

## Framework for Audit Quality

*Key Elements that Create an  
Environment for Audit Quality*

## Background to the Project (1)

- Financial information should be relevant, timely and reliable to meet the needs of users and an external audit of the financial information is often required to give users confidence that the information can be trusted
- The objective of an audit of financial statements is for the auditor to form an opinion on the financial statements based on having obtained sufficient appropriate audit evidence about whether the financial statements are free from material misstatement and to report in accordance with the auditor's findings

## Background to the Project (2)

- For an external audit to fulfill its objective the users of audited financial statements must have confidence that the auditor has worked to a suitable standard and that “a quality audit” has been performed
- Audit Quality is a complex subject and there is no analysis of it that has achieved universal recognition
- The Framework provides an insight into the key Elements that Create an Environment for Audit Quality

# Audit Quality and Quality Audit

- **Audit quality** encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis.
- **A quality audit** is likely to have been achieved by an engagement team that:
  - Exhibited appropriate values, ethics and attitudes;
  - Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work;
  - Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards;
  - Provided useful and timely reports; and
  - Interacted appropriately with relevant stakeholders.
- The responsibility for performing **quality audits** of financial statements rests with auditors. However, **audit quality** is best achieved in an environment where there is support from and appropriate interactions among participants in the financial reporting supply chain.

# Status

- Non-Authoritative Framework
- Auditors are required to comply with relevant auditing standards and standards of quality control within audit firms, as well as ethics and other regulatory requirements
- The Framework is not a substitute for such standards, nor does it establish additional standards or provide requirements for the performance of audit engagements.

# Scope

- Holistic framework covering all key stakeholders in the financial reporting supply chain
- Focus on audits of financial statements, but can be used in a similar way for other types of subject matter
- Applies to all audits of all entities regardless of their size, nature, and complexity
- Applies to all audit firms regardless of size, including audit firms that are part of a network or association

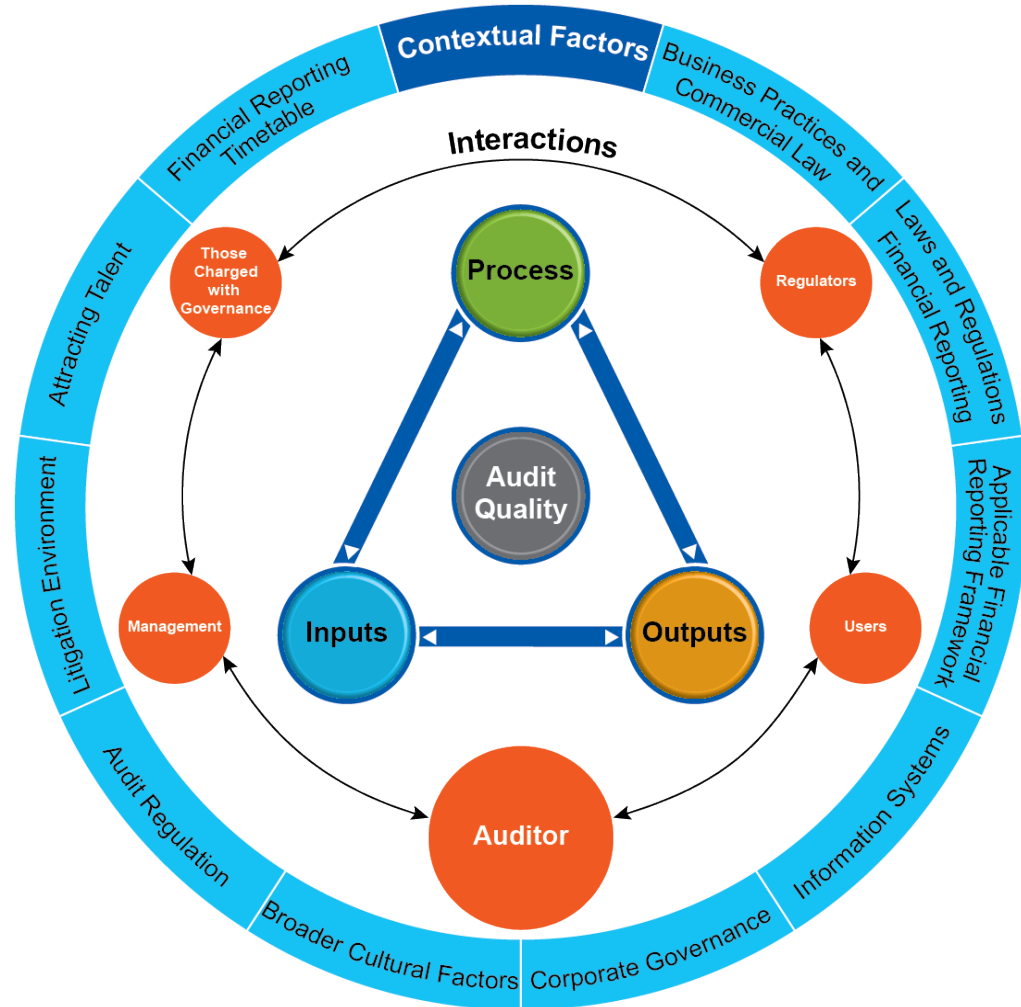
# Objectives

- Raise awareness of the key elements of Audit Quality
- Encourage key stakeholders to explore ways to improve Audit Quality
- Facilitate greater dialogue between stakeholders on Audit Quality

# Framework for Audit Quality

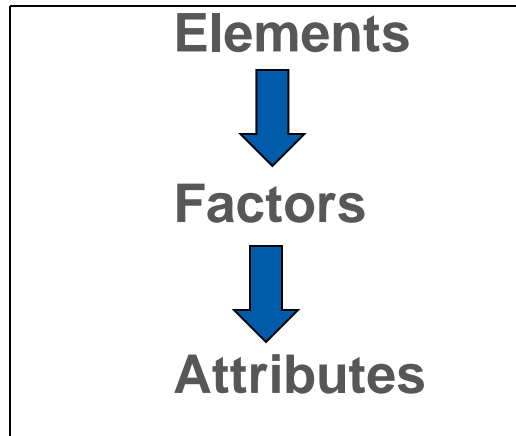
## Key Elements:

- Inputs
- Process
- Outputs
- Interactions
- Contextual Factors





# Input, Process and Output Factors (1)



Application at the  
**Engagement, Firm, and  
National Level**



# Input, Process and Output factors (2)

## Inputs

Quality audits involve auditors:

- Exhibiting appropriate Values, Ethics and Attitudes
- Being sufficiently knowledgeable, skilled, and experienced and having sufficient time allocated to them to perform the audit work

## Process

Quality audits involve auditors applying a rigorous audit process and quality control procedures that comply with laws, regulations and applicable standards

## Outputs

Quality audits result in outputs that are useful and timely. They are described in relation to the full reporting supply chain and include outputs from:

- The auditor
- The audit firm
- The entity
- Audit regulators

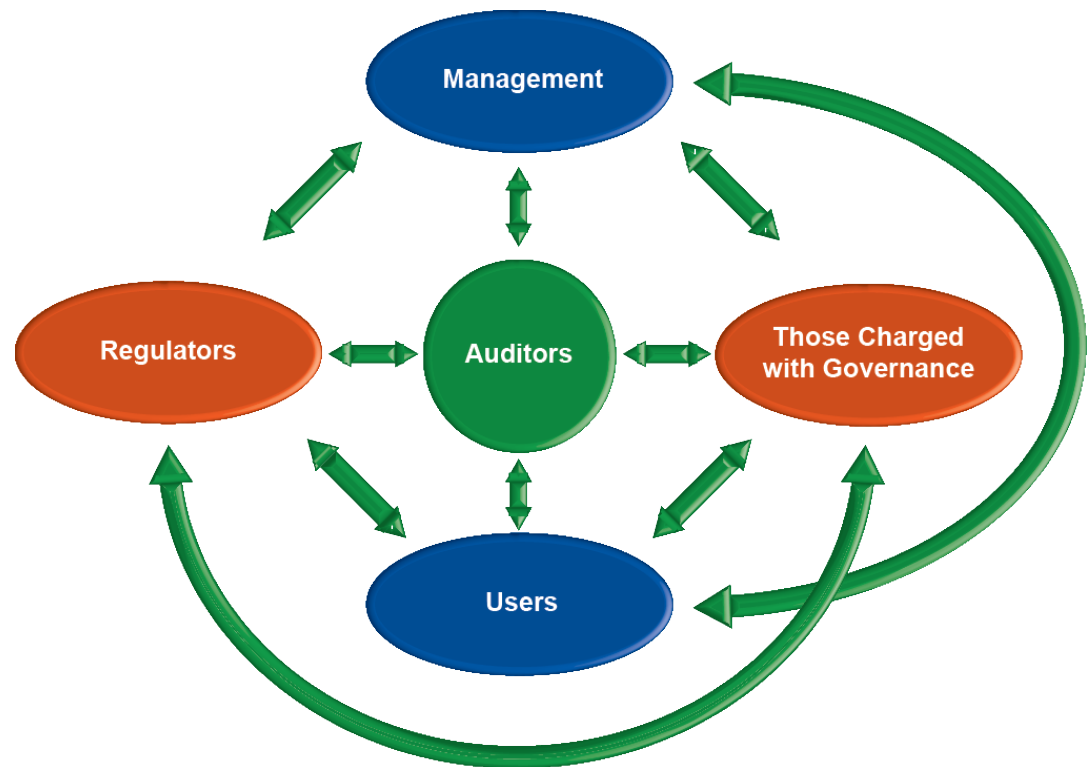
Outputs include reports and information that are formally prepared and presented by one party to another, as well as outputs that arise from the auditing process that are generally not visible to those outside the audited organization.

# Interactions

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.

Each stakeholder plays an important role supporting high-quality financial reporting and the way in which they interact may impact audit quality.

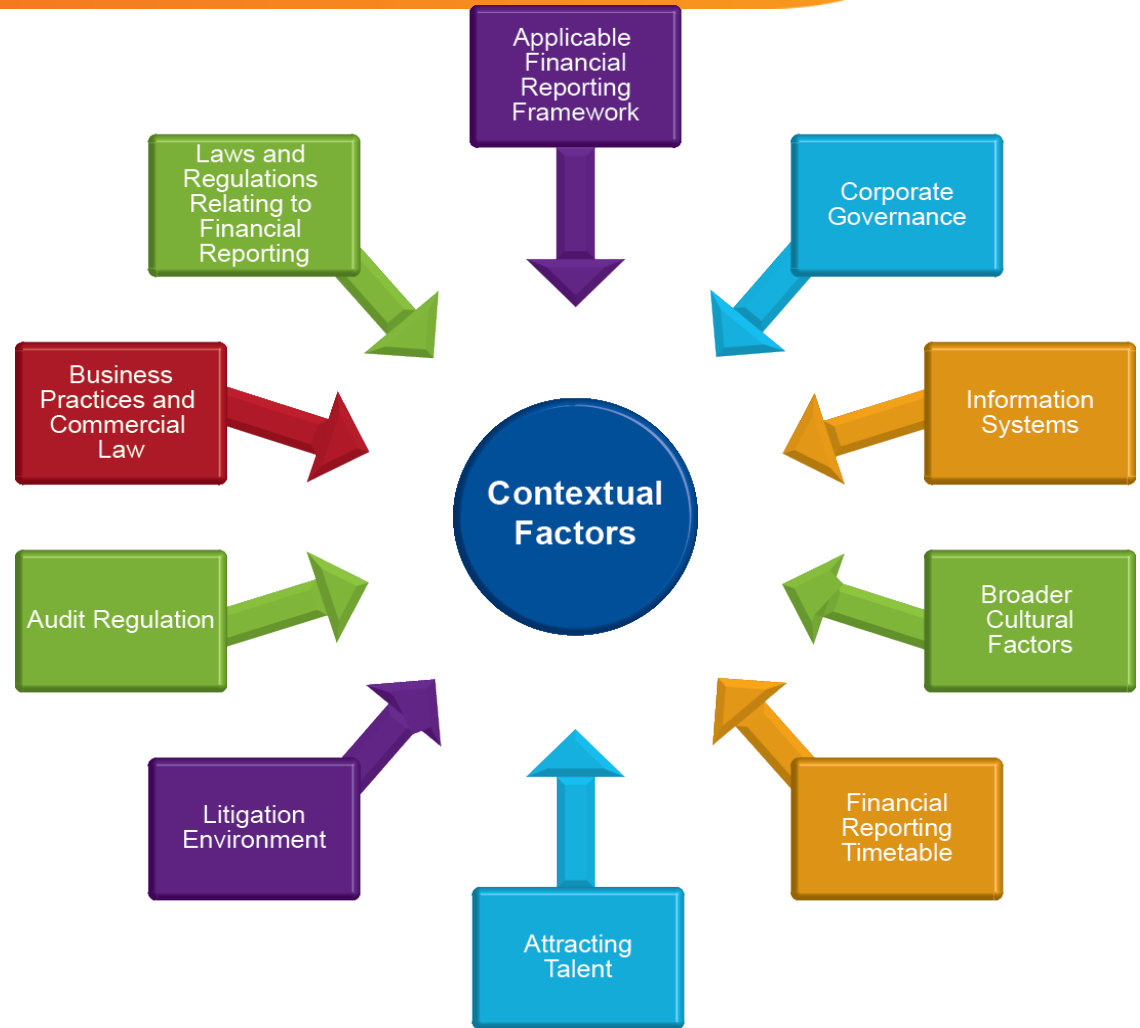
Increased interaction is promoted in the *Framework for Audit Quality*.



# Contextual Factors

Collectively, the contextual factors – have the potential to impact the nature and quality of financial reporting and, directly or indirectly, audit quality

Where appropriate, auditors respond to these factors when determining how best to obtain sufficient appropriate audit evidence



# Details of Input-, Process- and Output Factors and their Quality Attributes

# Inputs:

## Values, Ethics and Attitudes – Engagement Level

### Key Attributes:

- The engagement team recognizes: that the audit is performed in the wider public interest; and the importance of complying with ethical requirements
- The engagement team exhibits objectivity and integrity
- The engagement team is independent
- The engagement team exhibits professional competence and due care
- The engagement team exhibits professional skepticism

# Inputs:

## Values, Ethics and Attitudes – Firm Level

### Key Attributes:

- Governance arrangements are in place that establish the appropriate “tone at the top”, and which aim to safeguard the firm’s independence
- Necessary personal characteristics are promoted through appraisal and reward systems supporting audit quality
- Financial considerations do not drive actions and decisions that impair audit quality
- The firm emphasizes the importance of providing partners and staff with continuing professional development opportunities and access to high-quality technical support
- The firm promotes a culture of consultation on difficult issues
- Robust systems exist for making client acceptance and continuance decisions

## Inputs:

# Values, Ethics and Attitudes – National Level

### Key Attributes:

- Ethics requirements are promulgated that make clear both the underlying ethics principles and the specific requirements that apply
- Regulators, national standards setters and professional accountancy organizations are active in ensuring that the ethics principles are understood and the requirements are consistently applied
- Information relevant to client acceptance decisions is shared between audit firms



# Inputs:

## Knowledge, Skills, Experience and Time – Engagement Level

### Key Attributes:

- Partners and staff have the necessary competences
- Partners and staff understand the entity's business
- Partners and staff make reasonable judgments
- The audit engagement partner is actively involved in risk assessment, planning, supervising, and reviewing the work performed
- Staff performing detailed “on-site” audit work have sufficient experience, their work is appropriately directed, supervised and reviewed, and there is a reasonable degree of staff continuity
- Partners and staff have sufficient time to undertake the audit in an effective manner
- The audit engagement partner and other experienced members of the engagement team are accessible to management and those charged with governance

# Inputs:

## Knowledge, Skills, Experience and Time – Firm Level

### Key Attributes:

- Engagement teams are properly structured
- Partners and more senior staff provide less experienced staff with timely appraisals and appropriate coaching or “on-the-job” training
- Sufficient training is given to audit partners and staff on audit, accounting and, where appropriate, specialized industry issues

# Inputs:

## Knowledge, Skills, Experience and Time – National Level

### Key Attributes:

- Robust arrangements exist for licensing audit firms/individual auditors
- Education requirements are clearly defined and training is adequately resourced and effective
- Arrangements exist for updating auditors on current issues and for providing training to them in new accounting, auditing or regulatory requirements
- The auditing profession is well-positioned to attract and retain individuals with appropriate qualities

## Process:

# Audit Process and Quality Control Procedures – Engagement Level

### Key Attributes:

- The engagement team complies with auditing standards, relevant laws and regulations, and the audit firm's quality control procedures
- The engagement team makes appropriate use of information technology
- There is effective interaction with others involved in the audit
- There are appropriate arrangements with management so as to achieve an effective and efficient audit process

# Process: Audit Process and Quality Control Procedures – Firm Level

## Key Attributes:

- The audit methodology is adapted to developments in professional standards and to findings from internal quality control reviews and external inspections
- The audit methodology encourages individual team members to apply professional skepticism and exercise appropriate professional judgment
- The methodology requires effective supervision and review of audit work
- The methodology requires appropriate audit documentation
- Rigorous quality control procedures are established and audit quality is monitored and appropriate consequential action is taken
- Where required, effective engagement quality control reviews (EQCRs) are undertaken

## Process:

# Audit Process and Quality Control Procedures – National Level

### Key Attributes:

- Auditing and other standards are promulgated that make clear the underlying objectives as well as the specific requirements that apply
- Bodies responsible for external audit inspections consider relevant attributes of audit quality, both within audit firms and on individual audit engagements
- Effective systems exist for investigating allegations of audit failure and taking disciplinary action when appropriate

# Outputs:

## Reports and Information - Engagement level

### From the Auditor

- Auditor's reports to users of audited financial statements
- Auditor's reports to those charged with governance
- Auditor's reports to management
- Auditor's reports to financial and prudential regulators

### From the Entity

- The audited financial statements
- Reports from those charged with governance, including audit committees

### From Audit Regulators

- Providing information on individual audits

# Outputs:

## Reports and Information - Firm and National Level

### From the Audit Firm

- Transparency reports
- Annual and other reports

### From Audit Regulators

- Providing an aggregate view on the results of audit firm inspections





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