

Audit Quality – Areas to Explore

Background

1. In the January 2013 Consultation Paper the IAASB explained that while developing the Framework for Audit Quality (the “Framework”) it had identified a number of areas where it thought that further consideration, by both auditors and other participants in the financial reporting supply chain, may benefit audit quality on a global basis. The IAASB listed ten Areas to Explore in an appendix to the Consultation Paper and asked for views on which, if any, should be given priority and whether there were additional Areas to Explore.
2. This paper summarizes the comments received on the ten Areas to Explore and describes additional Areas to Explore that were suggested.
3. There are two appendices:
 - (a) Appendix 1 – Appendix 1 from the Consultation Paper describing the Areas to Explore in more detail; and
 - (b) Appendix 2 – A chart aiming to represent the level of support for the various Areas to Explore.

General Comments

4. Fifteen¹ of the respondents to IAASB's consultation supported further work being undertaken on an international basis on each of the ten Areas to Explore.
5. Developing a holistic global view on all ten of the Areas to Explore was viewed by some as requiring considerable resources. Accordingly, they consider that there is a need to prioritize resources on those areas that are most likely to have a direct impact on audit quality in the current environment.
6. A number of respondents prioritized certain of the Areas to Explore. Using a simple weighting system (see Appendix 2) the main priorities appear to be:
 - (a) Area 6: Considering ‘root causes’ and best practice by regulators, audit firms, and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues,
 - (b) Area 9: Striving for greater harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit, and
 - (c) Area 4: Considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users.

¹ ICAA, KICPA, AICPA, AAA, BDO, NAOS, FEE, ZICA, EFAA, PP, MIA, CPAI, CAI, UKFRC, IDW

7. One respondent² correctly observed that some Areas to Explore are beyond the scope of the IAASB and that addressing them will require coordinated efforts by a number of stakeholders. This respondent thought that actions would need careful planning including establishing responsibilities, steps, and timeframes.
8. A number of respondents suggested that further work on Areas to Explore, whether by IAASB or others, should be separated from completion of the Framework.

Future Direction

9. The IAASB agrees that further work on Areas to Explore, whether by IAASB or others, should be separated from completion of the Framework.
10. A number of the Areas to Explore do not fall directly under the IAASB's remit. The IAASB hopes that, by publishing this Feedback Paper, it will encourage other bodies to commence work on these areas and seek to build an international consensus on them. As positions are developed the IAASB will consider them as it revises relevant ISAs³ and ISQC 1.⁴
11. Some of the Areas to Explore are related to IAASB's remit. In particular, increasing the informational value of auditor's reports (Area to Explore 7). In July 2013 the IAASB published exposure drafts of revisions to a number of its standards to achieve this aim. Other Areas to Explore are being discussed by IAASB in the context of its future strategy. The IAASB plans to issue a consultation paper related to its future strategy in December 2013.

Comments on individual Areas to Explore

12. **Area to Explore 1. Establishing global guidance against which audit firms can assess their governance arrangements.**
 - (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further fourteen respondents either supported⁵ or strongly supported⁶ additional work in this Area. Three respondents considered this an area of low priority.⁷
 - (b) *Opportunities identified.* Opportunities that were identified included:
 - (i) Sound governance arrangements within audit firms would help avoid audit firms' commercial considerations resulting in actions or decisions that have a negative effect on audit quality;
 - (ii) A code or guidance covering governance arrangements would promote best practice;

² JICPA

³ International Standards on Auditing

⁴ International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁵ BT, SNG, ICAS, NZAuASB, ACCA, AIA, ICAEW, AUASB, ICPAS, NBA, CPAB

⁶ ICPAK, AFRC, EUMEDION

⁷ SAICA, ACAG, CIAOA

- (iii) Governance arrangements of smaller audit firms can address threats to independence; and
 - (iv) External disclosure of governance arrangements would facilitate comparability between audit firms.
- (c) *Risks identified.* Risks that were identified included:
- (i) Given the wide range of size and complexity of audit firms it may be difficult to develop a governance model that would be generally applicable;
 - (ii) Unless it is proportional to firms of all sizes there is a risk that global guidance could have an adverse impact on smaller firms in the audit services market; and
 - (iii) Competition between audit firms and concerns about litigation are possible impediments.
- (d) *Other comments*
- (i) If global guidance is to be developed there is a need to consider the size of the audit firm.
 - (ii) The UK has a successful code but this applies only to the auditors of listed companies.
 - (iii) The general principles relating to governance arrangements are already set out in ISQC 1 – this is viewed by some as being adequate for smaller firms.
 - (iv) It would need to be determined whether any code or guidance would just apply to audit activities or extend to non-audit services.

13. Area to Explore 2. Establishing a common understanding of capabilities and how they are demonstrated and assessed, as they relate to audit quality for us by audit firms when recruiting, evaluating, promoting, and remunerating partners and staff.

- (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further eleven respondents either supported⁸ or strongly supported⁹ additional work in this Area. Six respondents considered this an area of low priority¹⁰.
- (b) *Opportunities identified.* Opportunities that were identified included:
- (i) Guidance in this area would help provide the bridge between theoretical thinking on audit quality and an individual auditor's daily work; and
 - (ii) Work in this area would give an opportunity to consider new competencies such as communication and other interpersonal skills.
- (c) *Risks identified.* Risks that were identified included:
- (i) Many groups may need to be involved including standard setters, education providers, regulators, and professional bodies;

⁸ CAASB, ICPAS, NBA

⁹ BT, ICAS, ACCA, ICAEW, WAO, ICGN, HEOS, CPAB

¹⁰ SAICA, ACAG, NZAuASB, SNG, CIAOA, AUASB

- (ii) Different types and size of audits require different competencies; and
 - (iii) Cultural differences, firm structures, and outsourcing may mean that it is impractical to achieve a global position.
- (d) *Other comments*
- (i) IAESB and IESBA set out minimum requirements; firms need a level of autonomy in relation to recruiting, evaluating and remunerating staff.
 - (ii) Competencies of engagement partners are already covered by IES8 – any new work, for example, establishing competencies for other team members, needs to be coordinated with IAESB.
 - (iii) The UK FRC and ICAS are undertaking research into the competencies needed by auditors.
 - (iv) There may be value in extending this Area to look at firms’ business models and the composition of audit teams.
 - (v) This Area could usefully be informed by research into whether the necessary attributes are inherent or learned and, if learned, what types of educational programs are the most effective in teaching them.
14. **Area to Explore 3. Improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement.**
- (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further eleven respondents either supported¹¹ or strongly supported¹² additional work in this Area. Only one respondent considered this was an area of low priority.¹³
 - (b) *Opportunities identified.* Opportunities that were identified included:
 - (i) Practice varies internationally;
 - (ii) Work in this Area would encourage countries to introduce national law or regulation that provides for the necessary information flow; and
 - (iii) Work in this Area would reduce the risk associated with a change in auditor.
 - (c) *Risks identified.* Risks that were identified included:
 - (i) The scope for information sharing may be limited to the extent allowed by national law and regulations;
 - (ii) Sharing too much information could defeat the purpose of changing auditors if the incoming auditor’s knowledge is framed in the views of the predecessor auditor; and
 - (iii) Client confidentiality and competition between audit firms are possible impediments.

¹¹ BT, SNG, NZAuASB, CGAC, ACAG, NBA

¹² FAP, MNS, ICGN, ICPAS, FAR

¹³ SAICA

(d) *Other comments*

- (i) Some countries have supplemented the IESBA Code (which adopts a threats and safeguards approach) with specific required procedures. Information flows are also addressed by legislation in EU.¹⁴
- (ii) The scope for harmonization will be influenced by the ethical arrangements in each jurisdiction. There would be value in IAASB and IESBA working together on this topic.
- (iii) This is more of a process issue than one that needs to be prioritized for audit quality.
- (iv) This is not often an issue for public sector auditors.
- (v) Information sharing should be limited to that needed to enable the incoming auditor to form a basis for reliance on opening balances.
- (vi) Any additional guidance should address the risks arising from sharing information.

15. Area to Explore 4. Considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users.

- (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further twenty respondents either supported¹⁵ or strongly supported¹⁶ additional work in this area. Only two respondents considered this was an area of low priority.¹⁷
- (b) *Opportunities identified.* Opportunities that were identified included:
 - (i) Public disclosure of all, or parts, of the inspection reports would provide strong incentives to make improvements in the audit process;
 - (ii) Improvements in the flow of information between audit regulators and firms may mediate what may otherwise be an adversarial relationship and establish a mutually supportive means of improving audit quality;
 - (iii) Three way communication between regulators, audit firms and standard setters are essential to improvements in the audit quality improvement process; and
 - (iv) This would provide an opportunity to explore whether public reports from audit inspectors should be balanced and emphasize the good points as well as the negative ones.
- (c) *Risks identified.* Risks that were identified included:
 - (i) A concern that this might inhibit the more developed jurisdictions innovating and developing their inspection arrangements further.

¹⁴ Statutory Audit Directive Article 23(3)states 'where a statutory auditor or audit firm is replaced by another statutory auditor or audit firms, the former statutory auditor or audit firm shall provide the incoming auditor or audit firm with access to all relevant information concerning the audited entity'.

¹⁵ AUASB, ACAG, ACCA, BT, ICAEW, ICPAS, IRBA, NBA, CPAB

¹⁶ EYG, CARB, CAASB, ICPAK, ZICA, WAO, AFRC, MNSPGCM, ICGN, HEOS, CNCC

¹⁷ SAICA, SNG

- (d) *Other comments*
- (i) There is a need to explore whether greater harmonization can be achieved in independent audit inspection.
 - (ii) Greater harmonization of inspection activities would facilitate the sharing of resources, the development of common training programs, and increased reliance on other regulators.
 - (iii) There is a need to explore whether audit methodologies are focusing excessively on compliance with auditing requirements to the detriment of risk assessment and judgment.
16. **Area to Explore 5. 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 the different arrangements.**
- (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further eleven respondents either supported¹⁸ or strongly supported¹⁹ additional work in this area. Only two respondents considered this was an area of low priority.²⁰
- (b) *Opportunities identified.* Opportunities that were identified included:
- (i) Information sharing on matters such as criteria that define audit failure, the thresholds for sanctions, and sanctions available to regulators would assist less developed countries. Information sharing may be preferable to an attempt to harmonize arrangements;
 - (ii) Sharing information about which sanctions are effective would be valuable; and
 - (iii) A consistent approach in dealing with audit failures would assist those firms that strive for audit quality being at a disadvantage in competitive terms.
- (c) *Risks identified.* Risks that were identified included:
- (i) It could take time to evaluate the relative effectiveness of sanctions; and
 - (ii) Harmonization may be impractical as different national authorities operate different models that are rooted in national law and regulations.
- (d) *Other comments*
- (i) With so many firms operating across borders there is a need for an effective global oversight function.²¹

¹⁸ BT, SNG, ICAS, NZAuASB, CGAC, ACAG, AUASB, ICPAS, NBA

¹⁹ KI, CARB

²⁰ SAICA, ICAEW

²¹ AUASB

17. **Area to Explore 6. Considering ‘root causes’ and best practice by regulators, audit firms, and the wider audit profession in order to learn from past audit deficiencies and to identify and address systemic issues.**

- (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further twenty four respondents either supported²² or strongly supported²³ additional work in this area. Only one respondent considered this was an area of low priority.²⁴
- (b) *Opportunities identified.* Opportunities that were identified included:
- (i) This would encourage regulators to collaborate with each other and work with accounting firms to identify root causes of deficiencies identified in their inspections;
 - (ii) This would encourage the timely disclosure of the results of investigations and disciplinary actions;
 - (iii) Changes to auditing standards need to be evidence based. Root cause analysis could assist standard setters with their agenda and indicate areas where more guidance is needed; and
 - (iv) Work in this area would help shed light on the different problems observed in countries at different stages of development and with different concerns.
- (c) *Risks identified.* Risks that were identified included:
- (i) Information gathering will be challenging as competition between audit firms and concerns about litigation are possible impediments.
- (d) *Other comments*
- (i) Regulators should be well placed to convey information about good or bad practice based on inspection findings.
 - (ii) Audit regulators would be best placed to undertake such research given the significance of confidentiality and the extent and nature of their own records.
 - (iii) This work is already happening informally, it is hard to see what formalization of the process would add.
 - (iv) Focusing on the past is not always the best way to address the challenges of tomorrow.

18. **Area to Explore 7. Increasing the informational value of auditor’s reports and improving perceptions of the value of the audit.**

- (a) *Level of support.* The IAASB project to increase the informational value of auditor’s reports is well advanced. An Invitation to Comment was issued in July 2012 and 165 responses to this were received. The vast majority of the responses were supportive of IAASB proposals. The

²² BT, SNG, ICAS, ACCA, CGAC, FACOCE, AIA, ACAG, ICPAS

²³ PKF, HKICPA, PwC, CAASB, CAQ, NZAuASB, SAICA, CARB, AFRC, AUASB, MNS, CNCC, IRBA, NBA, CPAB

²⁴ ICAEW

IAASB plans to issue Exposure Drafts of relevant ISAs that reflect those proposals in July 2013.

- (b) Because this activity is known to most respondents to the consultation on the Framework, many specifically chose not to prioritize this activity or confirmed that they either supported or strongly supported the work being undertaken in this area.

19. **Area to Explore 8. Achieving improved two-way communication between auditors and financial and prudential regulators, particularly in the financial services sector.**

- (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further eighteen respondents either supported²⁵ or strongly supported²⁶ additional work in this area. Two respondents considered this was an area of low priority²⁷.
- (b) *Opportunities identified.* Opportunities that were identified included:
 - (i) Improved communication would assist auditors understand key risks and areas to cover and enhance auditors' understanding of the regulators' requirements; and
 - (ii) It will also assist regulators understand the audit process and its outcomes.
- (c) *Risks identified.* Risks that were identified included:
 - (i) The scope for harmonization may be limited as information sharing is facilitated and enforced by national legislation.
- (d) *Other comments*
 - (i) There would be benefit in expanding the definition of regulators beyond the financial services sector.
 - (ii) Satisfactory arrangements are already in place in some countries.

20. **Area to Explore 9. Striving for greater harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit.**

- (a) *Level of support.* In addition to the fifteen respondents who supported additional work on all Areas to Explore a further twenty three respondents either supported²⁸ or strongly supported²⁹ additional work in this area. Only one respondent considered this was an area of low priority.³⁰
- (b) *Opportunities identified.* Opportunities that were identified included:
 - (i) There is considerable variation in the role of audit committees around the world in relation to evaluating the work of the external auditor;

²⁵ SNG, CAASB, ICAS, NZAuASB, CGAC, FACPCE, SAICA, ICAEW, AUASB, MNS, IRBA, NBA

²⁶ BT, KPMG, PwC, HKICPA, CNCC, FAR

²⁷ ACAG, ICPAS

²⁸ BT, SNG, NZAuASB, ACCA, FACPCE, SAICA, AUASB, IRBA, NBA

²⁹ PKF, EYG, PwC, CAASB, FAP, CAQ, ICAEW, WAO, CIPFA, ACAG, CNCC, ICPAS, GT, CPAB

³⁰ CIAOA

- (ii) There is an opportunity to promote leading practices – especially with relation to how audit committees evaluate the external auditor; and
 - (iii) Audit committees not yet widespread in some countries; work in this area will help spread good practice.
- (c) *Risks identified.* Risks that were identified included:
- (i) Harmonization may be impractical due to diversity of law, business and culture;
 - (ii) The financial literacy of audit committee members is key. What can be achieved in this area will be constrained by a variability in the skills available to some audit committees; and
 - (iii) Some countries do not have the framework to establish rules in respect of the conduct and operation of audit committees.
- (d) *Other comments*
- (i) In addition to audit committees there would be benefit in considering the role of those charged with governance of smaller entities.
 - (ii) It would be desirable to avoid an overly prescriptive rules type approach. It is likely to be more effective to establish aspirational standards in this area rather than pursuing the harmonization of standards for audit committees.
 - (iii) Work in this area could draw on work already underway in some countries, for example, in Canada, the UK, and the US.³¹
21. **Area to Explore 10. 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.**
- (a) *Level of support.* In addition to the fourteen respondents who supported additional work on all Areas to Explore a further sixteen respondents either supported³² or strongly supported³³ additional work in this area. No respondent seemed to think this was an area of low priority.
- (b) *Opportunities identified.* Opportunities that were identified included:
- (i) Work in this area will promote accountability, inform other committees about best practice, and improve stakeholder confidence in financial reporting;
 - (ii) Work in this area will encourage better governance processes for audit committees and stimulate audit committee members into gaining a deeper understanding of significant areas of the financial statements—where management has applied judgment—and encourage them to be more skeptical;

³¹ In the US the Center for Audit Quality released a new tool in October 2012 ‘Audit Committee Essentials, *The Annual Auditor Assessment*.’

³² BT, NZAuASB, NZICA, SAICA, ACAG, AUASB, IRBA, NBA

³³ PKF, EYG, KI, HKICPA, CAQ, ICAEW, ICPAS, GT

- (iii) Shareholders would benefit from a report from the audit committee setting out the steps it has taken to assure itself that the auditor is ‘right auditor’ for the company; and
 - (iv) This will encourage a tone at the top within audit firms that promotes audit quality.
- (c) *Risks identified.* Risks that were identified included:
- (i) There is a danger the descriptions would become boiler plate.

Other Areas to Explore

22. Respondents identified a number of different areas that could be explored by different stakeholders including:

	Number of times suggested
Audit Quality Framework	
How the Framework can be augmented to aid the evaluation of an individual audit – e.g., definitions, indicators and measures of audit quality (AQ).	4
Costs and benefits of AQ and implementing the Framework.	1
Considering the unique challenges of AQ in developing economies and the impact that this has on the dynamics of global capital markets.	1
How different financial reporting models impact AQ for SMEs.	1
How the rigor of professional standards impacts AQ.	1
Use of data analytics as an input factor.	1
Exploration of situation (from/by client and audit firm perspective) of when auditor also provides other services.	1
Role of audit standards setters in AQ.	1
Role of EQCR.	1
Considering whether audit firm transparency reports have had any impact on AQ.	1
Auditors	
Factors that may affect the attractiveness of the auditing profession.	2
Research into the appropriate time and audit fees.	1
Drivers and impediments to innovation in audit.	1
Impact of AQ when different firms are involved in a group audit.	1
Preparers of Financial Statements	
Need for debate on improving the quality of financial reporting and the audit in an increasingly complex, digital age where both preparers and auditors are often overwhelmed with data. It is in the public interest to develop an integrated approach to tackling these issues.	1
How management should be more involved with the audit process to ensure AQ.	1
Users of financial statements	

	Number of times suggested
Continuous stakeholder education to enhance the understanding of the objectives of an audit and narrow the information and expectation gaps.	1
Lack of requirements relating to management documentation of accounting judgments.	1
Regulators	
How can inspectors promote skepticism and judgment not just compliance. Regulation is forcing a mechanical approach to auditing – need to investigate how this can be mitigated.	2
Establishing legal prohibitions on misleading auditors as a means to improving the quality of information provided by management.	1
Considering what represents audit failure.	1
Whether audit inspectors seeking views of TCWG would provide inspectors with additional insights.	1
Academics	
Considering university curricula across the globe and assessing the impact of changes on the expertise and cultural values of graduate entries into the profession.	1

Areas to Explore from Consultation Paper

The following extract is from Appendix 1 of the Consultation Paper published in January 2013.
(References to page numbers in the following extract are the page numbers in the Consultation Paper document.)

Areas to Explore

While developing the Framework the IAASB has 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, including:

1. Establishing global guidance against which audit firms can assess their governance arrangements (refer to page 26).

Governance arrangements within audit firms have evolved in different ways over the years and are often not transparent to their clients or the users of their services. The development of global guidance would allow audit firms to understand how to improve their own arrangements and, if external disclosure is improved, may help to foster increased confidence in the auditing profession.

2. 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 (refer to page 27).

Audit firms often use competency frameworks to assist with evaluating the performance of partners and staff. However, the extent to which the competences used directly address audit quality, and the manner in which this is done, varies. There may be benefit in standardizing elements of audit firm competency frameworks, perhaps using the competences that have been developed by the IAESB (see also paragraph 98).

Further specification of the necessary competences will also give audit firms the opportunity to consider whether their current approach to staff recruitment and training is providing the appropriate resources for the performance of quality audits.

3. Improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement (refer to page 30).

There can be many reasons why an audit firm may cease to act as an entity's auditor. Reasons include, among others, concern about the entity's business practices, accounting policies and the integrity of management or those charged with governance. Knowledge of such reasons could influence another audit firm from accepting the engagement or, if it is accepted, significantly impact the audit approach.

Ethics standards normally require an incoming auditor to determine whether there are reasons for not accepting an audit engagement; however an outgoing auditor may believe that the duty of client confidentiality may prevent the communication of relevant information. In some countries there are specific laws or regulations that impact information sharing and, the extent to which shareholders are made aware of relevant circumstances. Consideration could usefully be given to how information sharing can be improved and thereby reduce the risk of high-risk audits being

undertaken by audit firms without the necessary background information and possibly without the requisite skills and experience.

4. Considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users (refer to page 43).

Independent audit inspection is a relatively new activity in many territories and inspection practices are evolving. At a minimum inspection involves reviewing a sample of completed audits for compliance with auditing standards. Some national inspection groups consider audit quality more widely and others have been innovative in developing the ways in which they report their findings.

While checking for compliance with standards is an important activity there may be value in reviewing national practices and exploring the extent to which there can be greater international harmonization in audit inspection activities so that the contribution they make to audit quality is maximized and so that audit quality is made more transparent to users.

5. 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 (refer to page 43).

Arrangements for taking disciplinary actions on auditors have evolved in a national context and are likely to be closely linked with the underlying national legal framework. That said, the sharing of information on matters such as the criteria that define an audit failure, the thresholds for sanctions, and available sanctions may assist to improve these arrangements.

6. 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 (refer to page 43).

Investigations into possible audit failures are likely to identify areas of audit weakness. To the extent that such weaknesses could be systemic it is important that action is taken to eliminate them as soon as practicable. Formal analysis of the ‘root causes’ of audit failings may assist action being taken to stop them recurring.

Audit firms and professional accountancy organizations would also benefit from self-examinations and internal inspections and investigations that lead to improving audit methodologies and approaches.

7. Increasing the informational value of auditor’s reports and improving perceptions of the value of the audit (refer to page 45).

The IAASB is undertaking a separate initiative to explore how to enhance the quality, relevance and value of auditor reporting and in June 2012 issued an Invitation to Comment with proposals for improvements to auditor reporting, including the addition of ‘Auditor Commentary’.

Improvements in audit reporting in general, and the addition of ‘Auditor Commentary’ in particular, may impact perceptions of the communicative value of the auditor’s report and the value of the audit.

There are many potential options for improved reporting including some shorter-term options that fall under the IAASB’s mandate and some longer-term options that would require co-operation with organizations the mandates of which extend to legislative and other regulatory frameworks. While the future content and format of auditor’s reports is still under discussion, the IAASB supports the

need to enhance the quality, relevance and communicative value of auditor reporting on an international basis.

8. Achieving improved two-way communication between auditors and financial and prudential regulators, particularly in the financial services sector (refer to page 51).

While it is recognized that the timely sharing of appropriate information between regulators and auditors can both enhance the regulatory process and contribute to audit quality, such information sharing is sometimes inhibited by timing and confidentiality issues. To improve information sharing clear criteria for what is to be communicated and the process for such communications need to be established either in law or by means of formal agreements or protocols.

9. Striving for greater international harmonization in the role of audit committees with regard to the evaluation of the quality of the external audit (refer to page 57).

While some countries expect audit committees to have a direct role in considering audit quality, others do not. Even for those countries where there is an expectation, the way in which this responsibility is described vary,³⁴ giving the potential for uncertainty as to the scope of this remit.

10. 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 (refer to page 58).

The activities of the audit committee can make a valuable contribution to the quality of financial reporting and the quality of the external audit. Greater transparency about the work done by audit committees, the main issues they have addressed, and the reasons for their conclusions will assist users of the financial statements.

³⁴ Different expressions include:

- "Reviewing the effectiveness of the audit process;"
- "Overseeing the auditor's work;"
- "Monitoring the statutory audit;"
- "Reviewing the performance of the statutory auditors;" and
- "Evaluating the appropriateness of the audit."

Areas to Explore - Chart of Priorities

The following chart represents the prioritization—using a simple weighting system—of the Areas to Explore, based on responses received from those respondents who prioritized certain of them.

1. The prioritization is based on assigning scores of:
 - (a) “2” where respondents indicated “Strong Support” (SS);
 - (b) “1” where respondents indicated “Support” (S); and
 - (c) “-1” where respondents indicated “Little or Less Support” (LS).
2. The tabular results of this assessment are shown in the following table:

Area to Explore	SS (2)	S (1)	LS (-1)	Total Score
6. Root causes and best practices	30	24	-1	53
9. Greater international harmonization of audit committee role	28	27	-1	51
4. Audit inspections doing more to improve audit quality	22	21	-2	44
10. Audit committees providing more information to users	16	23		39
8. Improved two-way communication between auditors and regulators	12	27	-2	37
3. Information sharing between audit firms	10	21	-1	30
1. Global guidance for audit firms' governance	6	26	-3	29
2. Common understanding of capabilities	12	18	-6	28
5. National authorities responsible for sanctions exchanging information	4	24	-2	26

3. The results of the assessment are shown in the following chart:

