

## Audit & Assurance

# Significant Differences in Audit Quality Indicators Developments

by Vita Ramanauskaite, Policy Advisor, Accountancy Europe and Hilde Blomme, Deputy Chief Executive, Accountancy Europe  
| February 8, 2017 |

Independent audit has been part of the financial reporting chain for a considerable time. Audit quality has always been important; over the last few years, even more consideration has been given to it as well as to how it can be defined and measured. The subject matter has gained more importance in the work of regulators, oversight bodies, audit firms, and professional bodies. Even though there is no common approach to measuring audit quality at this time, many stakeholders are considering potential ways of addressing the issue in the discussions on audit quality.

Accountancy Europe published an overview of audit quality (AQI) initiatives and proposals, which was updated in July 2016, to provide an insight into similarities and differences of existing initiatives. To the best of our knowledge, nine organizations around the world have issued either a proposal or an initiative on AQIs.

Such sets of AQIs may serve different purposes. For instance, AQIs can provide a basis for comparison across different audits and audit firms. Another potential benefit is enhanced transparency on what information is available for a discussion with those charged with governance and audit committees when selecting an audit firm. AQIs could help audit firms demonstrate commitment to audit quality and foster competition. However, it is important that the information acquired from AQIs is comparable, at least to a certain extent, for AQIs to serve all those purposes.

In our paper, we show that the proposals and initiatives are quite different in nature. Some issuing bodies have proposed a more flexible and principles-based approach, while others suggested a mandatory and rules-based list of AQIs. The length of suggested AQIs differs from eight to 28 indicators. While selecting indicators or an AQI approach, it is important to keep the main objective in mind, which is demonstrating audit quality as an outcome. Losing sight of this might result in AQIs becoming an additional burden to audit firms.

The initiatives seem to be intended for different stakeholder groups. Some issuers differentiate between engagement and firm level indicators. It is suggested that firm level AQIs information should be made public, which means that all key stakeholders can assess available information. In some cases, information can be considered sensitive as it is acquired from indicators at the specific engagement level. Such information is, therefore, meant to be private and for audit committees only.

The issuers of the AQIs initiatives propose different approaches with regard to characteristics of AQIs. Some indicators are clearly of a qualitative nature and others are quantitative, while some propose a mixed approach that includes both types of indicators. Many emphasize that AQIs should be interpreted in the right context, otherwise it can lead to misinterpretation and misinformed decisions.

We also noticed that certain indicators recur throughout a number of initiatives. For instance, indicators such as "internal engagement quality reviews" and "external inspections" are found in six initiatives out of the nine. However, that does not mean that these indicators are any better than those that do not have a tendency to reoccur.

Audit quality remains an elusive construct to both define and measure. It is important to keep in mind the perspective from which audit quality is assessed, as the understanding of the context is essential for the interpretation of AQIs. Also, many audit firms operate at a global level. In addition, the overview of AQIs shows significant differences in the initiatives in various jurisdictions. A global initiative on AQIs, therefore, might be the best way forward. To obtain the desired result, the best approach might be for all relevant stakeholders to engage and collaborate to build a meaningful set of audit quality indicators.

Like what you see here? Subscribe to *The Latest*, our customizable update sent every two weeks.

Do you have a perspective you'd like to share with the global profession? Email [Gateway@ifac.org](mailto:Gateway@ifac.org) to inquire about becoming a Gateway contributing author.

## Join the Conversation

To leave a comment below, [login](#) or [register](#) with IFAC.org