

IFIAR Brief - 2016

Enhancing Audit Quality and Addressing Recurring Deficiencies (audit quality)

The audit areas are frequently found to have deficiencies, indicating the need for improvement in audit quality. Audit firms bear responsibility for enhancing this quality. To implement appropriate measures that support audit quality, firms must understand the root causes of behaviors impacting the quality. The use of root cause analysis can aid firms in taking effective remedial action to enhance audit quality. The International Forum of Independent Audit Regulators (IFIAR) plans to continue working with the largest global audit firms and outside organizations to promote improved audit quality. The IFIAR survey aids in identifying areas for improvement but isn't solely aimed at measuring changes in audit quality. The audit deficiencies, mainly around quality control, ethics standards, or independence requirements, highlight the need for firms to question their current quality control systems. Firms should focus on timely identification of audit performance issues and take swift action to mitigate the recurring deficiencies. Actions to improve audit quality might not reflect immediately in IFIAR's results due to reporting lag, but these efforts are key in improving audit quality. IFIAR advocates robust root cause analysis to address audit quality challenges guided by a deep understanding of the causal factors.

IFIAR Annual Survey Analysis: Prominent Audit Findings and Themes (accounting estimates)

The IFIAR conducted its fifth annual survey of audit firm networks, revealing that accounting estimates, internal control testing, revenue recognition, and audit sampling were the predominant identified themes. These areas have demonstrated recurrent frequencies of inspection findings, with audits of accounting estimates—focused on goodwill and indefinite-lived assets—having the most findings. Property, plant, equipment, investments, and securities were also identified as areas with frequent accounting estimate findings. Other themes included group audits, the use of experts or specialists, audit committee communications, among others. Member action plans were outlined to address recurring issues, which include discussions of common root causes. Changes to the survey in the present year included the combining of fair value measurement with accounting estimates, thus expanding the theme's scope.

IFIAR Survey of Quality Control in Audit Firm Inspection Themes (ethical requirement)

The International Forum of Independent Audit Regulators (IFIAR) carried out its 5th annual survey of member audit regulators' findings from inspections of audit firms affiliated with the six largest global audit firm networks. Main inspection themes included engagement performance, independence and ethical requirements, human resources, monitoring, client risk assessment, acceptance, and continuance, and leadership responsibilities for quality within the firm. Several findings were reported under each theme. Most notable are problems related to independence and ethical requirements, wherein non-audit services provided to the audited entity were not adequately considered and evaluated. Additional quality control findings related to engagement performance, monitoring, and human resources were also documented.

Ethical Conduct and Professional Integrity in TTSEC and Global Firms (ethics)

The TTSEC has implemented a code of ethics and professional conduct promoting honesty, integrity, fairness, and confidentiality, adhered to by TTSEC staff, management, and commissioners. Changes impacting this include senior role transitions and waivers of ethics rules for key employees. The effectiveness of the board's implementation and oversight of internal controls, ethics, and programs is identified as critical, factoring in risks such as compliance and ethics. More board involvement in conduct and ethics is encouraged, while two ESMA staff members have been assigned as ethics officers to ensure organizational values and ethics are upheld. ESMA has implemented a conflict of interest policy for its staff and provides ethical conduct guidance. Asset management firms are encouraged to adopt written ethics codes to address conflict of interest from personal trading. International boards like IFIAR and IAASB are interested in understanding more about the nature of audit quality, quality control findings, and ethical standards' departures as related to independence and ethics.

Understanding Root Causes of Audit Deficiencies in IFIAR Survey Networks (audit deficiencies)

The identified audit deficiencies during inspections are not supposed to act as balanced scorecards or rating tools. Essential for a firm is an effective internal quality monitoring function to identify factors leading to these deficiencies. While certain discussions have been beneficial in pinpointing recurring issues, we must continue to focus more on understanding methodologies in GPPC networks, and discerning non-case-specific, wide-ranging causes. Every GPPC network has reportedly developed guidance to support member firms in root cause analysis, often executed at the firm level. Some networks further evaluate recurring deficiencies network-wide. Upon examining the efficacy of actions taken to address root causes and amending plans if necessary, a variegated response was noted.

Risk Management and Regulatory Compliance in Financial and Data Service Sectors (fraud)

The content explores the significant importance of mitigating custody and investment risks within Financial Market Infrastructure (FMI). It highlights the mandatory information required for senior management and board members while applying for registration as a trade repository, including expertise, details of any criminal convictions, and conflict of interest. It emphasizes the need for transparency in regulatory compliance, focusing on the Trinidad and Tobago Securities Exchange Commission's (TTSEC) efforts in safeguarding investors, fostering fair markets, and reducing systemic risks. Moreover, it underscores the importance of vigilant risk management practices to curtail internal security breaches, fraudulent practices, and the unauthorized use of information. The discussion also references TTSEC's efforts towards continuous public education aimed at responsible investment decision-making and understanding the risks of fraud and scams. Lastly, it delves into cyber-security threats in electronic trading, highlighting the need for robust security measures and incident response strategies.

Feedback and Improvements for IAASB's Future Work Plan (international audit)

The International Auditing and Assurance Standards Board (IAASB) is pursuing stakeholder feedback for its upcoming work plan. The focus has been on quality control for firms engaging in audits, reviews of financial statements, and other related service engagements, with special effort being given to content development for annual inspection workshops. The IAASB also has ongoing dialogues with Global Public Policy Committee (GPPC) networks. Feedback obtained will be used to consider how inspection findings could impact international auditing standards. High on the agenda is the inclusion of the project examining the implications of high volumes of data and data analytics tools on international auditing standards.

Implementation and Benefits of XBRL in Efficient Data Accessibility and Comparability (environment)

The discussion centers on the utility of XBRL as a technological standard designed to streamline information exchange and accessibility in a multilingual European environment. Specifically, a recommendation is made for EU-wide application of technologies like XBRL to simplify business environments. This adoption is likely to provide several potential benefits, including improved data comparability, accessibility, and quality, as well as eased integration into existing systems (interoperability). However, the differing presence of XBRL across various jurisdictions may increase operational costs for issuers in those regions. Furthermore, variations among stakeholders' experience, IT investment, and knowledge of the technological environment may impact their interpretation of questions and responses. While individual CCPs exhibit distinctive features based on product cleared, participant profiles, and operating environment specifics, consistency in implementing technological standards like XBRL can still be achieved.

IFIAR Advocates for Clarity and Consistency in Standard Setting (professional skepticism)

The International Forum of Independent Audit Regulators (IFIAR) is actively encouraging standard setters to ensure clear and concise directives are provided in audit standards. It specifically emphasizes the need for auditors to consistently implement these standards and to demonstrate adequate professional skepticism. The audit areas under focus include accounting estimates, quality control systems, risk assessment, internal controls, group audits, and professional skepticism. Five of these areas are already part of the IAASB's work plan. In relation to other topics such as materiality, the use of expert analysis, response to assessed risks, and analytical procedures, the IFIAR encourages their inclusion in the IAASB's forthcoming work plan, citing frequent inspection findings in these areas.

Disclaimer: The content herein was sourced from the International Forum of Independent Audit Regulators (IFIAR) at <https://www.ifiar.org> and summarized by ChatGPT. ChatGPT is known to generate inaccurate information. Always refer to IFIAR's original documents for complete and accurate information.