

IFIAR Brief - 2015

IFIAR's Efforts and Initiatives in Enhancing Global Audit Quality (audit quality)

The International Forum of Independent Audit Regulators (IFIAR) is keen on amplifying audit quality and perceives some deficiencies in the efforts of the audit profession to improve the same. IFIAR, in collaboration with Global Public Policy Committee (GPPC) networks, has introduced a new initiative to tackle audit quality gaps and make global improvements, focusing on thorough root cause analysis and the implementation of responsive corrective actions.

A number of member firms report the positive impact of global firms that have successfully pushed for changes to enhance audit quality at local firm levels. However, the perceived overall change in audit quality varies across different members. IFIAR and GPPC hold regular discussions to address the most common audit quality issues and underlying causes.

This initiative aims at substantial improvements in global audit quality across all IFIAR jurisdictions, with inspection findings serving as a progress tracker. It is expected that the efforts made by these networks will not only boost audit quality across the members of the GAQ working group but on a global scale. The changes and improvements may not reflect immediately in IFIAR's published survey results due to the reporting time lag.

The ultimate goal is to create reliable financial statement audits by identifying common audit shortcomings, promoting collaboration, and facilitating discussions with other international organizations interested in audit quality. The focus is also on sharing knowledge of the audit market and promoting consistency in regulatory activity.

Audit Deficiencies and Root Cause Analysis in the GPPC Networks (audit deficiencies)

The GAQ working group has collaborated closely with the GPPC networks for a better understanding of established root cause analysis practices, aiming to determine the prevalence of audit deficiencies and whether corresponding remedial actions are being implemented. Established audit regulators often require additional procedures when deficiencies are flagged; however, noted deficiencies aren't meant to function as scorecards or comprehensive rating tools. A major concern has been the failure of several firms to address these deficiencies retroactively. The inadequacy of procedures in addressing root causes for audit issues was surveyed among members, revealing unsatisfactory results. IFIAR emphasizes that a critical factor in improving audit quality is enhancing professional skepticism. Despite some limitations, IFIAR is committed to examining reported survey data over time to identify trends and areas of recurring audit deficiencies.

Market Integrity and Prevention of Fraudulent Practices in Capital Markets (fraud)

The discussion points out a strong interest in the integrity of capital markets and the prevention of fraudulent practices. There are concerns over increased market volatility due to High-Frequency Trading (HFT) strategies, such as layering and quote stuffing, and potential for fraud with personal data in trading records. Different regulations and requirements are proposed to sustain market integrity, including stringent criteria for registration and operation of brokerage companies, credit rating agencies, and data reporting service providers. Further, there is

emphasis on the capacity of regulatory bodies, particularly the Securities and Exchange Commission of Pakistan (SECP), to prevent and penalize fraudulent and unfair trade practices. The discussion also acknowledges the need for efficient detection mechanisms to deter market manipulation and fraud. Lastly, the active role of crowd funding website users in exposing fraudulent campaigns and holding fundraisers accountable is recognized.

Annual Survey Review by the International Forum of Independent Audit Regulators (international audit)

The International Forum of Independent Audit Regulators (IFIAR) conducted its fourth yearly survey in which themes were identified through individual inspections of firms part of six major, international audit firm networks, known as the GPPC networks. The goal was enhancing audit quality, in connection with the International Auditing and Assurance Standards Board's international standard on quality control (ISQC). A consistent decrease in the total number of findings was noted from the survey in line with previous year results. Regular meetings with representatives of the six largest international audit firm networks were held to discuss these findings and consider their significance to international auditing standards.

Enhancing Audit Quality and Professional Skepticism Practices (professional skepticism)

The International Forum of Independent Audit Regulators (IFIAR) has identified issues with the lack of professional attitudes and sufficient professional skepticism as root causes of deficient audits. IFIAR stresses the importance of professional skepticism for high-quality financial statement audits. Specific attention is paid to auditor adherence to standards, and the clarity such standards provide for their application. The forum is maintaining a dialogue with the International Auditing and Assurance Standards Board (IAASB) to voice concerns related to quality control and group audits. IAASB's focus on improving audit quality is reflected in its release of documents for public comment. Furthermore, the IFIAR highlighted the importance of competent internal control testing, fair value measurement, risk assessment, and revenue recognition, underscoring professional skepticism in each. The organization recommended that audit committees assess auditor commitment to audit quality and skepticism, the utilization of experts in complex audits, and maintain effective communication with the auditor over concerns and risk areas.

Inspection Findings and Audit Performance Analysis Based on Quality Control Systems (ethical requirement)

The audit review findings have demonstrated high frequencies of issues with regard to engagement performance and ethical requirements. Although the occurrence of findings has notably reduced in human resources, ethical requirements and leadership responsibilities, problems continue to exist in areas including internal control testing, valuation of investments and securities and the use of experts and specialists. However, it should be noted that a misstated financial statement is not the primary measure of audit performance. The key areas for improvement remain to be engagement performance and independence & ethical requirements.

Audit Regulation Processes and Its Link with International Auditing Standards (auditing standards)

People are primarily interested in the evaluation of the auditor's compliance with auditing standards by audit regulators. This process includes an assessment of audit deficiencies and takes added steps when one is observed, requiring the audit firm to perform further procedures. The evaluation focuses on the departure from auditing standards or requirements that might affect audit quality. Careful analysis of the circumstances leading to inspection findings could suggest considerations related to auditing standards. The International Forum of Independent Audit Regulators (IFIAR) considers potential implications of inspection findings on international auditing standards. The auditor's response to non-compliance with laws and regulations (NOCLAR) attempts to complement the requirements of these standards.

Regulatory Framework and Ethical Standards for Auditors in Pakistan (ethics)

The discussion revolves around concerns over the aggregation of investment recommendations and the regulations with regards to the securities market and corporate governance in Pakistan. The main points opposed against the idea of aggregation revolve around dilution of producer position and incompatibility with employment laws. Moreover, the need for aggregation is questioned due to existing ethical codes which mandate investment analysts to conduct due diligence, maintain independence and substantiate their recommendations. The Code of Corporate Governance and its clauses ensure that companies appoint rated external auditors who comply with international ethics guidelines. The report further touches on the role of the Institute of Chartered Accountants of Pakistan (ICAP) in maintaining standards of professional ethics (including integrity, objectivity, confidentiality, professional competence, and behaviour) and enforcing a quality control environment for auditors. Non-compliance with these ethical codes often leads to disciplinary action under ICAP. The auditing standards in Pakistan comply with international standards, including dealing with potential conflicts of interest. Compliance with ethical standards is monitored through a review of engagement and the firm's system of quality control. An intranet page on ethics further guides staff members in dealing with potential conflicts of interest.

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