

Audit Quality—Matters for Consideration**A. Background***Most Recent IAASB Discussion*

1. At its March 2011 meeting, the IAASB agreed the objective of the project as follows:

To establish in the public interest an international framework that describes audit quality holistically, including:

- (a) The influences of input, output and context factors;
 - (b) Stakeholders' varying perspectives on audit quality; and
 - (c) The importance of relationships between auditors and other key participants in the financial reporting supply chain (i.e., management, those charged with governance, investors and regulators), which influence audit quality.
2. The IAASB also supported the plan for the way forward on the project, including the proposed timeline for the development of the consultation paper and an initial list of stakeholders with whom to engage during this phase of the project. The plan is included in Appendix 1 of this paper together with an indication of the status of the various action items.
 3. The IAASB noted agreement from both the International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA) to collaborate on the project via nomination of a member from their respective Boards to join the Task Force.

Most Recent IAASB Consultative Advisory Group (CAG) Discussion

4. At the March 2011 IAASB CAG meeting, CAG Representatives expressed strong support for the proposed objective and approach to the project. In supporting the development of an international audit quality framework (the Framework), CAG representatives in particular emphasized the importance of reaching out to stakeholders.

Comments from the IFAC Small and Medium Practices (SMP) Committee

5. In commenting on the March 2011 IAASB meeting papers, the SMP Committee also noted its support for the proposed objective of the project. In addition, the SMP Committee suggested considering the impact of the complexity of financial reporting frameworks on audit quality, and whether the input, output and context factors for SMPs are different from those for larger entities.

April 2011 IAASB-National Auditing Standard Setters (NSS) Meeting

6. There was constructive discussion on the project at the annual IAASB-NSS meeting. Twelve of the NSS¹ agreed to participate in an informal survey on perspectives of audit quality from the following stakeholder groups:
 - Institutional investors
 - Members of audit committees of larger companies
 - Owner managers of smaller enterprises
 - Senior members of management of larger companies
 - Primary public sector users (e.g., “public accounts committee” secretariats)
7. The Task Force anticipates that the survey input, expected around the end of Q2 2011, will help advance its analysis of perspectives of audit quality, a key aspect of the proposed Framework. The Task Force expects to summarize and incorporate the results of the survey into the next draft of the consultation paper to be presented to the Board in December 2011.
8. The Task Force believes that this survey provides a useful mechanism for it and the Board to engage with stakeholders more directly on this project.

Other Stakeholder Outreach

9. As a means of further engaging with stakeholders in this project, the Task Force has scheduled the following meetings with stakeholders:
 - Teleconference on June 1, 2011 with the Standards Coordination Working Group (SCWG) of the International Forum of Independent Audit Regulators (IFIAR) to obtain the SCWG’s views on, and reactions to, the preliminary draft of the consultation paper.
 - Teleconference on June 9, 2011 with the IAESB representative on the Task Force to discuss the IAESB’s proposed revised IES 8² in the context of the project.

In addition, the Task Force Chair gave a presentation on the project to the Forum of Firms on April 13, 2011.

10. The Task Force Chair will report orally on these and other discussions at the meeting.

B. Matters for IAASB Consideration

11. The Task Force has developed the preliminary consultation draft of the Framework on the basis of the outline presented to the Board in March 2011. The draft leverages the work of the UK Auditing Practices Board on its Audit Quality Framework mainly in relation to the input and output factors.

¹ Australia, Canada, China, France, Germany, Japan, Netherlands, New Zealand, Nordic Federation, South Africa, UK and USA

² International Education Standard (IES) 8, *Competence Requirements for Audit Professionals*

12. Given the early stage of development of the proposed Framework, the Task Force has not sought to develop questions for respondents at this time. The Task Force anticipates being able to present proposed questions for consultation for the Board's consideration at the December 2011 IAASB meeting.
13. Additionally, the Task Force has provided an outline of the introductory part of the consultation paper but has not sought to develop this at this stage. The Task Force will do so once the Board has considered and commented on the Task Force's approach to developing the various elements of the proposed Framework.
14. The IAASB is asked for its views on, and reactions to, the following matters in relation to proposed Framework as set out in the preliminary draft of the consultation paper:

- (a) Is the proposed framework comprehensive and credible? In particular, is it likely to fulfill the specific purposes set out in Appendix 2 of this Agenda Item?
- (b) The schematic included in the outline of the introductory section of the draft consultation paper provides a conceptual representation of the proposed Framework. What are the Board's views on the organization and structure of the consultation paper in setting out the various Framework elements depicted in the schematic?
- (c) What are the Board's views on the approach taken to describing the various Framework elements, including the tone and level of detail?
- (d) Does the draft consultation paper adequately address considerations relating to SMPs and the public sector?
- (e) Other than in relation to the above, what are specific areas for improvement in the draft consultation paper? Recent investigations into auditing may signal additional areas to cover, including:
 - Rotation/non-audit services (EC, US and UK)
 - Skepticism (UK)
 - Partners signing audit reports in their own name (U.S.)
 - Fraud (U.S.)
 - Resignation statements (U.S.)
- (f) Does the Board continue to support the planned timetable set out in Appendix 1?

Plan and timeline for Development of Consultation Paper

Timing	Activity	Stakeholder Representatives	Status
2011			
April 28–29	<ul style="list-style-type: none"> • Discuss Audit Quality Thought Piece³ • Confirm support for consultation phase, including objective 	NSS	Completed
April/May/June	<ul style="list-style-type: none"> • Discuss Audit Quality Thought Piece • Confirm support for consultation phase, including objective 	Forum of Firms	Completed
		IFIAR SCWG	In process
		IESBA and IAESB	In process
		INTOSAI	In process
		International Corporate Governance Network (ICGN)	In process
<p><i>June IAASB Meeting</i></p> <ul style="list-style-type: none"> • Update on discussions/outreach and other TF activities • First discussion of consultation paper 			
September	Discuss key aspects of draft consultation paper	IAASB CAG	
<p><i>September IAASB Meeting</i></p> <ul style="list-style-type: none"> • Status report to IAASB 			
September	Discuss key aspects of draft consultation paper	<ul style="list-style-type: none"> • IFIAR • IESBA and IAESB 	

³ January 2011 IAASB Audit Quality Thought Piece, *Audit Quality: An IAASB Perspective*, accessible at: <http://web.ifac.org/media/publications/3/audit-quality-an-iaasb-per/audit-quality-an-iaasb-per.pdf>

Audit Quality—Matters for Consideration
IAASB Main Agenda (June 2011)

Timing	Activity	Stakeholder Representatives	Status
		<ul style="list-style-type: none"> • SMP Committee 	
October	Discuss key aspects of draft consultation paper	<ul style="list-style-type: none"> • Forum of Firms • International Organization of Securities Commissions (IOSCO) 	
<p><i>December IAASB Meeting</i></p> <ul style="list-style-type: none"> • Update on discussions/outreach and other Task Force activities • Consideration of advanced draft of consultation paper 			
2012			
March	Discuss key aspects of draft consultation paper	IAASB CAG	
<p><i>March IAASB Meeting</i></p> <ul style="list-style-type: none"> • Approval of final draft of consultation paper 			
April	<ul style="list-style-type: none"> • Publish consultation paper • Discuss with NSS 	NSS	

Specific Purposes the Proposed Framework is Intended to Serve in the Public Interest⁴

1. In Relation to Stakeholders Generally

The framework could be used to facilitate closer working relationships and dialogue between the IAASB and key stakeholders as well as amongst the key stakeholders themselves, including investors, those charged with governance, regulatory and oversight bodies, and firms. In particular:

- Given the importance of building strong working relationships between the IAASB and various stakeholders (e.g., oversight bodies such as IFIAR), it would be helpful to have a framework in place as a basis for constructive discussions on audit quality. Also, from the perspective of oversight bodies, a framework may be of assistance in harmonizing approaches to regulatory inspections around the world.
- A framework could be of high impact in helping to raise the level of awareness and understanding amongst stakeholders of the important elements of audit quality, particularly in developing countries or emerging economies, or in jurisdictions where there has been little or no debate on audit quality.
- A framework would enable stakeholders to not only better understand how auditing standards fit into the audit quality equation, but also recognize other elements of audit quality that may deserve priority attention to enhance audit effectiveness. For example, a framework could prompt participants in the financial reporting process, such as regulators and other standard setters, to take further action to ensure that audits are performed to a consistently high quality. Additionally, a framework could be used to better inform those charged with governance about audit quality and encourage them to think about the right questions to ask in the context of the audit.

2. In Relation to IFAC's Standard-Setting Public Interest Activity Committees (PIACs)

Given that standard setting is an evolving process, a framework could act as input to each of the standard-setting PIACs' ongoing assessment of whether it has the appropriate set of standards. For example, it could facilitate IAASB consideration of whether there are areas within ISQC 1⁵ and ISA 220⁶ that may require attention. More generally, a framework could assist the IAASB, IESBA and IAESB in thinking through the implications of new standard-setting proposals.

3. In Relation to Firms and Professional Bodies

A framework could help firms when reflecting on how to enhance the consistent application of auditing standards or internally-developed guidance within the firms or

⁴ As set out in the issues paper for the March 2011 IAASB meeting

⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁶ ISA 220, *Quality Control for an Audit of Financial Statements*

across their networks. It could also help facilitate the communication of information about audit quality by firms and professional bodies.

4. In relation to Academics

A framework may help to stimulate relevant academic research on the topic.