

IAASB INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

**Overview of Proposed
International Audit Quality Framework**

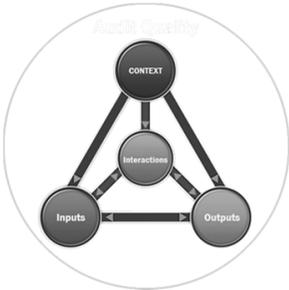
Jon Grant,
Chair, IAASB Audit Quality Task Force

IAASB CAG Meeting
Prague
September 12, 2011

Past Timeline

- Sept 2010 CAG discussion
- Dec 2010 IAASB approves 'Thought Piece'
- March 2011 CAG discussion on objectives
- March 2011 IAASB approves project
- April 2011 Discussion with NSS
- June 2011 IAASB Discussion

The Audit Quality Framework



Key Interactions Influencing Audit Quality

- 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

Context Factors

- 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

Input Factors

- The culture within an audit firm, e.g.
 - Appropriate governance arrangements are in place.
 - Financial considerations do not drive actions and decisions that have a negative effect on audit quality.
 - Partners are accessible both to their own staff and to management and those charged with governance of the entities they audit.
 - The firm promotes the merits of consultation on difficult issues.
 - Audit quality is monitored and appropriate consequential action is taken.

Input Factors

- The knowledge, experience, and personal attributes and values of audit partners and staff, e.g.
 - Partners and staff understand their clients' business.
 - Partners and more senior staff provide less experienced staff with timely appraisals and appropriate coaching or "on-the-job" training.
 - Partners and staff have integrity, act objectively and comply with relevant ethical requirements.
 - Partners and staff demonstrate skepticism and professional competence.

Input Factors

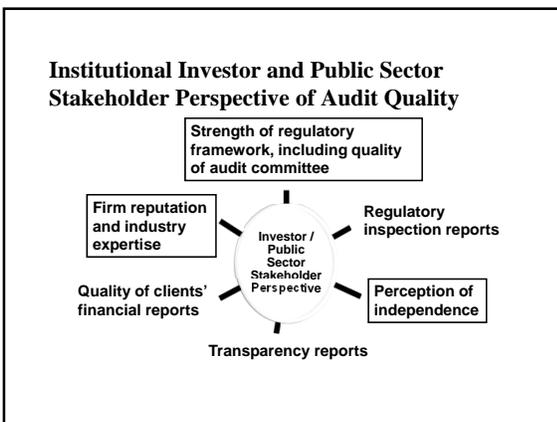
- The effectiveness of the audit process, e.g.
 - The engagement team makes proper use of technology.
 - The audit methodology does not discourage individual team members from thinking creatively, applying skepticism, and exercising judgment.
 - There is effective engagement with the auditors of other components in the group (where applicable).
 - The audit process is adapted to developments in professional standards and is responsive to regulatory inspection findings.

Output Factors

- The reliability of audit reporting to users of audited financial statements
- The usefulness of audit reporting to such users
- The quality and usefulness of audit communications to those charged with governance
- The quality and usefulness of audit communications to management
- Transparency reports







Other Considerations

- Considerations specific to small audits and SMPs, and public sector audit institutions
 - Interactions
 - Contextual factors
 - Input factors
 - Output factors

Timetable

Activity	Timing
Discussion with academics	Aug 2011
IAASB update	Sept 2011
Discussion with IFIAR	Sept 2011
Discussion with Forum of Firms, ICGN, World Bank, INTOSAI	Oct 2011
Discussion within IFAC: IAESB, IESBA, and SMP Committee	Oct 2011
Discussion with IOSCO	Nov 2011
IAASB discussion	Dec 2011
IAASB approval of consultation paper	Mar / June 2012

Matters for CAG Consideration

- Does the proposed Framework embody the most important elements of audit quality, 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' audit quality?
- How should IAASB best reach out to non-audit groups other than those mentioned in the timetable?
- Is there value in identifying the main threats to audit quality with respect to the Framework elements, and possible actions to address such threats, as summarized in the attachment?

