

# IFIAR Brief - 2017

## *Evaluation and Improvement of Audit Quality (audit quality)*

According to the survey analysis, numerical data from audit deficiency reports alone does not provide a comprehensive measure of audit quality. To enhance audit quality, numerous members of the International Forum of Independent Audit Regulators (IFIAR) have initiated several programs. Interaction with global audit networks, international audit and standard setters further enables the promotion of high-quality audit consistency. The survey conducted also aids IFIAR in revising international audit standards and promotes knowledge sharing aimed at improving global audit quality. However, it's crucial to note that the survey's intention is not to quantitatively measure audit quality improvement, as key contributing factors are often qualitative and not easily quantifiable. Various regulators, audit firms, and professional accountancy bodies have aimed to identify and track audit quality indicators, although, it's challenging to determine an objective, quantitative approach. Monitoring and effective response to audit environment developments can put firms in a better position to improve audit quality.

## *Accounting Estimates and Internal Control Testing: Key Concern Areas in Audit Inspections (accounting estimates)*

The International Forum of Independent Audit Regulators (IFIAR) inspection findings highlighted accounting estimates and internal control testing as areas with the most frequent issues. The major concerns were the failure to assess the reasonableness of assumptions, and inadequacies in consideration of contrary or inconsistent evidence in accounting estimates. It was also noted that, on average, % of listed pie audits inspected had at least one finding. IFIAR suggest that the International Auditing and Accounting Standards Board (IAASB) considers including topics in the high numbers of inspection findings, like materiality and use of experts, in their upcoming work plan. The report also indicates standard audits on accounting estimates and International Standards on Auditing (ISA) as some of the projects that IFIAR has worked on. In addition, IFIAR implementation of new inspection themes was reported, and a consolidation of previous survey themes into broader themes such as 'Accounting estimates, including fair value measurement' was done. For revenue recognition, issues were identified with risk of fraud assessment and period of revenue recording. Regarding the audit of SIFIs (Systemically Important Financial Institutions), it was disclosed that these are few compared to listed Pies. In total, IFIAR finds that there is room for improvement in auditing and accounting systems in terms of thoroughness and adherence to procedures.

## *Enhancing Ethical Standards and Integrity in Securities Regulation and Auditing (ethics)*

There is emphasis on the need for stricter ethical standards and integrity within securities commissions. An amendment is proposed for members to recuse themselves from decisions where they may have a conflict of interest. Various methods, including regulations and ethical conduct guidelines, can address integrity and ethics issues. The principle could extend to other information service providers, including auditors. Different documents are listed that concern principles relating to market intermediaries,

highlighting recommendations on protecting client assets, distributing complex financial products, etc. Focus is placed on ethical conduct, avoidance of preferential treatment, and maintaining professional standards within the commission. Secrecy and confidentiality are also of paramount importance.

Auditing aspects include the independence, ethics and integrity of auditors. Commission members practice professional conduct, uphold confidentiality, and are mandated to follow a strict code of ethics. Pertaining to capital markets, the lectures emphasize on equity, debt and regulatory ethics.

Inspection findings of audit quality control underline departures from ethical standards that may affect audit quality. IFIAR's annual survey informs the dialogue with standard setters, highlighting issues identified during inspections that can impact project planning for the standard setting boards.

### ***Enhanced Procedures for Audit Quality Through International Collaboration (international audit)***

In line with its goal of improving the consistency of high-quality audits, the International Forum of Independent Audit Regulators (IFIAR) maintains a continuous dialogue with its members, leadership from global audit networks, and international audit and ethics standard setters. IFIAR initiatives focus on conducting firm-wide and audit engagement inspections and measuring audit quality. Moreover, IFIAR closely monitors projects aiming to refine international audit standards for quality control systems. The annual survey conducted by IFIAR is utilized to inform discussions with standard setters. The organization has also shown interests in the International Standard on Auditing (Revised): Auditing Accounting Estimates and Related Disclosures, for which it has provided feedback.

### ***Enhancing Audit Quality: IFIAR's Approach and Goals (environment)***

IFIAR aims to proactively tackle the challenges posed to global audit quality. They rely heavily on their members' monitoring of developments which impact the audit environment. Notably, deficiencies in a firm's quality control system may affect individual audit engagements as well as internal monitoring and oversight. IFIAR's annual meetings provide a forum for independent audit regulators to share insights on these challenges. Key activities include sharing knowledge about the audit market, promoting regulatory consistency, and fostering a platform for dialogue with other international organizations interested in audit quality. The overall objective is to elevate the understanding and execution of independent audit regulatory activity, particularly in relation to the inspections of auditors and audit firms.

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