

The ACCA logo is a red square with the white text "ACCA" inside. The background of the entire page is a low-angle photograph of modern skyscrapers with glass facades, some of which are illuminated from within, set against a clear blue sky. A red border frames the entire image.

ACCA

Tenets of a quality audit

Think Ahead

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **200,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,200** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA is currently introducing major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

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About this report

This report sets out the factors that contribute to a quality audit and identifies how these factors are interrelated. It calls for a debate on how to resolve these tensions and maximise audit quality.



Background

High quality auditing is vital to public confidence in the audit process and to the value of audit.

ACCA has a long history of thought leadership. The purpose of the ‘Tenets’ series of publications is to provide some clarity to the areas of public policy covered by the work of the Professional Insights team.

The issue of audit quality remains vital to public confidence in audit. While there is evidence that audit quality has improved and continues to improve, concerns remain, both about those audits that fall below satisfactory standards and about the pace of improvement. As a result, there is a keen interest in initiatives to drive better audit quality.

In 2014, the International Auditing and Assurance Standards Board (IAASB) issued *A Framework for Audit Quality* (IAASB 2014), which aimed to raise awareness of the key elements of audit quality, encourage key stakeholders to explore ways to improve audit quality and facilitate greater dialogue between stakeholders on the topic.

ACCA's publication seeks to build upon the IAASB's Framework by articulating the features that a quality audit should possess, recognising that these factors can sometimes exist in mutual tension. As a result, an open and honest debate is needed about how audit quality can be maximised. Owing to the way the factors interrelate, in some areas there may be different views about how best to achieve this. In part, these views will be influenced by the political, economic and social environment, as well as technological developments. Hence, the notion of audit quality may change over time.

ACCA is pleased to contribute to this important debate and looks forward to receiving feedback on how the factors identified here can lead to improvements in audit quality.

The factors that contribute to a quality audit

In addition to the IAASB's analysis, and rather than approaching the audit in terms of its inputs, outputs and process, ACCA proposes some additional factors on which, arguably, audit quality rests.



Thoroughness and timeliness

A quality audit requires **thoroughness** in an audit to ensure that all risks are addressed and all issues are resolved prior to issuing the audit report. At the same time, as recognised in *Banishing Bias* (ACCA 2017b), the value of audit to investors and the public also lies in its **timeliness**. An audit that concludes a very long time after the year-end is unlikely to be useful.

Determining how to balance thoroughness and timeliness in an audit is complex. Auditing standards require knowledge of the audited entity and its environment, which is used to devise audit tests that provide sufficient appropriate evidence. But it is always possible to spend more time undertaking more audit procedures, and this militates against timeliness.



Independence and closeness

A quality audit requires the auditor to maintain **independence** at all times when performing the audit. At the same time, audit quality is enhanced by the **closeness** to an audited entity that is acquired through repeated involvement in the engagement. For example, there is evidence that experience of the audit built up over several years can support the auditor's risk assessment under ISA 315.

An independent auditor is expected to challenge the audited entity more rigorously on contentious areas. As a result, greater independence is often proposed as a way of increasing audit quality. Yet an appropriate degree of familiarity with the business may help the auditor to identify the contentious areas of an audit more quickly, allowing more time for evidence-gathering and challenge. The negative connotations of terms such as 'familiarity' and 'long association' can make it difficult to resolve this tension in a balanced way.



Standardisation and autonomy

A quality audit requires a certain degree of **standardisation**: at a basic level, the auditor needs to follow auditing standards. At the same time, audit quality requires the auditor to exercise some **autonomy** in deciding where risks lie and, therefore, where to do more or less work. For example, the general requirement for the auditor to exercise professional scepticism could be seen as requiring autonomy – the exercise of the auditor's judgement – over and above the specific procedures outlined within auditing standards.

It is relatively easy for regulators to assess whether standardised procedures have been followed. As a result, one might expect auditing standards to become more prescriptive over time, as regulators call for greater specification of what a quality audit should entail. Similarly, audit firms and audit networks may also specify additional requirements that go beyond auditing standards. In practice, however, it may not be possible to define a set of procedures that will produce sufficient appropriate evidence for every situation at every entity, so there will always be a role for autonomy. The relationships between standardisation and autonomy and thoroughness and timeliness are complex.



Delivering a holistic opinion and responding to fraud

A quality audit requires the **delivery of a holistic opinion** – the ‘true and fair view’ – over the financial statements. In order to do this, the auditor must obtain a proper understanding of the audited entity’s business model and strategy, and an appreciation of the entity’s industry and economic context. At the same time, audit quality requires the auditor to **respond to fraud** or suspected fraud.

A risk-based approach is vital to ensuring that, as far as possible, the auditor spends most of their time on the riskiest parts of the audit and that the opinion is holistic. On the other hand, procedures for responding appropriately to fraud or suspected fraud require tests of detail and substantive procedures. Greater use of data analytics may allow auditors to undertake more substantive testing using automated techniques, thereby allowing greater focus on risk-based procedures. In the meantime, public expectations of auditors’ ability to detect fraud continue to increase.



Backward-looking and forward-looking

A quality audit requires **backward-looking** testing, in which the auditor tests historical transactions in the company’s ledgers. At the same time, it increasingly requires the auditor to have regard to **forward-looking** information and to incorporate considerations of that information into the audit report. This includes, for example, the auditor’s work in respect of assets carried at fair value, and going concern.

Testing historical transactions is different in nature from testing forward-looking information. Whereas in most cases it is possible to obtain evidence about a transaction that has already occurred, the auditor cannot test a transaction in the future. Instead, the auditor obtains evidence about the process by which forward-looking information has been prepared as well as comparing assumptions about the future with evidence from present-day data points and historical trends. With financial reporting standards making greater use of forward-looking information, public expectation of what auditors should do in this regard is also growing.



Transparency and confidentiality

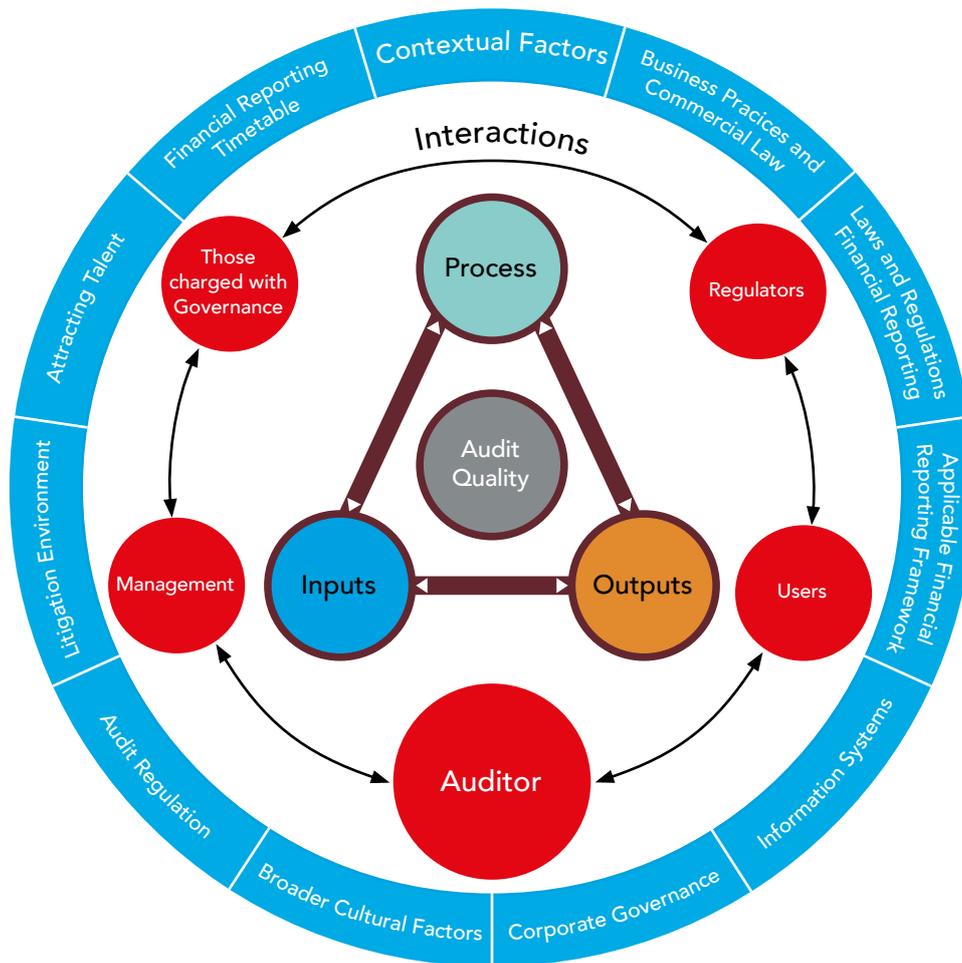
A quality audit requires **transparency** by the auditor. Users expect the auditor to be transparent with them and not to withhold salient information from the audit report. At the same time, the audit process relies upon a shared understanding that private information disclosed to the auditor will remain **confidential**. Disclosing confidential information inappropriately can be damaging to the company, and therefore to investors. Preparers might be less open with their auditors if they have concerns about the way in which information will be protected.

Excessive transparency can also be unhelpful to users, if it means that useful information is – perhaps deliberately – obscured by large amounts of less-relevant information. In addition, users expect auditors to use judgement to determine what disclosures are required by auditing or ethical standards. Users’ expectations of transparency by the preparer and of the auditor’s ability to ensure such transparency on the part of the preparer may exceed the requirements of relevant accounting and auditing standards, law and regulations.

The IAASB's Framework for Audit Quality

At the heart of the IAASB's Framework is a diagram that shows how these elements interact. The diagram summarises the inputs, processes and outputs that either contribute to or constitute audit quality. It recognises the interactions between other stakeholders and the auditor. And it sets out the contextual factors that affect how the audit is conducted.

Further details of each of these aspects are given in the IAASB's Framework for Audit Quality document (IAASB 2014). Overall it provides a comprehensive guide to the elements that are essential in ensuring high audit quality.



Other reports in this series

The first publication in this series was *The 12 Tenets of Tax* in 2009. Updated in 2011 (ACCA 2011), this report is based upon Adam Smith's four canons of taxation from his *The Wealth of Nations*. The ACCA publication aims to set out some broad principles for what constitutes an efficient and fair tax system, both for taxpayers and society at large.

In 2017, ACCA published *Tenets of Business Law* (ACCA 2017a). This report identifies four principles that it argues are core to good business law – simplicity, openness and transparency, fairness and accountability – and these are supported by some enabling concepts.

Tenets of Good Corporate Reporting (ACCA 2018) was published in 2018. It sets out ACCA's views on the desirable qualitative characteristics of good corporate reporting and some general factors that can affect the quality of corporate reporting.

References

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