Identifying and using Audit Quality Indicators in Public Oversight

Harun SAKI, Financial Management Specialist – World Bank

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WORLD BANK GROUP

REPARIS FOR SMEs

EAASURE

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Audit Quality Indicators
An Overview

AQIs – Why?

Policymakers' Perspective

EC Consultation - Strengthening of the Quality Of Corporate Reporting and Its Enforcement (Feb-22)

Q-4. There are no generally accepted standards or indicators to measure the quality of corporate reporting and of statutory audit, nor the effectiveness of supervision.

» Would it be useful to have specific indicators to measure the quality of corporate reporting, of statutory audits and the effectiveness of supervision?

» Is it possible to have clear and reliable indicators to measure the quality of corporate reporting, of statutory audit and the effectiveness of supervision?

» Should the European Commission develop indicators on the quality of corporate reporting, of statutory audits and the effectiveness of supervision?

Academia's Perspective

Various propositions from academic studies

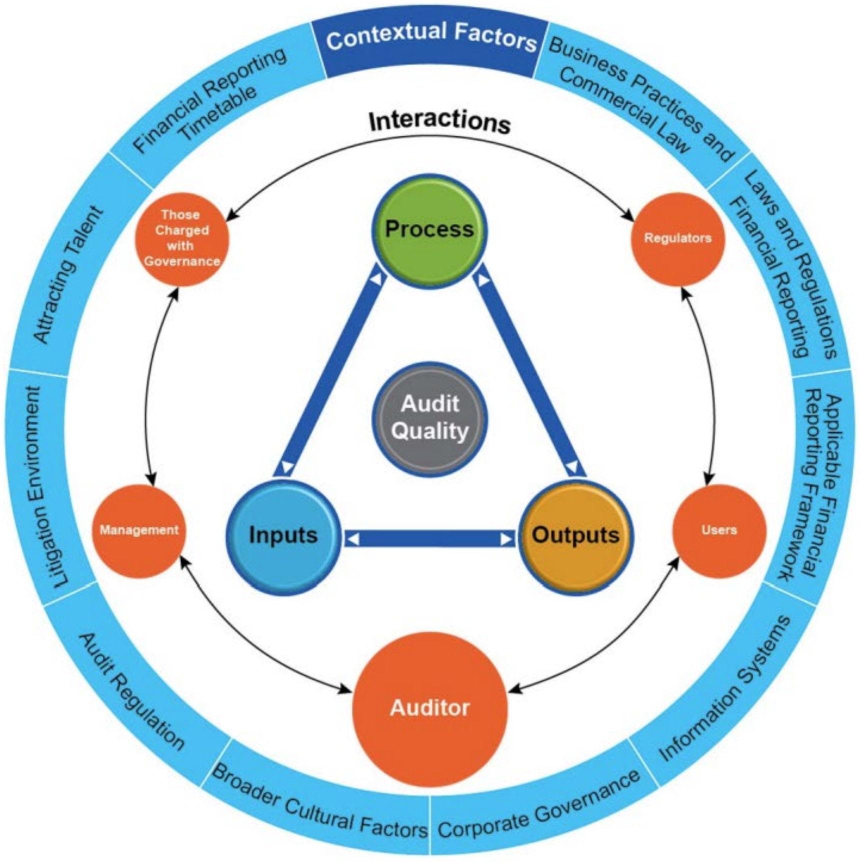
- Audit quality is unobservable as audit is a credence good
- Financial reporting and audit quality are inextricably intertwined
- A binary approach focusing on compliance with the standards is not helpful
- An increase in transparency appears opportune for scientists (and audit market)

Standard-Setter's Perspective

A FRAMEWORK FOR AUDIT QUALITY
(IAASB-February 2014)

Key Elements

- Inputs
- Process
- Outputs
- Key Interactions
- Contextual Factors



AQIs – What?

AQIs – Key Concepts

Types of AQIs

» Firm- vs Engagement-level

» Quantitative vs Qualitative

» Transparency: Public vs Private

» Mandatory vs Voluntary

AQI Reporting

Audit Firm	Public
Auditor	Audit Committee
Audit Firm	AOB
AOB	Public

(Potential) Users of AQIs

Audit Firms –
- in conjunction with System of Quality Management

Audit Committees –
- discharging of responsibilities as per Audit Directive and Regulation

Audit Oversight Bodies –
- guiding the market and planning its supervisory approach

Investors, Academics, Others –
- making informed decision making

AQIs – Examples

AQIs – A few examples

- Partner Workload
- Staff Turnover
- Involvement of Experts
- Use of Technology / Data Analytics
- Training Hours
- Prior Year Adjustments
- Internal / External Inspection Results

AQIs – A Tale of Two Regulators

PCAOB - US	FRC - UK
2013: set as priority (SP 2012-16)	2020: Thematic Review (52 indicators)
2015: Concept Release (28 AQIs)	2022: 11 Firm-level AQIs (Large Firms)
2024: Proposed Firm and Eng. Metrics	2024: Pilot – private reporting to the FRC
2025: Withdrawal of the Proposal	2025: First Data on Audit Quality Metrics

AQIs – Way Forward

AQIs – A few suggestions

- Focus on the reporting ecosystem
- No need to reinvent the wheel
- AQIs as a means rather than an end
- Maybe less is more