs to be flattened. Whether audit only firms will be more - or less - likely to achieve this is a major open question and one on which the future of audit quality rests.
Q12	**Should directors make a more explicit statement in respect of risk management and internal controls? If so, should it be subject to audit.** There was extensive debate about both management and auditor roles in relation to internal control following from the US Sarbanes-Oxley legislation. Any statement on risk management or internal controls is highly judgemental. It will be impossible for directors to state that controls were ineffective - so any disclosure requirement would just result in 'boiler-plate'. Because of the lack of objective criteria for evaluating controls, especially high-level controls (which are the ones that really matter) I do not support the external auditor reporting publicly on controls but do believe there is value in them reporting privately to regulators and/or management on internal controls. This approach was set out in an APB Briefing Paper 'Providing assurance on the effectiveness of internal control' issued in 2001.
Q13	**Should auditor's responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?**

	As explained in Q12 above I do not favour auditors reporting publicly on systems of internal controls. However, as explained in Q32 I do believe that auditors should do more on accounting records.
Q14	**Should views reported to audit committees be made public?** No. Communication between the auditor and the audit committee has to be private if it is to be meaningful. Requiring this communication to be made public will emasculate it.
Q15	**Is the current regulatory framework relating to going concern fit for purpose?** Probably not but I have not kept up to date with recent developments. The FRC published guidance for companies in about 2012 which was too complex for me to understand, and I expect there may have been others! There is also what I believe is a significant flaw in Accounting Standards (IAS1) which the IAASB formally raised with the IASB in 2013. Much to my disappointment the IASB decided not to make an amendment. The issue relates to whether 'the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern' are before or after any mitigating action that the company may be planning. Because of the uncertainty surrounding this IAASB concluded that it was not appropriate to make ISA 570 more rigorous. Hopefully these issues will now have been addressed.
Q16	**Should there be greater transparency regarding identified 'events or conditions that may cast significant doubt on the entity's ability to continue as a going concern'?** Probably yes as management will always be reluctant to disclose them but as explained in Q15 clarity needs to be provided in IAS1.
Q20	**Is there a case for a more forward-looking audit? What would be the main benefits and risks?** An audit is already forward looking through explicit requirements relating to going concern and the audit of accounting estimates. If it is agreed that financial statements should not include profit forecasts, I find it hard to imagine what more auditors could usefully do.
Q23	**Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?** I am afraid I do not fully understand the question. The IAASB's Audit Quality Framework published in 2013 identified five different elements to audit quality – inputs, process, outputs, interactions and contextual factors. If the question is – 'is there more to audit quality than just the audit process'? - my answer is wholeheartedly yes!
Q24	**Do respondents consider that emphasis on completing the audit file for subsequent FRC inspection can eclipse the desired focus on matters requiring the exercise of considered judgement?**

	In theory there should not be a conflict between achieving both. That said, as explained in Q5 I believe that auditing standards are far too detailed and documenting compliance with all of them must be a nightmare. If standards were more principles focussed than they currently are it would be easier for audit firms to meet both objectives.
Q25	**What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?** I am a supporter of the binary audit opinion as it forces a 'black and white' conclusion that is a clear signal to shareholders. One of my concerns with the extended audit reports was that auditors would use the lengthy disclosures to avoid qualifying the audit opinion.
Q26	**Could further narrative be disclosed alongside the opinion to provide more informative thoughts.** As a small investor I would quickly reply 'no thanks'. I started reading the extended audit reports on my investments but soon tired of them, in part because there is so much duplication with the audit committee reports. I somewhat doubt that even institutional investors find value in them except when there is a perceived audit failure. Auditors identifying a risk and then not doing enough about it is more clearly a 'hanging event'.
Q32	**How do auditors discharge their obligations relating to whether the entity has kept adequate accounting records? Are the existing statutory requirements effective?** What a good question. I do not believe that existing statutory requirements are effective and think there is much more that auditors could do. However, first there needs to be a much better explanation of what adequate accounting records are. There is considerable uncertainty about this. At one stage the FRC considered whether it should issue more guidance but were quickly dissuaded from doing so by companies fearing a UK 'Sarbanes-Oxley'. My belief is that the large firms of auditors very rarely qualify their opinions on accounting records unless there is clear indication that a fraud has been committed (ie after the horse has bolted) - I very much doubt that this was what the legislation had in mind.
Q34	**Should more of the communications that occur between the auditor and the audit committee be made transparent to users of financial statements?** No as explained in Q14 communication between the auditor and the audit committee has to be private if it is to be meaningful. Requiring this communication to be made public will emasculate it.
Q36	**Do you believe that users expectations of auditors' role in fraud detection are consistent with the requirements of law and auditing standards? If not should auditors be given greater responsibility to detect material fraud.** APB carried out extensive work on this area which culminated in a Consultation Paper 'Fraud and Audit: Choices for Society' (1988). Its conclusions were: • most material frauds involve directors and/or senior management ('management fraud'),

	• management fraud, particularly if it also involves collusion with third parties, is unlikely to be detected as part of the statutory audit of the financial statements, and • at the same time shareholders, creditors and the public expect auditors to find material fraud. APB canvassed views on ways in which this conundrum could be addressed but a recurrent theme to responses received was that imposing additional burdens on the business community in order to address the consequences of the wrongdoing of the few was undesirable. APB obtained the views of a prominent economist who opined, perhaps controversially, that most fraud did not impose a macroeconomic cost on the economy (as it was merely a redistribution of assets) but that regulatory action to prevent fraud did! APB returned to the subject again in 2001 with its Consultation Paper highlighting the growing risk of a particular type of fraud 'Aggressive Earnings Management'. Again, APB asked whether auditing standards should be tightened to address the risk with the consequence that audits would be more invasive and costly. Again, those companies and investors who responded did not believe that these changes should be made. I believe the working group would obtain considerable benefit from reading the Consultation Papers 'Fraud and Audit: Choices for Society' and 'Aggressive Earnings Management'.
Q37	**Do existing auditing standards help to engender an appropriate fraud detection mindset on the part of auditors?** I sincerely hope so. Great care was taken in writing them to ensure the importance of scepticism was emphasised. More words could, I am sure, be written but the real issue is the culture and training within audit firms not more words in standards that auditors rarely read.
Q39	**Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?** No this is a subset of Q 12. There are no criteria for evaluating systems to prevent and detect fraud, especially high-level controls (which are the ones that really matter in relation to management fraud). I do not support the external auditor reporting publicly on systems to prevent and detect fraud but do believe there could be value in them reporting privately to regulators and/or management.
Q45	**Does the use of technology enable a higher level of assurance to be given?** I somewhat doubt it! Technology can be used to identify unusual transactions to provide a focus for detailed substantive testing and is much more successful in doing this than sampling. However external auditors of large companies do not spend much time these days (for good or for bad) with detailed testing. Rather the emphasis is on evaluating controls and the judgements and valuations underlying the financial statements where technology has less to offer in assistance. Technology is probably of more value to internal auditors and forensic accountants.

Q48	**Given that a zero-failure regime is not attainable how should the review calibrate the value of an audit in relation to the limitation of potential failure?** I am not sure I fully understand the question but I suspect it is a very important one. Auditors know that an audit performed at a reasonable cost and at a reasonable pace will not detect all material misstatements. Indeed even slow, expensive audits would not find all misstatements especially if management is deliberately hiding them. These 'inherent limitations of an audit' are clearly described in auditing standards (ISA (UK and Ireland) 200). However, to a large degree I believe that investors and even regulators do not understand, or are not prepared to acknowledge, them and treat each corporate failure as an audit failure. For many years auditors have thought this was unfair and consider that for each 'unsuccessful audit' there are thousands of 'successful audits'. However, can an audit be considered 'successful' if there was not a material misstatement in the financial statements pre-audit? I would call an audit successful if the auditors detected a material misstatement and it was adjusted in the published financial statements. Audit firms claim that this is a common occurrence. It would be very interesting if there were some high-level statistics on this. The FRC could usefully be encouraged to collect and publish such information as part of their audit inspection activity. However, even if such statistics were available it would not fully resolve the question about the value of audit as auditors do have a very valuable preventative role. Perhaps there would be a way of measuring this too.
Q56	**How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgements underlying the audit report?** This is a good question. As with the other fundamental principles of auditing, scepticism is difficult to demonstrate after the event. Audit inspections overly focus on the application of increasingly prescriptive auditing standards evidenced by reviews of working papers. This is unfortunate and results in audit firms being obsessed with working papers. I have never been comfortable that this type of quality control system, which was originally designed for manufacturing, is appropriate for assessing professional services where the key is the quality of judgements. As explained elsewhere in my response I believe that the knowledge, skills and experience of the audit team is the key factor in achieving audit quality. I fear that the current quality control systems can demotivate some of the most talented individuals causing them to move out of auditing as quickly as possible and further their careers elsewhere.
Q57	**Should the basis of individual auditors remuneration be made available to shareholders** I would not think that this would be helpful to shareholders. The discussion paper (paragraph 138) does however touch on a very important point on remuneration and that is that auditors of all grades are rarely evaluated and remunerated on the basis of audit quality. All firms have some form of

	appraisal systems. When I looked at this some years ago within the largest firms the same appraisal systems covered all divisions (tax, audit, consultancy etc) and did not address the drives of audit quality such as scepticism. As noted in the discussion paper ‘behaviour so often follows reward’. Things might have changed but I rather doubt it!