Audit Quality – Project Update

Jon Grant,
Chair, IAASB Audit Quality Task Force

IAASB Meeting
Beijing
September 19-23, 2011
Activities Since June 2011 IAASB Meeting

- Two-day Task Force meeting July 2011
- Meeting with Academic Liaison Group Aug 2011
- IAASB CAG discussion Sept 2011
- Distributed CAG draft to IFIAR, IOSCO, World Bank, ICGN, etc and asked for informal views
July 2011 Task Force Meeting

- Discussed
  - Nature of current document – a step towards a Framework
  - Difference between AQ and the quality of an audit
  - Dynamism
  - Implications of recent governmental investigations into auditing profession in some jurisdictions
  - Threats and safeguards appendices
  - The AQ graphic
AQ Framework Graphic – Before

- **Context Factors** (E.g., Law and Regulation)
- **Inputs** (E.g., Auditing Standards)
- **Outputs** (E.g., Auditor’s Report)
- **Stakeholder Perceptions**
- **Audit Quality**
- **Stakeholder Relationships**
AQ Framework Graphic – After

Audit Quality

CONTEXT

Interactions

Inputs

Outputs
Expanded Interactions Section

- Auditors and management
- Auditors and those charged with governance
- Management and those charged with governance
- Auditors and regulators
- Management and regulators
- Regulators and those charged with governance
- Auditors and financial statement users
- Those charged with governance and financial statement users
- Audit regulators and financial statement users
Revised Contextual Factors section

• Business practices
• Corporate governance requirements
• The applicable financial reporting framework
• Audit regulation
• Industry, information technology and the general economic environment
• The educational environment for accountants and auditors and respect for the role of audit
• Broader cultural issues
Other Improvements

• Wrote an introduction

• Refined Perspectives section based on stakeholder responses to survey of AQ perspectives and improved links to input factors

• Expanded Output Factors section to include audit firms’ transparency reports

• Added considerations specific to small audits and SMPs, and public sector audit institutions

• Expanded appendices (summary of main threats and safeguards) to cover each Framework element
August 2011 Academic Liaison Group Meeting

• Meeting with 6 very experienced academics from U.S., Canada and Australia, arranged by Bill Kinney

• Considerable enthusiasm for the project

• Uncertainty about whether the paper (and hence the schematic) is best way of describing AQ. Suggestions:
  – Delink AQ from financial reporting quality
  – Have 3 levels (audit, firm, country)

• Uncertainty about how the threats / safeguards fit in
  – Suggestion to reorganize them as “key issues” for each of the main stakeholders
August 2011 Academic Liaison Group Meeting

• A number of useful ideas for further TF consideration
  – Whether to add market proxies for AQ
  – Whether more is needed on the auditability of GAAP
  – Whether there is a need to deal with AQ over time
  – Need to encourage the profession to be more receptive to self-examination/value of research in continuous improvement
September 2011 IAASB CAG Meeting

• Matters on which CAG input sought
  – Does the proposed Framework embody the most important elements of AQ, and is it balanced and credible?
  – Are there key issues or dimensions that need to be added or emphasized more?
  – Does the paper strike an appropriate balance between concepts and ‘real world’ AQ?
  – How should IAASB best reach out to other non-audit groups?
  – Is there value in identifying the main threats to AQ and related safeguards with respect to the Framework elements?
Many CAG members were supportive of the work done to date and general direction. ‘Needed the paper 15 years ago!’

Matters raised for further TF consideration included:

- Reconsider whether to cover AQ at an engagement level and make clear that a high quality audit can be performed in adverse circumstances. ‘Focus on what auditors can control’
- Give more emphasis to audit effectiveness (as opposed to audit efficiency)
- Add more on role of internal auditors and experts
- More emphasis needed on professional skepticism?
- Length of paper /packaging – will it make a difference?
<table>
<thead>
<tr>
<th>Activity</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussion with IFIAR</td>
<td>Sept 2011</td>
</tr>
<tr>
<td>Discussion with Forum of Firms, ICGN, World Bank, INTOSAI</td>
<td>Oct 2011</td>
</tr>
<tr>
<td>Discussion within IFAC: IAESB, IESBA, and SMP Committee</td>
<td>Oct 2011</td>
</tr>
<tr>
<td>Discussion with IOSCO</td>
<td>Nov 2011</td>
</tr>
<tr>
<td><strong>IAASB consideration of advanced draft</strong></td>
<td>Dec 2011 / March 2012</td>
</tr>
<tr>
<td><strong>IAASB approval of consultation paper</strong></td>
<td>March / June 2012</td>
</tr>
</tbody>
</table>