

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York, USA
Meeting Date: September 9–10, 2013

Agenda Item

H

Audit Quality

Objectives of Agenda Item

1. The objectives of this Agenda Item are to:
 - (a) Obtain Representatives' views on the Task Force's¹ proposed approach for addressing the comments received on the Consultation Paper *A Framework for Audit Quality* (the Framework) relating to the definition of audit quality and the length and balance of the Framework;
 - (b) Discuss further actions that might be needed by the IAASB and the CAG to achieve the original objectives of the project; and
 - (c) Discuss how the Framework and the comments received on the Areas to Explore apply to:
 - The IAASB's future strategy and work plan; and
 - Other actions that could be taken by the CAG or its member bodies.
2. A report back to the Representatives on their comments at the April 2013 CAG meeting on the questions posed in the Framework is also provided in paragraph 9.

Papers to Be Referred to during Discussion

3. The discussion on this topic will follow the order of the materials presented with this CAG Paper.
4. Descriptions of the material presented are as follows:
 - (a) **Agenda Item H.1** – A summary of the comments received and the actions that the Task Force proposes to take in response;
 - (b) **Agenda Item H.2** – A “clean” version of the updated Framework;
 - (c) **Agenda Item H.3** – An updated version of the Framework in “mark-up”. To respond to the numerous comments about the Framework being too long, the Task Force proposes that the:
 - Detailed material describing the inputs be moved to separate guides;

¹ The Audit Quality Task Force currently comprises Jon Grant (IAASB Member), Bernard Agulhas (IRBA), Arch Archambault (IAASB member), Craig Crawford (KPMG), Kam Grewal (CPAB), Merran Kelsall (IAASB Member), Thomas Orth (IAESB Member), and Don Thompson (IESBA Member).

- Appendices currently included in the Framework be deleted; and
- The section in the Framework describing the challenges of defining audit quality be moved to an appendix.

Sections of the Framework that the Task Force proposes to delete are not shown in marked text at **Agenda Item H.3**. Instead, **Agenda Item H.3** shows the changes to wording in the Framework for only the sections that have been retained.

- (d) **Agenda Item H.4** – A summary of the comments received on the Areas to Explore. While developing the Framework the IAASB identified a number of areas where it thought that international collaboration might assist in enhancing audit quality. As part of the consultation IAASB sought views on the Areas to Explore: which should be prioritized and by whom; and whether there were other areas that needed to be explored.

Matters for CAG Consideration

5. Representatives are asked to consider the Significant Issues included in **Agenda Item H.1** and the corresponding proposed changes to the Framework included in **Agenda Item H.3** to specifically provide views on:
- (a) The Task Force's plans regarding the definition of audit quality (see paragraphs 10–13 of **Agenda Item H.1** and paragraphs 1–2 of **Agenda Item H.3**).
 - (b) The manner in which the Task Force has responded to concerns over its length and balance (see paragraphs 21–25 of **Agenda Item H.1**).
 - (c) Any other Significant Issues described in **Agenda Item H.1**.
 - (d) Further actions that may need to be taken by the IAASB, the CAG or others on the topic of audit quality after the finalization of the Framework, including actions that may be appropriate relative to the feedback on the Areas to Explore (see **Agenda Item H.4**).

Project Status and Timeline

6. Matters relevant to the audit quality project were last discussed by the CAG in April 2013. The IAASB issued its Consultation Paper in January 2013. The deadline for comments on the Consultation Paper was May 15, 2013 and 76 responses were received.
7. At its September 2013 meeting, the IAASB will discuss the comments received and the actions that the Task Force proposes to take in response. The aim is for the final version of the Framework to be approved at the IAASB's December 2013 meeting.
8. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

April 2013 CAG Discussion

9. Below are extracts from the draft minutes of the April 2013 CAG meeting,² and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

| Representatives' Comments | Task Force/IAASB Response |
|---|--|
| GENERAL COMMENTS | |
| Mr. Hemus supported the Framework, noting that it would be useful for the entities with which the IMF works. | Support noted. |
| Mr. Hansen noted that the test for the success of the project would be how it is used. He added that the Framework should further emphasize the role of audit firms aligning compensation with technical abilities. | Point accepted. Further emphasis given to the link between quality and remuneration in the latest draft. Refer to second dot point of paragraph 21 – Agenda Item H.3. Wording has been revised in paragraphs included in the guide (refer to paragraph 15 of Agenda Item H.1). |
| USE BY AUDIT COMMITTEES | |
| Messrs. Baumann and Stewart noted the importance of both TCWG and audit committees to audit quality. Mr. Stewart questioned whether, in conjunction with other stakeholders, standards for audit committees could be considered. | Point taken into account. Mr. Grant responded that doing so [setting standards for audit committees] would go beyond the IAASB's remit in its Terms of Reference. He also noted that the role and regulation, if any, of audit committees was largely at the national level due to local differences. |
| Mr. Morris noted that audit committees may be able to use the Framework, particularly if the format and structure of the Framework was amended to make it easier to apply. He did not believe that preparers would find it useful as it would be too conceptual for that audience and too heavily reflective of auditor viewpoints. | Ms. de Beer agreed that the role of audit committees is often covered in national corporate governance codes. She also noted that non-executive directors are becoming more organized via international collaborations between the institutes of directors. She highlighted that this would make it easier for the IAASB to interact with this important stakeholder group in the public interest. |
| Mr. Bluhm noted that some audit committees would find the Framework too long to use effectively, and suggested the IAASB should explore how to make the Framework shorter and more useable. Mr. | |

² The minutes will be approved at the September 2013 IAASB CAG meeting.

| Representatives' Comments | Task Force/IAASB Response |
|---|---|
| <p>Koktvedgaard noted that TCWG's responsibilities are often set by law, so the Framework cannot alter their responsibilities.</p> | <p>Prof. Schilder noted he had spoken about the relationship between audit committees and external auditors for both a WB conference and an IMF conference. He added that there was a limit to what the IAASB and IFAC could do with respect to TCWG and audit committees, thus the need for the Areas to Explore within the Framework to encourage other parties to undertake work where relevant.</p> <p>Mr. Grant agreed that there may merit in transforming the Framework into a shorter document focused on TCWG, but that the director community should take this on rather than the IAASB. Ms. de Beer noted that the Framework is not intended to be a standard.</p> <p>The Task Force hopes that the Framework will be used by all stakeholders and, based upon feedback on consultation, it has been shortened to facilitate this.</p> <p>A more specific guide for audit committees might be helpful but national variations exist with regard to the role of audit committees in relation to audit quality. Greater harmonization of the role of audit committees was flagged as an "Area to Explore." in the consultation paper (refer to Agenda Item H.4 for a discussion of the feedback received on the Areas to Explore).</p> <p>Though the development of a guide for audit committees is not within the IAASB's remit, there may be an opportunity to collaborate with others who have an interest in, or are in a position to influence, international corporate governance.</p> |
| MEASUREMENT | |
| <p>Mr. Baumann noted that the Task Force could further explore methods of measuring audit quality to support comparisons between firms and within a firm over time.</p> | <p>Point not accepted.</p> <p>Mr. Grant responded that, while measuring audit quality could have been included as an Area to Explore, he believed that getting the Framework in place was needed before measurement of audit quality could be significantly advanced. He</p> |

| Representatives' Comments | Task Force/IAASB Response |
|---|--|
| | <p>mentioned that the CAQ was exploring the topic of measuring audit quality.</p> <p>Measurement of audit quality was not within the Task Force's terms of reference and to try to deal with it at this stage would cause delay. However, the Task Force hopes that the Framework will be a useful step towards providing a measurement tool for TCWG to assess audit quality.</p> <p>Other groups are attempting to measure quality and the Task Force believes that IAASB should monitor their progress.</p> |
| AUDITS OF SMALLER ENTITIES | |
| <p>Mr. Bluhm noted that the Framework would be useful to SMEs as, while management and TCWG may be the same people, they need to be addressed in different ways regarding audit quality.</p> | <p>Point noted.</p> <p>The corporate governance section has been redrafted to assist with the application of the Framework on SME audits. The section dealing with Considerations Relating to Specific Audits has been deleted and relevant paragraphs incorporated into the Framework and the Guide[s].</p> |
| NAMING OF THE ENGAGEMENT PARTNER | |
| <p>Mr. Kuktvedgaard noted that some of the input factors, such as the knowledge and experience of the engagement partner, are only accessible to external parties if the engagement partner's name is known.</p> | <p>Point accepted.</p> <p>The auditor reporting exposure draft includes a proposed requirement for the name of the engagement partner to be included in the auditor's report for audits of financial statements of listed entities (see paragraph 42 of proposed ISA 700 (Revised)).</p> |
| OBJECTIVES OF THE FRAMEWORK | |
| <p>Mr. James highlighted that while IOSCO recognizes the progress that has been made with the Framework, it still appears to be more in the nature of a description of the elements of an audit with a focus on current practice. He noted that the Framework could be more useful if it was provocative and challenged auditors to think</p> | <p>The Task Force believes that the objective of the project was to develop a description of the elements of an audit with a focus on current practice and believes there is value in this. Fagging a number of Areas to Explore was an attempt to identify areas where change might benefit audit quality prospectively. Prof. Schilder noted that the</p> |

| Representatives' Comments | Task Force/IAASB Response |
|------------------------------|---|
| outside of current practice. | auditor reporting project was an example of where the IAASB was stimulating new thinking by the profession. |

IAASB Interaction with the IAASB CAG

10. The substantive issues raised on the project for the purposes of the September 2013 IAASB meeting have been included in **Agenda Item H.1**. The December 2013 IAASB meeting will serve as the final discussion of the Framework prior to its anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of the Framework.

Material Presented – IAASB CAG PAPERS

| | |
|-----------------|--|
| Agenda Item H.1 | Audit Quality – Summary of Comments Received |
| Agenda Item H.2 | Clean Version of updated Framework |
| Agenda Item H.3 | Mark up Version of updated Framework |
| Agenda Item H.4 | Audit Quality – Areas to Explore |

Project History

Project: Audit Quality

Summary

| | CAG Meeting | IAASB Meeting |
|---|--------------------------------------|---|
| Project commencement | September 2010 | December 2009 June 2010 December 2010 |
| Issues Paper and IAASB Working Group Proposals | March 2011 | March 2011 |
| Development of Proposed Consultation Paper | September 2011 September 2012 | June 2011 September 2011 December 2011 September 2012 December 2012 |
| Consideration of Comments on the Proposed AQ Framework and Revised AQ Framework | April 2013 September 2013 | September 2013 |

CAG Discussions: Detailed References

| | |
|---|---|
| Project Commencement | <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/5665.pdf</p> <p>See CAG meeting minutes (in Agenda Item P of the following): http://www.ifac.org/sites/default/files/meetings/files/6186.pdf</p> <p>See report back on September 2010 CAG meeting (in paragraph 7 of the following): http://www.ifac.org/sites/default/files/meetings/files/6085.pdf</p> |
| Issues Paper and IAASB Working Group Proposals | <p><u>March 2011</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/6085_0.pdf</p> <p>See CAG meeting minutes (in Agenda Item F of the following): http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf</p> <p>See report back on March 2011 CAG meeting (in paragraph 8 of the following):</p> |

| | |
|---|--|
| | <p>http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemC-Audit-Quality-v1-02.pdf</p> |
| <p>Development of Proposed Consultation Paper</p> | <p><u>September 2011</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemC-Audit-Quality-v1-02.pdf</p> <p>See CAG meeting minutes (in Agenda Item C of the following): http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_A-Draft_September_2011_Public_Minutes-Marked-v3.pdf</p> <p><u>September 2012</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C_ISA_720-Issues-v3.pdf</p> <p>See CAG meeting minutes (in Agenda Item B of the following) See draft September 2012 CAG meeting minutes at Agenda Item A. See report back on September 2012 CAG meeting in Paragraph 7 of this CAG paper.</p> |
| <p>Consideration of Comments on the Proposed AQ Framework and Revised AQ Framework</p> | <p><u>April 2013</u></p> <p>See IAASB CAG meeting materials: http://www.ifac.org/sites/default/files/meetings/files/20120408-IAASB-CAG-Agenda_Item_C_AQ-final.pdf http://www.ifac.org/sites/default/files/meetings/files/20120408-IAASB-CAG-Agenda_Item_C-1_AQ.pdf</p> <p>See draft April 2013 CAG meeting minutes at Agenda Item A. See report back on April 2013 CAG meeting in paragraph 9 of this CAG paper.</p> |