

# IFIAR Brief - 2014

## *Summarizing Key Activities and Future Goals of IFIAR (audit quality)*

IFIAR, focused on experiences of independent audit regulatory activity, sharing knowledge related to the audit market environment, promoting regulatory activity collaboration, and communicating with international organizations interested in audit quality. Nine critical areas for IFIAR's future included becoming a recognized global authority on audit quality issues, fostering cooperation and information exchange on auditing issues, persuading audit firms in addressing inspection findings, broadening contacts with non-IFIAR audit regulators, increasing interactions with international organizations working on audit quality issues, enhancing public communications strategy, boosting transparency within IFIAR, assisting countries in establishing regulatory functions, and monitoring developments impacting cross-border audits. To improve IFIAR's effectiveness and audit quality, initiatives were launched to analyze firms' business models and their impact on audit quality. The organization's future plan includes additional breakout sessions on audit quality indicators, issues for small regulators, and regional and national audit initiatives.

In the plenary meeting, independent audit regulators discussed to improve audit quality. They reviewed and shared views on audit quality indicators and conducted breakout sessions on several global projects. The Global Public Policy Committee (GPPC) working group, as part of IFIAR, continued its dialogue with the six largest international audit networks to enhance audit quality. They discussed internal quality monitoring reviews, actions taken to improve audit quality, developing a framework for analyzing data obtained from reviews, future of audit industry, market and environmental risk factors, and governance of firms. Topics lined up for future coverage include issues in specialized industries, inspections of medium-sized audit firms, internal control testing, bank audits, inspection documentation, thematic inspections, and potential regulatory risks related to non-audit service fees. The International Cooperation Working Group (ICWG) worked on promoting audit quality and efficient regulation by facilitating cooperation with other regulators.

The group analyzed major projects in standard setters' agendas and strategized on topics like the auditor's responsibilities, audit of disclosures, audit quality framework, non-compliance with laws and regulations (NOCAR), provisions regarding non-assurance services.

## *Regulatory Compliance and Administrative Burdens in European Financial Markets (nist)*

Focus revolves around understanding and implementing key regulatory standards and investment practices in European financial markets. This includes Market in Financial Instruments Directives and Regulations (MiFID II & MiFIR), over the counter (OTC) derivatives, special purpose vehicles (SPVs), and structured finance products. Significantly, there's greater emphasis on institutions strengthening their credit risk assessment and reducing reliance on external credit ratings. A range of exemptions related to transactions and investment operations was highlighted, aiming to trim excessive administrative burdens. An underlining theme also relates to reducing administrative burdens and costs, which links to the management of internal attackers, the reporting of securities financing transactions, and the administrative costs associated with access requests in trading venues. Lastly, the standards and regulations urge institutions to consider not just the financial resources but also the human element, such as the qualification and reputation of the person directing the business, and the

induction and training of members.

### ***The Role of Ethics and Governance in Business Operations and Compliance (ethics)***

This article primarily discusses the importance of ethics and governance in business operations and the regulation of professional activities. Particularly, it outlines how the internal perception of a company's code of ethics can affect profitability and shareholder returns. Good governance practices are instrumental in ensuring proper business ethics and thereby leading to increased profitability. It also underlines the influence of CEOs on the firm's ethics, values, and risk level. The piece further emphasizes the need for staff training, periodic review of competence, and succession planning. The article also discusses the role of ethics in audit and financial institutions, stressing the need for compliance with auditing standards, codes of ethics, and relevant regulations. Finally, the article underscores the ongoing dialogue and standard setting with international boards like the International Auditing and Accounting Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), along with discussions on major projects concerning ethics and standards.

### ***Auditing Standards Compliance and Regulation Update (auditing standards)***

The Standards Coordination Working Group (SCWG) under the guidance of Marjolein Doblado, HC, France, facilitated member dialogue about auditing standards and with key international auditing and ethics boards. In Brazil, the Securities and Exchange Commission (CVM) ran inspections on auditing firms. Additionally, the audit industry has seen growth with firms implementing International Standards on Auditing (ISA). Despite progress, some firms faced sanctions due to noncompliance. To promote transparency, the FSC/FSS improved the accounting portal website for easier access to vital information. The Financial Reporting Council (FRC) set up the Standard Review Panel to adopt international standards. In Sri Lanka, the auditing board reviewed audits and sent feedback letters to pertinent firms. In Turkey, the Public Oversight Authority (POA) aimed to calibrate local standards to international ones and established Turkish auditing standards. The Public Company Accounting Oversight Board (PCAOB) adopted a new auditing standard, which was focused on significant unusual transactions and executive financial relationships.

### ***Seeking Future Growth: Evolution and Enhancement of IFIAR's Governance (governance)***

The International Forum of Independent Audit Regulators (IFIAR) comprises members from different regions worldwide. Meetings in recent years identified the need for the IFIAR, formed in 2006, to review and possibly modify its governance and operating structures for its next developmental phase. Proposals include establishing a permanent secretariat and changes to the organization's financing and governance mechanisms. These proposals centered on governance changes, new fee structures and the potential creation of a permanent secretariat. It also focused on the plans for an information-sharing multilateral memorandum among IFIAR members. Additionally, reviewing audit quality issues and assessing the effectiveness of network investments to promote enhancements were identified as important.

The IFIAR aims to improve various areas, such as auditing management, accounting estimates, financial statement disclosures, and internal controls. They also discussed issues impacting the audit industry, firm governance, business strategy, economic models, and human resource management. Countries like Japan and Malaysia have begun incorporating the IFIAR findings into their corporate governance codes. Other targeted areas include root cause analyses, and

promoting audit quality and auditors' independence, which will support the evolution and enhancement of IFIAR's governance.

***Coordination and Dialogue within Global Audit Networks and Standards Boards (international audit)***

The Global Public Policy Committee Working Group (GPPCWG) is run by Brian Hunt of Canada and is tasked with managing the dialogue between IFIAR and the six largest international audit networks. Similarly, the Standards Coordination Working Group (SCWG), chaired by Marjolein Doblado of France, provides a platform for IFIAR members to discuss auditing standards and maintain communication with international standards boards. Despite persistent deficiencies in critical audit areas, these ongoing dialogues intend to improve global audit quality. The SCWG also has specific responsibilities for sharing concerns about pronouncements from international standards boards, with recent focus on topics related to standards and ethics. To enhance auditing quality, audit firms are inspected annually by HC staff and feedback is given through consultation letters. This effort also includes a continued dialogue with international standard setters. Supervisory activities conducted by IAASA are aimed to improve the regulatory systems and monitor the compliance of the RABs. Lastly, IFIAR is actively submitting feedback to IAASB's proposed strategies and work programs.

***Regulatory Framework and Practices for Prevention of Fraud in Financial Markets and Securities (fraud)***

The content focuses on the prevention of fraudulent activities in emission allowances and financial markets. This includes the misuse of information and potential funding terrorism or money laundering. Securities investors are assured of protection through a securities deposit guarantee fund, even in cases of fraud. The role of investment firms in preventing fraudulent activities is also emphasised, with requirements such as distinguishing client-held financial instruments and funds from their own, maintaining accurate records, and regularly verifying alignment with third-party records. The firms are also expected to minimize risks of loss through fraud, mismanagement, or negligence via adequate organization measures. Harmonized identification of clients will help monitor activities and detect potential fraudulent conduct. If securities are unavailable due to fraud or negligence, clients can claim under the Deposit Guarantee and Investment Protection Act. The text also includes consequences for fraudulent trading and measures in place for the protection of client assets and finances.

***IFIAR's Strategic Focus and Objectives in Audit Market Regulation (environment)***

The International Forum of Independent Audit Regulators (IFIAR) continues to concentrate on sharing knowledge and practical experiences regarding audit market environment and independent regulatory activities. This includes inspections of auditors and audit firms, consistency in regulatory activities, and collaborating with international organizations interested in audit quality.

They aim to offer a reliable framework for identifying audit quality issues and measuring the efficiency of investment towards audit improvements. Discussions are held within IFIAR and with the Global Public Policy Committee (GPPC) regarding network strategies, models, risks to audit quality, and regulatory environments.

Among IFIAR's objectives are forming common views on significant matters for members while considering their individual legal obligations. These objectives and activities underline the

importance of an effective audit oversight system, built according to certain preconditions, including risk assessment processes within the audit environment.

### ***Global Audit Regulation Updates and Trends (accountability)***

The Global Public Policy Committee (GPPC) working group, led by Brian Hunt, has been focusing on trends within the audit industry and completed a draft discussion paper. The paper saw significant contributions from regulators and industry members worldwide. Various member jurisdictions showed additional progress. In Abu Dhabi, the Accountability Authority (ADAA) checked audit files of statutory auditors, ensuring quality and compliance. Meanwhile, the Canadian Public Accountability Board (CPAB) focused on enhancing audit quality within four priority areas. Discussions centered around transparency, public accountability, investment climates, and strengthening professions. As of the end of the year, IFIAR membership consisted of independent audit oversight authorities worldwide, emphasising their commitment to using powers and resources responsibly to maintain credibility.

### ***Trends and Challenges in Audit Firms: Focus on Ethics and Professional Skepticism (professional skepticism)***

Key stakeholders represented by IESBA and IAASB chairs attended a dedicated meeting to discuss several critical points in the context of audit firms. Areas of improvement identified by ASIC include ensuring the adequacy of audit evidence, enhancing the level of professional skepticism, and relying appropriately on other auditors and experts' work. The central themes encompassed professional skepticism, group audits, and revenue recognition. They highlighted the need for audit firms to understand the underlying principles of the standards and employ them uniformly. There are ongoing issues related to misstatements in financial audits, particularly concerning fair value measurement, due care, and professional skepticism. Furthermore, other challenges such as managing estimates and auditing documentation were expressed. Audit firms are urged to uphold increased levels of professional skepticism and independence.

### ***Audit Regulatory Activity Updates Across IFIAR Member Jurisdictions (international standards)***

Member jurisdictions of the International Forum of Independent Audit Regulators (IFIAR) are enhancing audit regulation in their respective regions. The Abu Dhabi Accountability Authority (ADAA) continues to review audit files to assess procedure quality and enhance confidence in financial statement accuracy. Similarly, auditors in Dubai International Financial Centre are evaluated against international standards through an audit monitoring programme. Also, audits adapt to the International Standards on Auditing (ISA), further ensuring compliance with local and international auditing or relevant accounting standards. Initiatives include the translation of ISA into Lithuanian and the adoption of ISA and the International Standard on Quality Control in Poland. Compliance with these standards improves audit performance and promotes transparency across all IFIAR member jurisdictions.

### ***Audit Management and Accounting Practices Shortcomings (accounting estimates)***

The examinations underscore the need for enhancements in several audit management and accounting areas. Specific areas include management accounting estimates, fair value judgements, financial statement presentation, disclosure procedures, and internal control testing. The reliance on experts, audit planning, risk assessment procedures, and auditors' communication also need improvement. There is a significant focus on accounting estimates and policy choices related to non-financial asset impairments. Other notable areas include revenue recognition and group audits, with fair value measurements and accounting estimates identified as of particular importance. Documentation and engagement quality control reviews also present persistent issues. The audit also involves evaluating the accounting policies employed and the reasonableness of accounting estimates given by the executive committee. Finally, the overall presentation of the financial statements is being evaluated.

#### ***Inspection Focus Areas Highlighted by Supervisory Board and PCAOB (going concern)***

The supervisory board pinpointed key areas for inspection emphasis including the going concern, group audits, independence, turnover, amongst others. This is aligned with the theme of the review - the auditors' assessment of "going concern". The PCAOB also introduced two audit practice alerts related to auditing revenue and company's ability to sustain as a going concern. Feedback from IFIAR's global survey of audit inspection findings, which scrutinizes firms' audit practices, played a significant part in the development of this report. The survey underscored the continuation of deficiencies in critical audit aspects, indicating persisting concerns around audit quality. Matters regarding the misstatements in financial statements, audit processes, quality control, and the use of experts and specialists were also raised.

#### ***Ensuring Objectivity and Compliance in Audit Process (objectivity)***

POA has been conducting extensive oversight activities by scrutinizing information sent for audits to ensure they are executed effectively, efficiently, and with high regard for integrity and objectivity in line with laws, regulations, and professional values, ethics, and attitudes. This has highlighted the need for audit regulators to maintain the highest ethical standards to instill public confidence in their decisions. An adjudicatory system might be beneficial to strike a balance between efficiency and the appearance of objectivity, signifying the importance of using impartial adjudicators. An instance was recorded where a heavy penalty was levied on a large accounting firm for not maintaining adequate objectivity and independence. Areas flagged by respondents included objectivity and communication within audit committees, suggesting that audit regulators might need to reevaluate their strategies to find the perfect balance between efficiency and objectivity while administering fair procedures.

#### ***Coordination and Collaboration of Global Audit Networks by the GPPCWG (audit network)***

Brian Hunt, CPAB, Canada, the chair of the Global Public Policy Committee Working Group (GPPCWG), is leading the coordination of interaction with the six major international audit networks (BDO, Deloitte Touche Tohmatsu, EY, Grant Thornton, KPMG, and PricewaterhouseCoopers). The GPPCWG, focusing on the third objective outlined in the officers' work plan, is enhancing its dialogue with these audit networks' global leadership. The group has conducted a meeting that included discussions on communications with audit committees composed of representatives from major networks and audit committee chairs from around the world. The objective of their continuous dialogue is to improve audit quality globally. Furthermore, their efforts reflect the global expansion of the business sector, and an

increase in cross-border audit services, which also necessitates enhanced international coordination and investigatory activities.

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