Consultation Paper: A Framework for Audit Quality

This summary provides an overview of the IAASB’s Consultation Paper, A Framework for Audit Quality.

Objective:

The objectives of the Framework for Audit Quality are to:

- Raise awareness of the key elements of audit quality;
- Encourage key stakeholders to explore ways to improve audit quality; and
- Facilitate greater dialogue between key stakeholders on the topic.

The IAASB expects that the framework will generate discussion, and positive actions to achieve a continual improvement to audit quality.

Comment Date:

The Consultation Paper is open for public comment through May 15, 2013.

How To Respond:

Respondents are asked to submit their comments electronically through the IAASB website, using the “Submit a Comment” link on the Consultation Paper page. Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website.

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Responding to the Consultation Paper

All stakeholders – in particular, regulators, audit committees, investors, audit firms, and others who have an interest in continually improving audit quality – are encouraged to respond.

The IAASB has issued this framework with the aim that it will generate discussion, and positive actions to achieve a continual improvement to audit quality.

Who should respond

The IAASB believes that the framework is in the public interest, and encourages responses to the Consultation Paper from a broad range of stakeholders, including:

• National audit firms, global networks, and professional accountancy organizations, who can reflect on how to improve audit quality and better communicate information about audit quality;

• Those charged with governance, who may consider their roles in enhancing audit quality; and

• Academics, in the hope that it will stimulate academic research on the topic and assist students of auditing to more fully understand the fundamentals of the profession they are aspiring to join.

By issuing the Consultation Paper, and seeking responses, the IAASB aims to facilitate dialogue and closer working relationships between it and key stakeholders as well as among these key stakeholders themselves.

Consultation questions

The IAASB seeks comments in response to the following questions:

1. Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?

2. Does the Framework reflect the appropriate balance in the responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders? If not, which areas of the Framework should be revised and how?

3. How do you intend to use the Framework? Are there changes that need to be made to the form or content of the Framework to maximize its value to you?

4. What are your views on the suggested Areas to Explore? Which, if any, should be given priority and by whom? Are there additional Areas to Explore?
Factors Contributing to Audit Quality

While the primary responsibility for performing quality audits rests with auditors, audit quality is best achieved in an environment where there is support from other participants in the financial reporting supply chain.

There are many factors that contribute to maximizing the likelihood of quality audits being consistently performed. The IAASB believes there is value in describing these factors and thereby encouraging audit firms and other stakeholders to challenge themselves about whether there is more that they can do to increase audit quality in their particular environments.
The Consultation Paper discusses a number of factors identified by the IAASB that contribute to maximizing the likelihood of quality audits being consistently performed, including:

- Inputs;
- Outputs;
- Interactions; and
- Contextual Factors.

### Inputs
Categorized at the engagement, firm, and national levels across three broad headings:

- Values, Ethics and Attitudes;
- Knowledge, Experience and Time; and
- Audit Process and Quality Control Procedures.

### Interactions
Described as effective interactions between:

- Auditors and management, those charged with governance, users, regulators;
- Management and those charged with governance, regulators, users;
- Those charged with governance and regulators, users; and
- Regulators and users.

### Outputs
Categorized at the engagement, and firm and national levels and including output from:

- The auditor;
- The audit firm;
- The entity; and
- Audit regulators.

### Contextual Factors
- Business practices and commercial law
- Laws and regulations relating to financial reporting
- The applicable financial reporting framework
- Corporate governance
- Information systems
- Financial reporting timetable
- Broader cultural factors
Areas to Explore

While developing the Framework the IAASB identified, with the input of stakeholders, a number of areas for consideration by both auditors and other participants in the financial reporting supply chain that may benefit audit quality on a global basis.

Areas to Explore

- Establishing global guidance against which audit firms can assess their governance arrangements;
- Establishing a common understanding of capabilities, and how they are demonstrated and assessed, as they relate to audit quality for use by audit firms when recruiting, evaluating, promoting and remunerating partners and staff;
- Improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement;
- Considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users;
- Exploring whether there would be value in national authorities responsible for determining sanctions on auditors exchanging information with a view to evaluating the relative effectiveness of their different arrangements;
- Considering ‘root causes’ and best practices by regulators, audit firms, and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues;
- Increasing the informational value of auditor’s reports and improving perceptions of the value of the audit;
- Achieving improved two-way communication between auditors and financial and prudential regulators, particularly in the financial services sector;
- Striving for greater international harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit; and
- Encouraging audit committees to provide more information to users of the financial statements on the work they have undertaken, the main issues they have addressed, and the reasons for their conclusions.