



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

AuditQuality®

Providing direction on audit market needs, audit performance and audited financial information and promoting dialogue on major issues affecting the quality of independent audit.

## GLOBAL CHALLENGES



The *Audit Quality Forum* encourages open and constructive debate about issues which are in the broadest sense related to audit quality. It develops viewpoints on international auditing and reporting issues, contributes to the work of governments, standard setters and regulators and generates practical ideas for further enhancing confidence in audited financial information.

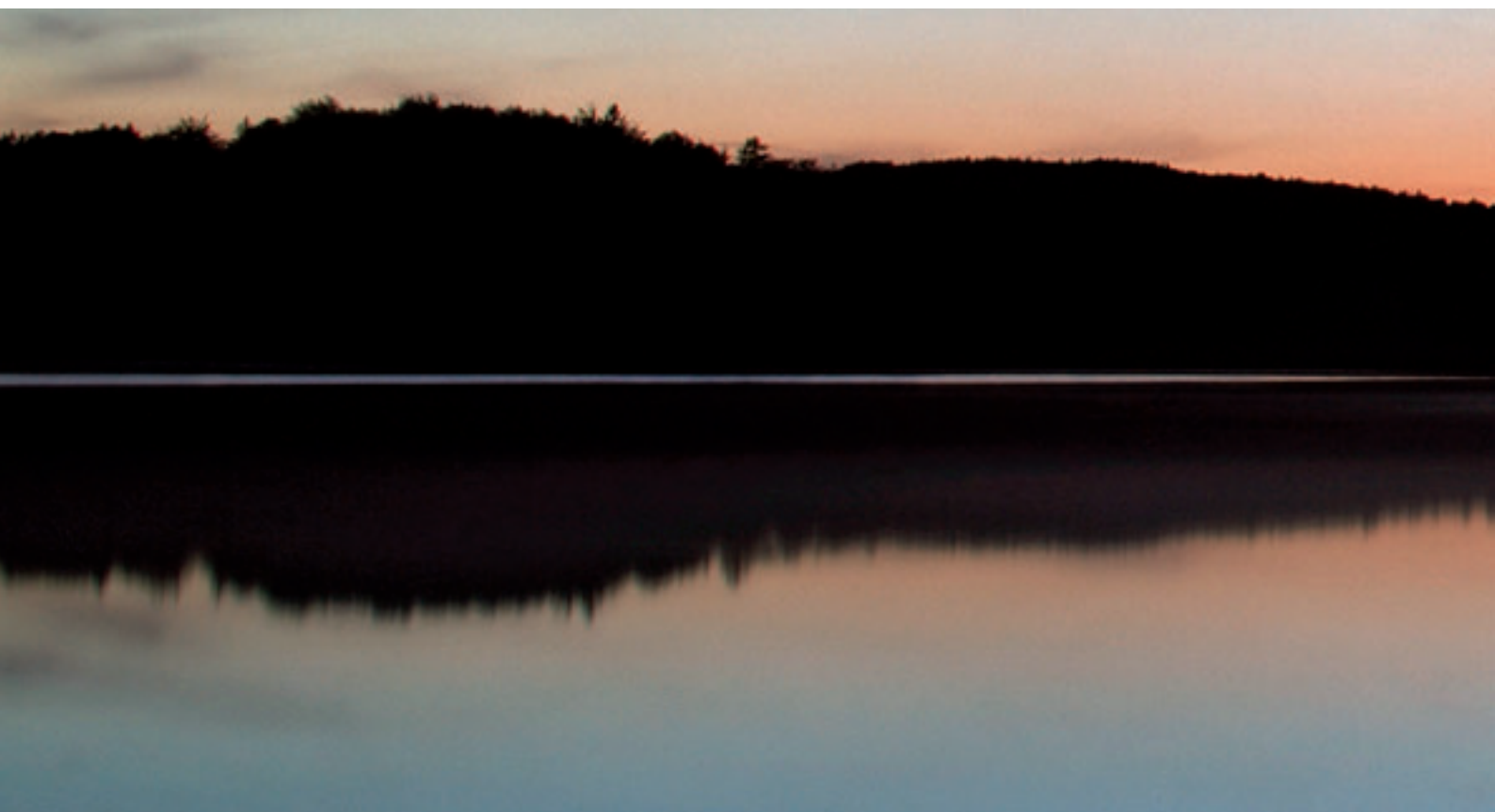
Recent years have seen unprecedented activity and change in auditing standards and regulatory oversight of audit. But how effective are such developments in securing long-term confidence in auditing? Do they capture all the conditions that are necessary for audit quality? And, how will auditing need to adapt to economic circumstances, new experience and changing perceptions of audit quality?

The *Forum* – originally convened by the ICAEW at the request of the UK government – is well-positioned to tackle these questions and develop better and wider understanding of the issues involved. Its membership is drawn from investors, business, auditors and regulatory bodies. Since its formation in 2004, it has established a reputation for challenging current thinking and practice and informing legislative and regulatory developments in auditing and reporting.

In its first programme, the aim of the *Forum* was to improve audit transparency and support shareholder involvement in the audit process. The four policy proposals arising from the *Shareholder Involvement* programme were referred to in the UK Company Law Reform White Paper and demonstrated the capacity of the *Forum* to engage stakeholders and inform policy development. The final paper from that programme looked at competition and choice in the audit market for large listed companies. This issue was taken forward by the UK Financial Reporting Council and led to the wide-ranging and internationally influential recommendations of the Market Participants Group.

THE GLOBAL CHALLENGES FACING AUDIT:

## PROVIDING DIRECTION



In its second programme, the *Forum* examined fundamentals of high-quality audit in the context of UK implementation of International Standards on Auditing (ISAs). Building on a background paper *Agency theory and the role of audit*, the *Forum* published five further papers in the *Fundamentals* series. Relevant to any country adopting ISAs, these papers are about how to stay focused on the legal purpose of audit, how to keep global standards principles-based and locally relevant, and how to ensure that auditors communicate effectively and have effective rights in relation to third parties.

The first two work programmes of the *Forum* led naturally to the *Evolution* series. This looked at how, internationally, audit might evolve because of changes in corporate governance, including the growing importance of audit committees, changes in the expectations that various stakeholders have of audit, and changes in financial reporting practice.

**The programmes on *Shareholder Involvement*, *Fundamentals* and *Evolution* provide a platform for the current and future work of the *Forum* on *Global Challenges* in three areas:**

- **audit market needs;**
- **audit performance; and**
- **audited financial information.**

**The *Forum* will pursue these themes in two ways.**

- **Providing direction: regular meetings of *Forum* members will contribute to a series of issues papers developed with the help of expert groups and engagement with academic researchers.**
- **Promoting dialogue: the *Forum* will host high profile debates on current issues, attracting a wide range of participants and allowing different viewpoints to be aired and placed on record to inform the activities of the *Forum* and its members.**

‘The IAASB will consider whether to develop a consultation paper on audit quality. That is a commitment in our Strategy and Work Program, 2009-2011. Dialogue with a broad range of stakeholders is the first logical and essential step in that process. Another important contribution to audit quality, and indeed to the broader objectives of financial stability and good corporate governance, is effective interaction between stakeholders themselves.’

**Arnold Schilder, Chairman, International Auditing and Assurance Standards Board**

‘The *Audit Quality Forum* provides an effective and valuable forum to discuss and develop initiatives that make an important contribution to audit quality, particularly when it brings together the views of all stakeholders.’

**Richard Fleck, Chairman,  
UK Auditing Practices Board**



## Planned issues papers under the themes of *Global Challenges* are summarised below.

### How national infrastructures affect audit quality

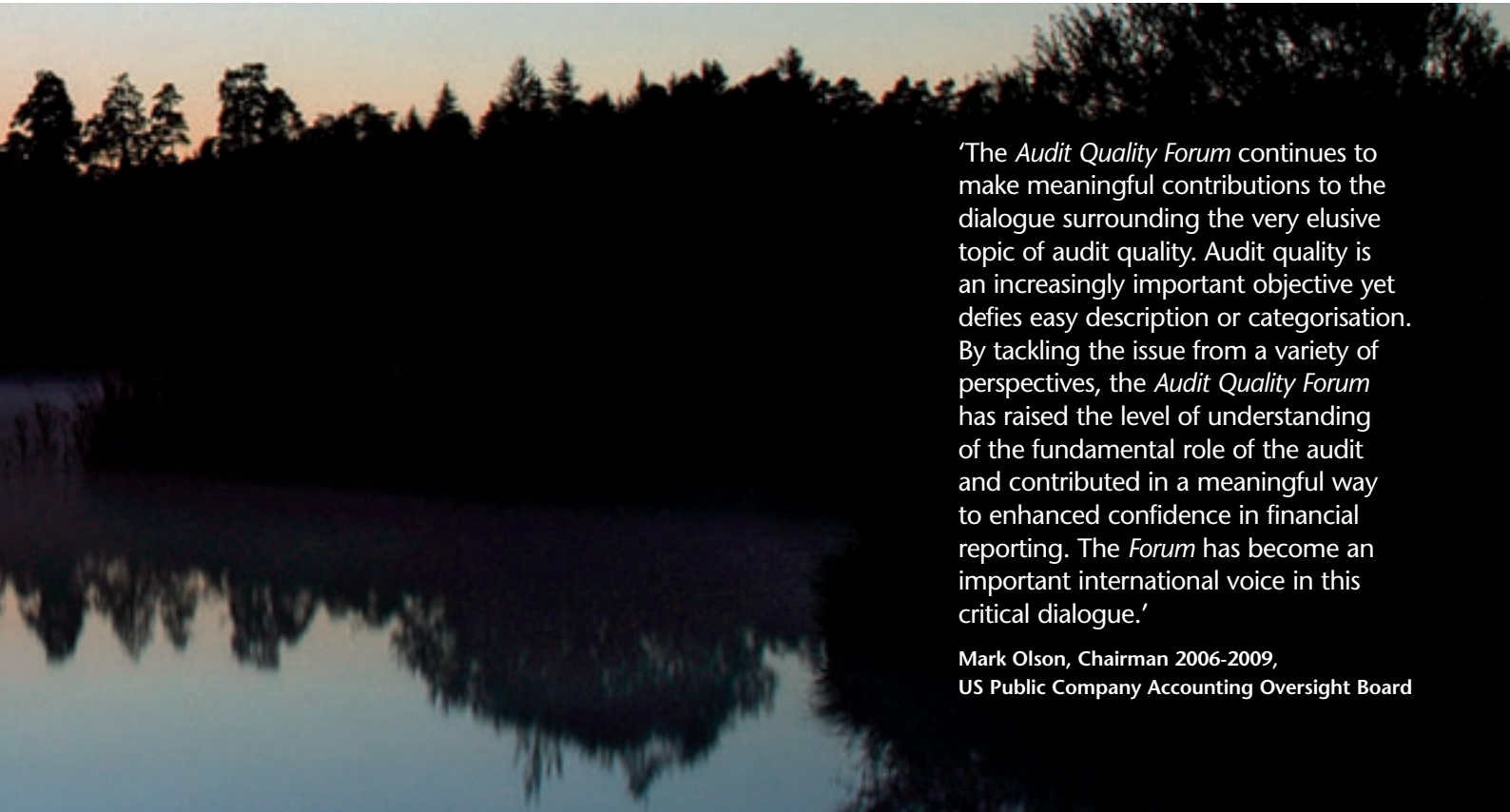
The first issues paper on the theme of *Audit performance* will consider how national infrastructures affect audit quality. This is a neglected and difficult aspect of audit quality which is of great significance in a globalised economy. There are many drivers of audit quality, both internal and external to audit firms. In recent years, internal drivers of audit quality have been well researched, documented and discussed, as have criteria for improving audit regulatory and oversight structures. Less consideration has been given to other external factors that affect audit quality – real and perceived.

What are the potential impacts on audit quality at the national level of business culture and ethics, the legal and regulatory environment, and the political and economic landscape? Although such matters are more sensitive to analyse and slower to change than internal and regulatory drivers of audit quality, they are vitally important to business and investors. And, what about other aspects of national infrastructures more closely related to audit such as corporate ownership patterns and governance regimes, the capacity and status of the audit profession, and the institutional history and legal basis of financial reporting?

### What makes financial statements reliable

The first issues paper on the theme of *Audited financial information* will look at the respective roles and responsibilities of accounting and auditing standard setters and financial statement preparers and auditors in building confidence in the reliability of financial statements. This will involve looking not just at how formal linkages between the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB) might work. The paper will also consider how considerations of auditability and audit costs and benefits should influence the IASB in its standard-setting activities.

Also, what should be done in the early years of implementing new International Financial Reporting Standards (IFRS) to minimise and mitigate lags in the development of audit practice? For example, should the IAASB issue IFRS-specific pronouncements? To what extent should audit practice influence the implementation of IFRS? And, should experience of auditing the application of IFRS be a principal basis for evaluating their effectiveness?



'The *Audit Quality Forum* continues to make meaningful contributions to the dialogue surrounding the very elusive topic of audit quality. Audit quality is an increasingly important objective yet defies easy description or categorisation. By tackling the issue from a variety of perspectives, the *Audit Quality Forum* has raised the level of understanding of the fundamental role of the audit and contributed in a meaningful way to enhanced confidence in financial reporting. The *Forum* has become an important international voice in this critical dialogue.'

Mark Olson, Chairman 2006-2009,  
US Public Company Accounting Oversight Board

The *Forum* plays a vital role in promoting dialogue. Participants at regular *Forum* meetings have the opportunity to listen to, and ask questions of, leading regulators and standard setters and academic researchers. The *Forum* also has a track record of hosting debates designed to attract a wide audience to discuss current issues.

Debates include panel sessions at which the perspectives of investors, regulators, the wider business community, the auditing profession and the academic community are presented. What is said is summarised for future reference. Two debates related to *Global Challenges* are described here. Further details of past and forthcoming events are available on the *Forum's* website.

#### The auditor's potential role in managing systemic risk

A debate on 1 June 2009 on the theme of *Audit market needs* in response to the financial crisis: it is widely accepted that there was no underlying failure to perform financial statement audits in accordance with existing requirements immediately before or during the financial crisis. However, is there more that auditors could do in the future to help prevent crises? For example, could they share with investors and regulators the insights gained from a range of audits about systemic risks?

#### The provision of non-audit services by auditors

A debate on 24 November 2009 on the theme of *Audit market needs* in response to the UK Auditing Practices Board's consultation on non-audit services: it is widely accepted that investors regard auditor independence as being vital to audit quality and that current regulation to limit the provision of non-audit services by auditors is based on thorough analysis of the related risks to audit quality. However, what, if anything should be done about the perception among some commentators that it is inappropriate for audit firms to provide non-audit services to companies that they audit?

THE GLOBAL CHALLENGES FACING AUDIT:

## PROMOTING DIALOGUE



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# AuditQuality<sup>®</sup>

Regulators and standard setters have made use of the work of the *Forum*, illustrating the important link that the *Forum* provides to investors and business as well as the auditing profession. Summaries of comments made at public debates are available from the *Forum's* website and the *Forum's* issues papers are publicly available free of charge.

## Shareholder Involvement

Five papers published on issues related to transparency, accountability and confidence in independent audit:

- Auditor engagement: disclosure of contractual terms
- Identifying the audit partner
- Questions to the auditor
- Auditor resignation statements
- Competition and choice.

## Fundamentals

Six papers published on issues which provide context for the adoption of ISAs:

- Agency theory and the role of audit
- Audit purpose
- Principles-based auditing standards
- Making global auditing standards local
- Auditor reporting
- Third parties.

## Evolution

Three papers published on issues raised by recent trends in corporate governance, stakeholder engagement and financial reporting:

- The impact of audit committees on auditing
- Stakeholder expectations of audit
- Changes in financial reporting and audit practice.

## Making contact with the *Audit Quality Forum*

Established in 2004, the *Audit Quality Forum* comprises representatives of the audit profession, investors, business and regulators who have an interest in confidence in high-quality independent audit.

Further information on the work of the *Audit Quality Forum*, downloadable copies of its publications and details of how to obtain hard copies are available at [www.auditqualityforum.com](http://www.auditqualityforum.com). If you have ideas for topics that you think the *Forum* should address through its debates and issues papers, please contact:

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