

## Responding to Calls to Improve Audit Quality


Agenda Item 1-A

IAASB Teleconference  
April 29, 2015

## IAASB's Strategic Objectives for 2015–2019

- 1) Ensure that **ISAs** continue to form the basis for **high-quality, valuable and relevant audits** conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments
- 2) Ensure the IAASB's standards evolve as necessary to adequately address the **emerging needs of stakeholders** for **services other than audits of financial statements**
- 3) Strengthen **outreach and collaboration** with key stakeholders in the reporting supply chain on **public interest issues** relevant to audit, assurance and related services

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## Public Interest Themes

- The public interest is at the forefront of the IAASB's activities in light of its mandate, in particular
  - Investors' and others' expectations of high-quality audits as a means of enhancing credibility of financial reporting and supporting global financial stability
  - The need for the IAASB's standards to be capable of consistent application across entities of all sizes in all jurisdictions and sectors
  - How others within the financial reporting supply chain also influence audit quality and serve the public interest
- How to achieve the best public interest outcome?
  - Consultative Advisory Group and Public Interest Oversight Board play vital roles, as does the IAASB's rigorous due process
  - Often there may be more than one course of action that could be viewed as being "in the public interest" – question of balance in light of feedback

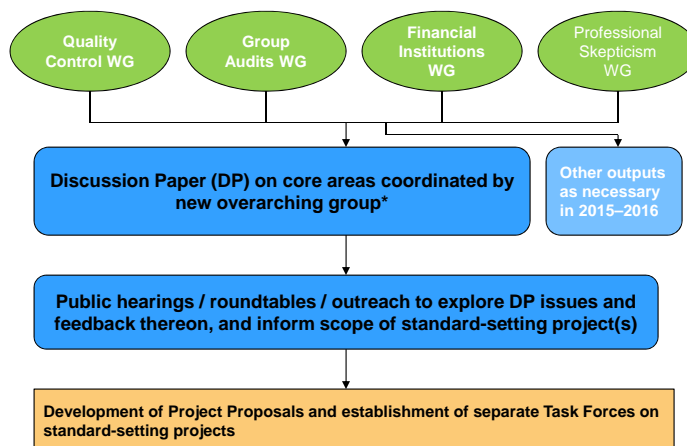
## Work Plan for 2015–2016 – *Enhancing Audit Quality*

- Work already underway on three priority topics
  - Quality control (ISA 220 and ISQC 1)
  - Group audits (ISA 600)
  - Special audit considerations relevant to financial institutions (including ISA 540 in particular)
- March 2015 IAASB discussions highlighted interactions between them and the need for a coordinated approach in framing the issues and gathering input
  - Research, one-on-one outreach and Board discussions should continue on a project-by-project basis
  - But may be more appropriate and effective to take a "top down" approach to get robust input from stakeholders, rather than moving ahead with separate discussion papers

## Planned Approach and Timing

- Overarching group to consider how best to consider the public interest issues more holistically and explore how the IAASB can best respond to calls to improve audit quality
- Combined discussion paper may be effective in connecting the three projects and coordinating the way forward
  - Will inform future standard-setting proposals as necessary
  - May highlight actions needed by the IAASB and others, in particular when the issues relate to auditor performance rather than standards
- Shorter-term responses on topics that may not be addressed in the Discussion Paper may be possible
- Assimilate Board thinking on how best to enhance the ISAs in relation to professional skepticism

## Planned Approach and Timing (cont.)



\* Overarching group includes Chairs of 3 WGs and other Board members and TAs

**Timing**  
Research and targeted outreach on issues to facilitate Board and CAG discussions – **March–Sept 2015**

Development of DP and discussions with Board and CAG – **July–Dec 2015**

Issuance of DP – **Dec 2015**; Comment Period of 150 days ending **May 2016**; outreach events held while DP is out for comment and possibly after

Comment analysis and discussion – **May 2016–Sept 2016**

Approval of project proposals – **Sept 2016**

Development of Exposure Drafts – **Sept 2016–mid-2017**

## Possible Areas to Be Explored

- Roles and responsibilities of the engagement partner, as the person taking responsibility for the overall quality of the audit
  - The knowledge, skills, experience and time of the engagement partner
  - Direction, supervision and performance of the audit engagement, including when others are involved in the audit
- Engagement quality control reviews (EQCRs) / engagement quality control reviewers and their role in audit quality
  - What steps may be necessary to enhance selection of reviewers, and the nature, timing, and extent of EQCRs?
  - When should EQCRs be required?

## Possible Areas to Be Explored (cont.)

- Obtaining sufficient appropriate audit evidence and documenting conclusions to support the opinion on the financial statements
  - How professional skepticism can be better applied in an audit
  - Challenges in obtaining evidence in relation to fair value accounting estimates, as well as disclosures and possibly revenue recognition
  - Planning and executing group audits, including determining component materiality, communications with component auditors and evaluating their work
  - Strengthening audits of financial institutions
  - Could also highlight topics to be considered in the future, e.g.
    - Findings in relation to ISA 315 (Revised), including with respect to identifying relevant controls and the necessary testing of controls
    - Data analytics and the effects on the audit

## Possible Areas to Be Explored (cont.)

- Involvement of others in performing or supporting the audit engagement, including the effects on audit quality
  - What enhancements may be needed to strengthen or supplement the existing ISAs, including ISA 220, ISA 600 and ISA 620?
  - Do the ISAs sufficiently address the way in which audits may be conducted in a global business environment, including the various audit delivery models used to perform audits?
  - How might changes and increased complexity in accounting standards (such as IFRS 9) affect how audits are conducted?
  - How should topics most relevant to audits of financial institutions be addressed (e.g., use of third-party pricing sources and other experts)?

## Possible Areas to Be Explored (cont.)

- The role of the firm in audit quality, both at the engagement and firm levels
  - “Tone at the top”
  - Monitoring of the firm’s quality control policies and procedures
    - What could be done to improve how firms remediate inspection findings?
    - Are there other types of monitoring activities that should be required in particular audits (e.g., types of entities)?
  - Firm governance, including perceived threats to audit quality
    - Are there opportunities to strengthen the standards to address values, ethics and attitudes at the firm level?

## Professional Skepticism

- Outreach conducted to date identified issues with
  - The level and consistency of application of professional skepticism and professional judgment in audits
  - Documentation of the auditor's considerations
- IAASB will likely undertake joint work with other SSBs to evaluate what can be done to enhance professional skepticism
  - Address as an important component of all projects, rather than as a separate exercise
  - Consider actions already undertaken at the national level
- Panel discussion planned for June 2015, together with an understanding of relevant academic research

