

Engagement Level Audit Quality

1. An audit of an entity's financial statements involves independent auditors gathering sufficient appropriate evidence to be able to express an opinion as to whether the financial statements fairly present the entity's financial position, financial performance and cash flows. Entities vary considerably in size, complexity and nature of business. This variation is reflected in their financial statements and therefore the nature and extent of the audit procedures that need to be performed.
2. Auditors are required to obtain sufficient appropriate evidence about whether an entity's financial statements are free from material misstatement whether due to fraud or error.¹ Sufficiency is the measure of the quantity of audit evidence. Appropriateness is the measure of the quality of audit evidence, i.e., its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.²
3. What is considered to be sufficient appropriate evidence is, however, a matter of judgment that is influenced by the auditors' assessment of the risks that the financial statements prepared by management are materially misstated. Nevertheless, all audits involve audit teams:
 - Exhibiting appropriate values, ethics and attitudes;
 - Applying appropriate knowledge and experience, and allocating sufficient time;
 - Following an effective audit process;
 - Interacting appropriately with management, those charged with governance and the entity's shareholders; and
 - Concluding on the financial statements and expressing an opinion on them that is communicated to shareholders.

Framework – Audit Engagement Level	
Inputs	Indicators
Values, ethics and attitudes	<ul style="list-style-type: none"> • The engagement team recognizes that the audit is performed in the interests of the entity's shareholders and in the wider public interest • The engagement team exhibits professional skepticism • The engagement team exhibits objectivity and integrity • The engagement team exhibits professional competence and due care • The engagement team is independent
Knowledge, experience and time	<ul style="list-style-type: none"> • Partners and staff understand the entity's business • The audit engagement partner is actively involved in risk assessment, planning and supervising the work performed

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 11

² ISA 500, *Audit Evidence*, paragraph 5(b) and (e)

Framework – Audit Engagement Level	
	<ul style="list-style-type: none"> • Staff performing detailed “on-site” audit work have sufficient experience and their work is appropriately supervised and reviewed • The audit engagement partner and other experienced members of the audit team are accessible to their staff • Partners and staff have sufficient time to undertake the audit in an orderly manner
Process	<ul style="list-style-type: none"> • The engagement team complies with auditing standards • The engagement team makes appropriate use of technology • There is effective engagement with the auditors of other components of the group (where applicable) • There is effective engagement with the entity’s internal auditors (where applicable) • There is appropriate audit documentation
Interactions	Indicators
Auditors and Management	<ul style="list-style-type: none"> • An open and constructive relationship exists • Auditors engage on a timely basis with management and are accessible to them • Management provide full and timely access to relevant information and individuals
Auditors and Those Charged with Governance	<ul style="list-style-type: none"> • Effective two-way communication takes place • Auditors engage on a timely basis with those charged with governance and are accessible to them • Auditors communicate clearly their findings to those charged with governance • Those charged with governance take an active interest in the work performed and monitor the level of audit fees to ensure that they are consistent with a quality audit being performed.
Auditors and the Entity’s Shareholders	<ul style="list-style-type: none"> • Auditors clearly communicate the outcome of their audit in the auditor’s report • Auditors take advantage of other opportunities provided by national laws and regulations to communicate with the entity’s shareholders
Outputs	Indicators
The reliability of audit reporting to users of audited financial statements	<ul style="list-style-type: none"> • Audit reporting is likely to provide a positive contribution to audit quality where audit reports are written in a manner that conveys the auditor’s opinion on the financial statements.
The usefulness of	<ul style="list-style-type: none"> • Audit reporting has informative value to the users and assists

Framework – Audit Engagement Level	
audit reporting to users of audited financial statements	them in decision-making.
The quality and usefulness of audit communications to those charged with governance	<p>Audit reporting is likely to provide a positive contribution to audit quality where communications with those charged with governance enable them to clearly understand:</p> <ul style="list-style-type: none"> • The scope of the audit. • The threats to auditor independence. • The key risks identified and the auditor’s responses thereto. • Significant judgments made in reaching the audit opinion. • Significant qualitative aspects of the entity’s accounting practices and potential ways of improving financial reporting. • Recommendations for improvement to the entity’s financial reporting process. • Significant matters arising from the audit that were communicated with management.
The quality and usefulness of audit communications to management	<p>Audit reporting is likely to provide a positive contribution to audit quality where communications with management include clear information about:</p> <ul style="list-style-type: none"> • Misstatements in the financial statements. • Deficiencies in internal control. • The auditor’s perspectives on industry issues and trends and opportunities for improvement. • The auditor’s observations on relevant regulatory matters.

Inputs

VALUES, ETHICS AND ATTITUDES

4. The audit engagement partner is responsible for an audit engagement and therefore directly responsible for audit quality. As well as taking responsibility for the performance of the audit, the audit engagement partner has an important role in ensuring that the engagement team exhibits the values, ethics and attitudes necessary to support a quality audit. These include:
- Recognition that the audit is performed in the interests of the entity’s shareholders and in the wider public interest;
 - Professional skepticism;
 - Objectivity and integrity;
 - Professional Competence and Due Care ; and
 - Independence.

The Engagement Team Recognizes that the Audit is Performed in the Interests of the Entity's Shareholders and in the Wider Public Interest

5. The audit team needs to be committed to performing the audit in the interests of the entity's shareholders and in the wider public interest rather than the interests of management who prepared them. While it will usually be necessary for the auditor to work closely with management in the course of the audit, the audit team needs to provide an appropriate degree of challenge to management and make objective judgments.

The Engagement Team Exhibits Professional Skepticism

6. Demonstrating professional skepticism is an important mindset for making professional judgments. Unless auditors are prepared to challenge management's assertions, they will not act as a deterrent to fraud nor be able to conclude, with confidence, that an entity's financial statements are fairly presented. Demonstrating professional skepticism involves:
 - Having a questioning mind and a willingness to challenge management assertions;
 - Assessing critically the information and explanations obtained in the course of their work;
 - Understanding management motivations for possible misstatement of the financial statements;
 - Keeping an open mind until appropriate audit evidence has been obtained;
 - Having the confidence to challenge management and the persistence to follow things through to a conclusion; and
 - Being alert for evidence that is inconsistent with other evidence obtained or calls into question the reliability of documents and responses to inquiries.

The Engagement Team Exhibits Objectivity and Integrity

7. The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.³
8. The need for auditors, in particular, to be objective arises from the fact that many of the important issues involved in the preparation of financial statements do not relate to questions of fact but rather to questions of judgment. For example, many items included in the financial statements cannot be measured with absolute certainty and estimates have to be made. If management, whether deliberately or inadvertently, make a biased judgment or follow an otherwise inappropriate accounting practice, the financial statements may be materially misstated or misleading.
9. Integrity is a prerequisite for all those who act in the public interest. It is essential that audit team act, and are seen to act, with integrity, which requires not only honesty but a broad range of related qualities such as fairness, candor, courage and intellectual honesty.

³ IESBA Code, paragraph 120.1

The Engagement Team Exhibits Professional Competence and Due Care

10. Professional competence and due care involves all members of the engagement team:
- Maintaining professional knowledge and skill at an appropriate level;
 - Acting carefully, thoroughly and on a timely basis; and
 - Acting diligently in accordance with applicable technical and professional standards.

The Engagement Team is Independent

11. Independence is required to avoid the auditor being affected by influences that compromise professional judgment, thereby allowing the auditor to act with integrity and exercise objectivity and professional skepticism (independence of mind). It is also required to avoid facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised (independence in appearance).

KNOWLEDGE, EXPERIENCE AND TIME

Partners and Staff Understand the Entity's Business

12. A sound understanding of the entity, its business and the industry in which it operates is key to the auditor being able to assess the risks of material misstatement in the financial statements to appropriately focus audit procedures and to evaluate the findings from them. It also underlies skepticism and the ability to make appropriate audit judgments.
13. Industry knowledge, including an understanding of relevant regulations and accounting issues, can be especially important for clients in, for example, the extractive, financial services and retailing industries. However, it is important that knowledge areas are not so narrow that they prevent the auditor seeing "the wood from the trees." Auditors acquire general business knowledge from exposure to different clients in different industries. This allows them to stand back from the specifics of a particular entity's business and reflect upon their wider knowledge of business issues, risks, and control systems.

Staff Performing Detailed "On-Site" Audit Work Have Sufficient Experience and Their Work is Appropriately Supervised and Reviewed

14. The structure of many accountancy firms is generally hierarchical – often described as a "pyramid structure" – and the make-up of audit teams for individual engagements generally reflects this structure. As a result, much of the detailed "on-site" audit work is likely to be performed by staff who are relatively inexperienced; indeed, many may still be completing an accounting qualification.
15. While not all members of the team can be expected to have the same level of knowledge and experience, it is the responsibility of the audit engagement partner to ensure that collectively the team have the appropriate competence and capabilities.
16. Furthermore, as engagement partners are responsible for the audits they undertake, it is important that they are directly involved in planning the audit, evaluating the evidence obtained and in reaching final conclusions. While much of the detailed work may be delegated to less experienced staff, partners need to be accessible to them in order to

provide timely input to the audit as it progresses. Some believe that partners can be encouraged to take an active responsibility for the quality of work performed by signing auditors' reports in their own names rather than, or in addition to, their firms' names. Others, however, believe that while there may be merit in disclosing engagement partners' names in auditors' reports for purposes of transparency, requiring them to sign the reports in their own names would not further improve audit quality given the rigor of auditing standards and the effectiveness of the audit firms' quality control systems.

Partners and Staff Have Sufficient Time to Undertake the Audit in an Orderly Manner

17. Partners and staff often have responsibilities other than the audit of a single entity and audits can be undertaken to challenging timetables. Planning is important, both at the level of an individual audit, and at the level of the audit firm, to ensure that sufficient resources are available to gather sufficient appropriate audit evidence to support the auditor's opinion on the financial statements and to interact appropriately with management and those charged with governance.

AN EFFECTIVE AUDIT PROCESS

The Engagement Team Complies with Auditing Standards

18. Audits need to be performed in accordance with auditing standards which provide the foundation for a disciplined approach to risk assessment, planning, performing audit procedures and ultimately forming and expressing an opinion on whether the entity's financial statements fairly present its financial position, financial performance and cash flows. Sometimes, audit firms' methodologies provide more specific guidance on matters such as:
 - Who undertakes specific activities;
 - Internal consultation requirements; and
 - Documentation formats.
19. However, not all aspects of the audit process are defined by auditing standards and audit firm methodologies and there is flexibility for the audit team in terms of what specific audit work is performed, how it is undertaken in practice and the nature and timing of interactions with management. The way that the work is performed in practice can be an important factor in both effectiveness and efficiency. Other important elements of an effective audit process are discussed below.

The Engagement Team Makes Proper Use of Technology

20. The automation of accounting systems allows auditors to spend less time obtaining audit evidence regarding the accuracy of transaction processing and enables them to devote more time to areas of greater potential risk. It has also provided an opportunity for auditors to gather audit evidence more effectively through the use of computer-assisted audit techniques, although sometimes these need the involvement of specialists and can be expensive to set up, especially in the first year.
21. Technology has also had an effect on the way auditors communicate, both within audit teams and with management and those charged with governance. While e-mail generally increases accessibility, especially on an international basis, e mails can have limitations. In particular, there may be a reduced opportunity to obtain useful audit evidence from e-mail exchanges than from the richer interaction that comes through

having a fuller open discussion with management. Depending on the circumstances, e-mail might also make it easier for management to provide inaccurate or incomplete responses to the auditor's questions or be less forthright with information if management is motivated to do so.

There Is Effective Engagement with the Auditors of Other Components of the Group (Where Applicable)

22. Most large entities will have divisions, subsidiaries, joint ventures or investees accounted for by the equity method (components). One or more components are frequently audited by audit teams other than the group audit team. Component auditors may be from within the group auditor's firm, from one of its network firms, or from a different firm of auditors.
23. The group auditor will often wish to use the work of the component auditors when obtaining evidence to support the group auditor's opinion on the group financial statements. It is important for the group auditor to understand component auditors and, especially in relation to significant components, engage with them.

There Is Effective Engagement with the Entity's Internal Auditors (Where Applicable)

24. Many large entities will have internal auditors. It is likely to be important for both efficiency and effectiveness for there to be effective engagement between the external and internal auditors. For example, the internal audit function is likely to have obtained insight into the entity's operations and business risks that will provide valuable input into the auditor's understanding of the entity and risk assessments or other aspects of the audit.

There is Appropriate Audit Documentation

25. Auditing standards require audit documentation to be prepared sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature timing and extent of the procedures performed, the results of those procedures, the significant matters arising and the conclusions reached. This documentation supports quality control activities both within the audit team, before the audit is completed, and by others who decide to review the quality of work performed after the audit has been completed.

Interactions

AUDITORS AND MANAGEMENT

An Open and Constructive Relationship Exists

26. [To be completed.]

Auditors Engage on a Timely Basis with Management and are Accessible to Them

27. Timely engagement involves:
 - Clear and timely communication of potential audit and financial reporting issues;
 - Proactive engagement with management on resolving issues identified during the audit; and

- Effective issue resolution, drawing on expert input in specialized areas where appropriate.
28. It is also important that the audit engagement partner is accessible to senior members of management. Regular contact allows the audit engagement partner to be well briefed on developments in the entity's business as well raise issues related to the audit on a timely basis.

Management Provide Full and Timely Access to Relevant Information and Individuals

29. Auditors need full and timely access to relevant information and individuals both within and outside the entity. A quality audit can be jeopardized if management does not provide such access. Furthermore, an open dialogue assists the auditor identify, assess and respond to the risks of material misstatement, particularly with regard to complex or unusual transactions, or matters involving significant judgment or uncertainty. In the absence of cooperation and open dialogue, it is unlikely that an efficient and effective audit can be performed.

AUDITORS AND THOSE CHARGED WITH GOVERNANCE

30. [Key points to flesh out:
- Effective two-way communication takes place.
 - Auditors engage on a timely basis with those charged with governance and are accessible to them.
 - Auditors communicate clearly their findings to those charged with governance.
 - Those charged with governance take an active interest in the work performed and monitor the level of audit fees to ensure that they are consistent with a quality audit being performed.]

AUDITORS AND THE ENTITY'S SHAREHOLDERS

31. [Key points to flesh out:
- Auditors clearly communicate the outcome of their audit in the auditor's report.
 - Auditors take advantage of other opportunities provided by national laws and regulations to communicate with the entity's shareholders.]

Outputs

THE RELIABILITY OF AUDIT REPORTING TO USERS OF AUDITED FINANCIAL STATEMENTS

32. [Key points to flesh out:
- Audit reporting is likely to provide a positive contribution to audit quality where audit reports are written in a manner that conveys the auditor's opinion on the financial statements.]

THE USEFULNESS OF AUDIT REPORTING TO USERS OF AUDITED FINANCIAL STATEMENTS

33. [Key point to flesh out:
- Audit reporting has informative value to the users and assists them in decision-making.]

THE QUALITY AND USEFULNESS OF AUDIT COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

34. [Key points to flesh out:

- Audit reporting is likely to provide a positive contribution to audit quality where communications with those charged with governance enable them to clearly understand:
 - The scope of the audit.
 - The threats to auditor independence.
 - The key risks identified and the auditor's responses thereto.
 - Significant judgments made in reaching the audit opinion.
 - Significant qualitative aspects of the entity's accounting practices and potential ways of improving financial reporting.
 - Recommendations for improvement to the entity's financial reporting process.
 - Significant matters arising from the audit that were communicated with management.]

THE QUALITY AND USEFULNESS OF AUDIT COMMUNICATIONS TO MANAGEMENT

35. [Key points to flesh out:

- Audit reporting is likely to provide a positive contribution to audit quality where communications with management include clear information about:
 - Misstatements in the financial statements.
 - Deficiencies in internal control.
 - The auditor's perspectives on industry issues and trends and opportunities for improvement.
 - The auditor's observations on relevant regulatory matters.]