

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

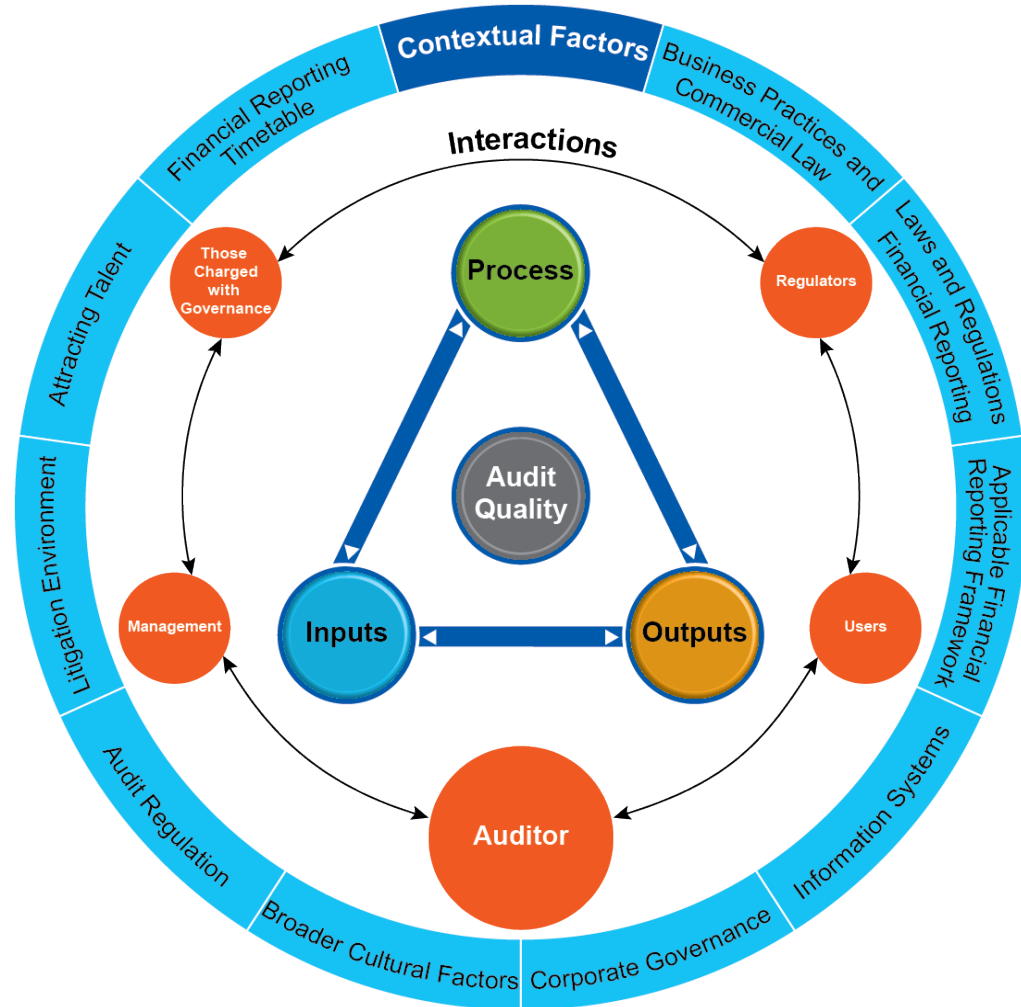
Objectives

- 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

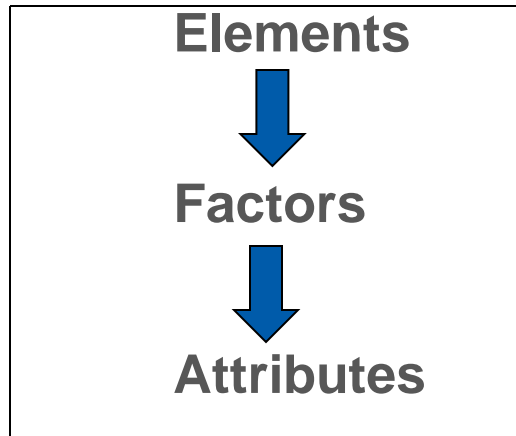
Framework for Audit Quality

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

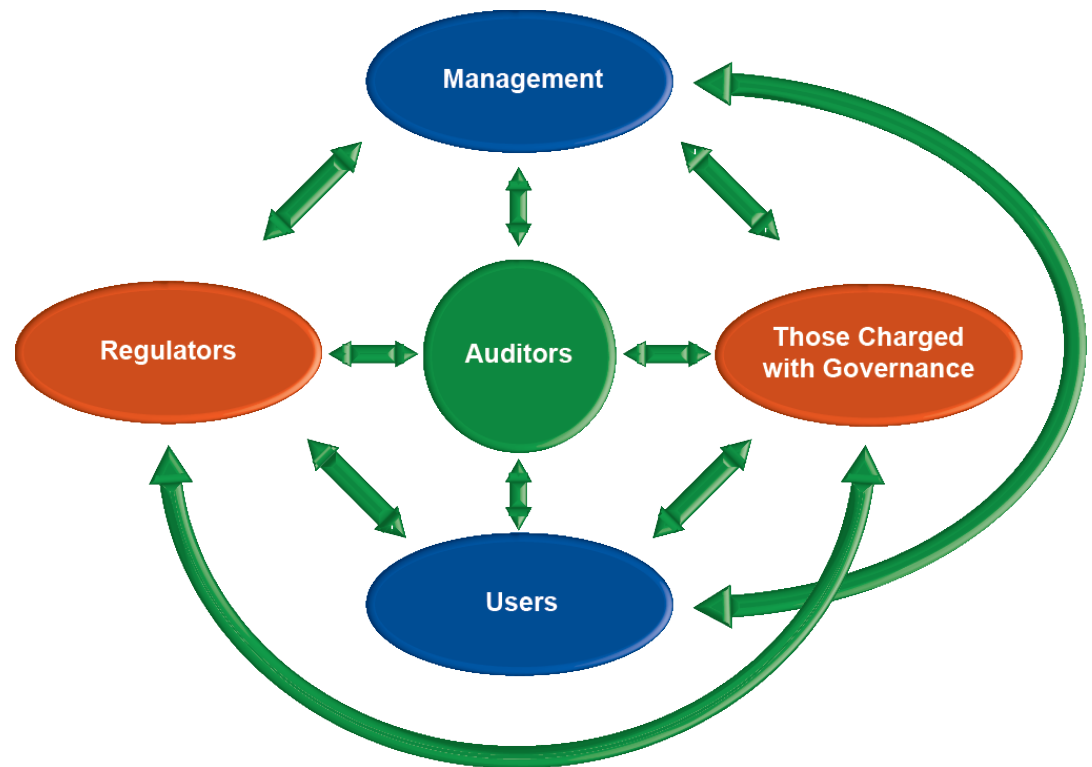
Outputs include reports and information that are formally prepared and presented by one party to another, as well as outputs that arise from the auditing process that are generally not visible to those outside the audited organization.

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.

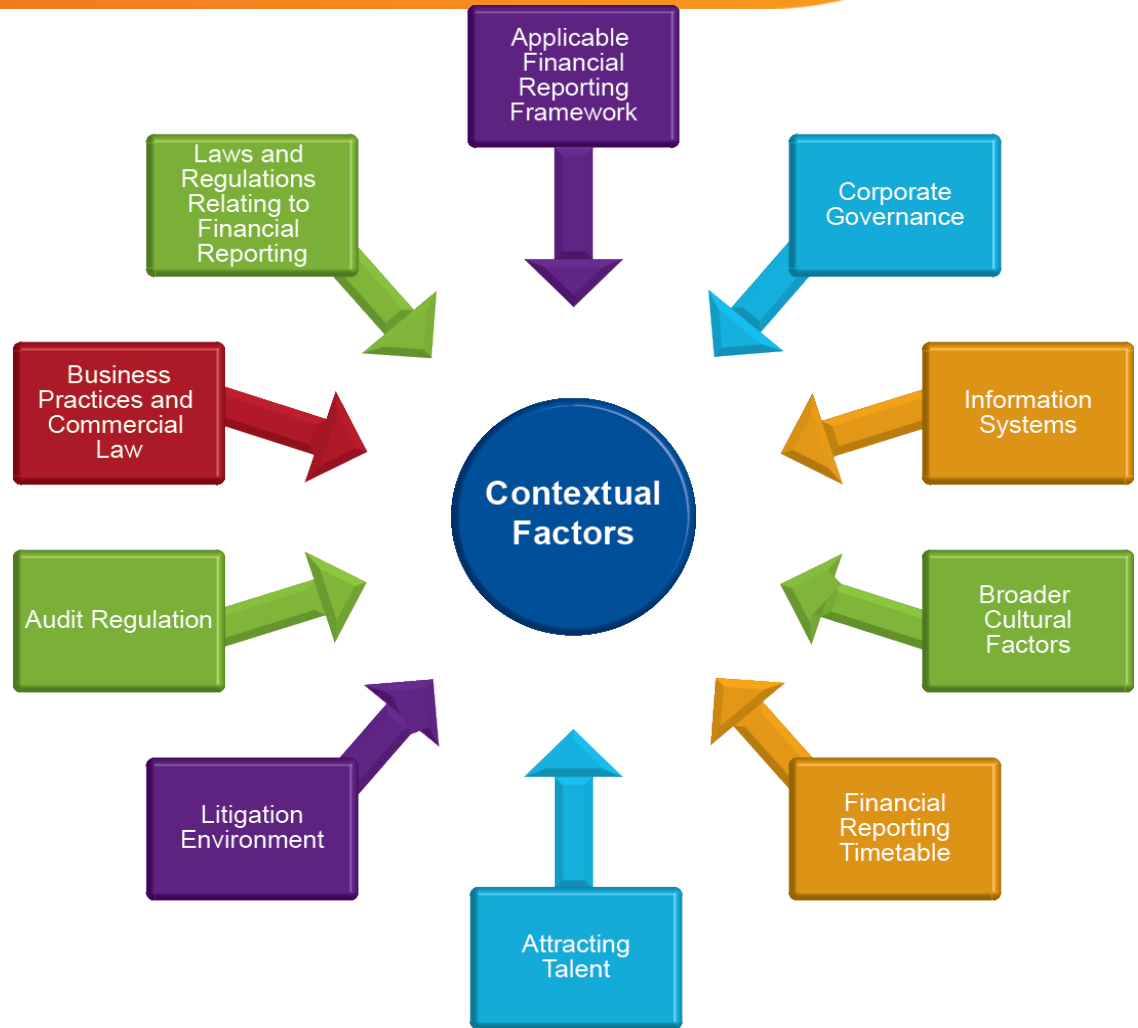
Increased interaction is promoted in the *Framework for Audit Quality*.



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





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