

Promoting Audit Quality: FRC Discussion Paper

The following are our views on the Discussion Paper:

Chapter 3

The Culture within an audit firm

Question 1

Are there other important indicators of an audit firm's culture that are not referred to above?

1. Whether the firm has established a system of quality control with the objective of providing it with reasonable assurance that the firm and its staff comply with professional standards, and regulatory and legal requirements, and that appropriate high quality reports are issued.
2. The quality control policies and procedures referred to above are to be documented and communicated to the firm's staff. They may be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda.
3. Any person/s assigned operational responsibility for the firm's quality control system by the board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.
4. Another objective of the firm's training activities is to maintain and enhance the technical competence of employees in addition to the promotion of personal characteristics such as integrity, objectivity, rigour, scepticism, perseverance and robustness as identified in the third point to article 3.3.
5. Audit quality is built into the whole audit process including the firm's strategic planning, the planning of individual audits, the performance of audit work and the preparation of audit reports.
6. Audit quality could be further enhanced when individual members of the audit team have the opportunity to consult with each other over significant issues identified during the audit.
7. The establishment and compliance with policies and procedures relating to ethics such as integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour, as well as independence requirements

Question 2

Are there pressures that could compromise the culture of audit firms that have not been identified above?

1. Financial and competitive pressures that might have an adverse effect on audit quality due to the constant requirement by audit firms to meet tight reporting deadlines and operational budgets.
2. Excessive pressure to deliver quality audits on time may also reduce the importance that a firm attaches to the maintenance of training programmes.
3. Audit firms are also to keep abreast with current developments in Information and Communications Technology and may have to update their internal processes to the more recent technology. Such a process would improve audit quality in the long term, but initially would increase the workload of staff. This might possibly have an adverse effect on audit quality.
4. Audit firms are also to update themselves on the global environment and how this affects the audit profession, and in particular the audit process and audit quality. This ensures that the quality control policies and procedures are constantly up-to-date with current requirements.

Question 3

Are there any further steps that should be taken to build confidence in the culture of audit firms and, if so, what might they be and why they are needed?

1. Audit firms may be provided with training grants by the appropriate institution on the basis of both the provision of training to audit staff relating to audit work and on the basis of results achieved in a quality assurance review. This may be needed to encourage audit firms and practitioners in general to maintain the highest technical standards in their work.
2. The firm operates a continuous improvement programme, through practice reviews and the performance of a self assessment of the effectiveness and efficiency of its quality management system, to ensure that:
 - i. Quality controls built in the audit process operate continuously, effectively, and in accordance with regulations;
 - ii. Quality requirements are consistently met; and
 - iii. The users of the audit results are satisfied.
3. Any changes to the firm's internal governance and quality control processes relating to public interest entities are to be published immediately.

4. Audit firms are to continuously recognize the importance of people, process, technology, and environmental dimensions to achieve Total Quality Management.

Chapter 4

The Skills and Personal Qualities of Audit Partners and Staff

4. Do you agree that technical skills, personal qualities and practical experience are key drivers of audit quality?

Technical skills, personal qualities and practical experience are necessary components to achieve high quality audits.

ISQC 1 “Quality Control for Firms that perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements” stipulates that technical skills and competence are developed through professional education, continuing professional development and training, work experience and mentoring by more experienced staff. The firm’s performance evaluation is to give due recognition and reward to the development and maintenance of competence and commitment to ethical principles.

Personal qualities identified in Chapter 2 such as integrity, objectivity, rigour, skepticism, perseverance and robustness are essential to quality auditing. In particular, the Value for Money Audit Manual issued by the Office of the Auditor General of Canada states that persons supervising others are expected to:

1. Be role models in action and in words and consistently practice sound leadership;
2. Exhibit and encourage openness, patience, trust and teamwork;
3. Clearly define the work assigned, the purpose of the work, and employees’ functions, responsibilities and authority, and explain how the assigned work fits into and contributes to the accomplishment of the overall objectives of the audit;
4. Coach staff to achieve higher performance;
5. Maintain both formal and informal channels of communication to keep Staff informed about the Office vision, focus areas, the quality management framework and team quality improvement initiatives;
6. Ensure that any barriers between audit teams and functions are reduced and promote teamwork and open communications up, down and across the organization;
7. Involve team members, whenever practical, in solving problems and in initiatives to improve quality and encourage them to suggest innovative ideas; and
8. Identify individual and team training and development needs and respond to these needs through training, work assignments and counseling on performance progress.

Practical experience is another key component required to achieve a high quality audit. Exposure to a variety of audit tasks and to several industries helps auditors to further develop and hone in their technical competence. Moreover, the ability to communicate well with colleagues and various clients assists auditors in improving their personal skills.

5. Has this paper identified the issues that could result in an inadequately trained or skilled workforce for audit – If not, what other issues are there and why are they issues?

The paper has identified the issues that could result in an inadequately trained or skilled workforce for audit. Perhaps one might emphasise the need for audit firms to be rigorous in their performance evaluations so that weaknesses in performance are identified and improved by the necessary training. Moreover, constant feedback on performance is to be provided to all staff.

The firm's training methodology is to be continuously updated with the latest developments in the audit field, and should meet the training need through in-house training or through the attendance of seminars and conferences.

6. Should there be a fundamental review of the qualification and training requirements for auditors?

The academic staff who run the qualification and training requirements are to operate their own continuous improvement programme in line with developments in the audit and related profession, and to ensure that all areas relating to the audit profession are covered.

Certain audit firms may perform specialized work that would require them to maintain technical skills in particular areas of the profession. In such cases, a specialised training programme that caters for the particular needs of the firm may be developed.

Chapter 5

The Effectiveness of the Audit Process

Q7 Are there other factors that determine whether an audit process is effective?

Another factor that determines whether an audit process is effective consists of the appropriate communication of audit messages to the audit client and requesting their feedback

Q8 Are there threats to the effectiveness of the audit process that have not been identified above?

Tight reporting deadlines may reduce the effectiveness of the audit process, as these may necessitate the performance of audits within very strict time constraints.

Q9 Are there further steps that could be taken to counter the threats to the effectiveness of the audit process?

The firm is to ensure that it is equipped with competent professional staff that can cater for the various professional demands of the firm.

The firm's annual planning process is to be strengthened to ensure that all audit work and other professional services are to be delivered on time whilst maintaining the appropriate quality.

Chapter 6

The Reliability and Usefulness of Audit Reporting

Q10 Are there other factors that determine whether audit opinions command confidence?

Another factor that commands confidence in the audit opinion is the knowledge that an audit firm operates an appropriate quality assurance system that results in quality audits. Hence based on the audit opinion, users would rely on the financial statements to make their decisions.

Q11 Are there other reasons why users may not have confidence in the audit opinion?

Another reason why users may not have confidence in the audit opinion is the lack of knowledge about the firm quality assurance procedures. As stated in the discussion paper, the audit procedures implemented in the key risk areas can be summarized in the audit report.

Q12 Are there further steps that could be taken to reinforce confidence in an audit opinion? In particular, what changes to the form and content of the audit report should be considered?

As already indicated in question 11, the audit report should include an overview of how the major risk areas in the audit were tackled and whether they have been resolved satisfactorily.

Chapter 7

Factors outside the control of auditors affecting audit quality

Q13 Are there other external factors that have the potential to adversely affect audit quality?

All the external factors have been dealt with by the discussion paper.

Q14 Are audit committees discharging their responsibilities in relation to audit adequately, and if not, what further steps might be taken to make their role more effective?

Audit committees, when carrying out the steps identified in the discussion paper will be effectively fulfilling their roles.

Q15 Should the FRC develop more detailed guidance for audit committees in relation to the evaluation of audit effectiveness?

The development of more detailed guidelines will definitely assist the audit committees in effectively discharging their functions.

Q16 Should annual reports include a summary of the work undertaken by the audit committee to evaluate audit effectiveness?

Annual reports should include a summary of the work undertaken by the audit committee as this would increase the reliance of financial statement users on audit reports and in the performance of the company.

Q17 Are there further steps that should be taken to reduce the risk that these external factors may adversely affect the audit process?

Proper planning of audit work is of paramount importance to ensure that quality audits are delivered on time.

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