

# IFIAR Brief - 2021

## *Survey on Audit Quality Improvement Progress (audit quality)*

The conducted survey provides insights on firms' progress in improving audit quality, though it's not a complete measure. Audit inspection findings offer one metric of quality, but should not be considered the only measure due to their lack of holistic assessment. The International Forum of Independent Audit Regulators (IFIAR) monitors audit quality by tracking the percentage of listed PIE audits with at least one finding. Despite year-over-year changes not being entirely indicative of audit quality, IFIAR follows the trend of survey findings for insight. To promote audit quality, continuous improvement in audit practices is essential, as well as increased dialogue and engagement between member firms and their local regulators. The survey details were collected from member firms of GPPC networks to aid targeted discussions on trends and audit quality. The focus of IFIAR's work includes sharing knowledge, promoting consistency in regulatory activity, and providing a platform for dialogue with international organizations interested in audit quality.

## *Audit Firm Governance and Culture: Findings and Recommendations (governance)*

The reports explore audit firm governance arrangements, focusing on their public interest role and their increasing engagement in consultancy and advisory practices. These factors enhance the requirement for solid governance which can drive audit quality. The implementation of the International Standard on Quality Management (ISQM) is highlighted, which expands on audit firm governance and leadership requirements. A sound firm culture is identified as crucial for effective governance operation. A competent and independent governance system within audit firms greatly affects the quality of statutory audits. The results show that no IFIAR member country lacks input from audited entities or those charged with governance in auditor selection. The reports suggest new reporting and attestation requirements related to internal controls and audit firm governance. They also discuss regulatory roles in the composition or arrangements of governing bodies. The reports further emphasize that good governance within an audit firm impacts the general quality of the firm's audits. The reports provide observations on appointment and tenure of auditors, joint audits, a combination of audit and non-audit services, transparency of audit-related information, and audit firm governance and culture.

## *Survey and Discussion Paper: Pandemic Impact and Inspection Themes (fraud)*

The focus is primarily on inspection themes including pandemic impact, going concerns, estimates, fraud, which have historically been a part of the audit surveys. Themes internally control testing, accounting estimates, fair value measurement, revenue recognition, audit report, audit sampling, risk assessment, need for review, use of experts, fraud, inventory, and going-concern amongst others, have surfaced. Failures noticed include assessing the reasonableness of assumptions, adequate risk assessment, and adequately considering indicators of bias. Noteworthy are the concerns raised on auditor's performance and responsibilities relating to fraud and going concern in financial statement audits. There are suggestions to enhance fraud identification procedures and the use of stronger language to reinforce professional skepticism. Additionally, there's a mention of maintaining effective

internal control over financial reporting (ICFR) to ensure compliance with policies affecting financial reporting reliability.

### ***Audit Inspection and Reporting Trends Amidst Pandemic (going concern)***

The document discusses significant themes like 'going concern', 'fraud', 'estimates', which could be affected by the pandemic, as reflected in various audit surveys. The document features specific surveys carried out on different types of audits, displaying the number of findings for each inspection theme, including risk assessment, internal control testing, revenue recognition, and others. Furthermore, it talks about the role of International Auditing and Assurance Standards Board (IAASB) in auditing procedures related to 'going concern' - the assumptions that a company will continue trading in the near future, necessary for financial reports. The IAASB is collecting inputs from stakeholders on this topic and fraud. Various methods are considered for the improvement of audit procedures related to going concern, appealing for an updated version of both the accounting and auditing standards. The document also discusses transparency and disclosure practices in different jurisdictions, including audit quality indicators, enhanced regimes for reporting on going concern issues, and transparency reporting. Lastly, several jurisdictions are considering stricter reporting on going concern issues, alongside recent enhancements in some jurisdictions. Essential factors like leadership, culture, ethics, audit fees, non-audit fees, and independence play a pivotal role.

### ***Ethics, Corporate Responsibilities and Regulatory Standards in Finance and Business (ethics)***

The text discusses the importance of ethics, corporate responsibility, and adhering to regulatory standards in financial practices and overall business operations. A main focus is on the requirements for charity-related payments in federal employment and potential associated tax implications. Another critical highlight is the continuous education requirements in ethics for members of the Financial Industry Regulatory Authority, which is intended to ensure knowledge in ethics and professional responsibility, investment features, suitability considerations, and regulatory requirements. Furthermore, controversies around business ethics, anti-competition, and tax fraud in the financial sector, particularly from firms in the Stoxx Europe Index, are underlined. The European Securities and Markets Authority (ESMA) emphasizes the establishment of strong internal expertise on ethics and conflict management in organizations. Firms and auditors are encouraged to adhere to the ethical standards and carry out independence assessments, maintain consistent high-quality audits, and comply with relevant ethical and professional standards among others. Finally, the concept of ethics in finance was notably explored during a webinar hosted by the CFA Society Portugal.

### ***Audit Standards and Inspection Findings: Impact on Quality and the Need for Upgrades (auditing standards)***

The survey underlines that a finding, or deficiency, is a significant issue that does not satisfy the requirements of auditing standards. It indicates an issue in adhering to auditing standards or requirements, including aspects of quality control, ethics and independence, thereby impacting audit quality. However, these findings may not always imply errors in the financial statements of the audited entity. To enhance auditing quality, the survey suggests improvements in auditing standards. Interestingly, some jurisdictions have already amended their local auditing standards to respond to public interest considerations better. There's a shared belief that assessing 'going concern' quality and related audit procedures will significantly improve if both

accounting and auditing standards are updated.

### ***Audit Findings and the Impact of Technology on Auditing (technology)***

Auditing inspections reveal an array of shortcomings including inadequate assessments, internal control failures, insufficient testing, and unsatisfactory consideration of fraud risks. Notably, the auditors often didn't thoroughly assess accounting assumptions, react appropriately to ineffective controls, perform necessary risk assessment procedures, or consider possible bias. Additionally, issues were identified with the selection and handling of sample data, the incorporation of tech controls, and the interaction with component auditors. Conversely, on the technology front, it's suggested that technology, despite its advancement, presents both potential risks and opportunities in terms of auditing. Large audit firms, with pooled resources, are able to heavily invest in IT, leading to operational efficiency and an ability to offer resource-intensive audits for multinational entities. Still, despite the proliferation of tech tools in auditing, the quality of an audit mainly hinges on the expertise and judgment of trained professionals.

### ***Enhancing Audit Practices and Accountability: Case Studies from Abu Dhabi and Japan (accountability)***

The summary focuses on the improvement of audit practices with various principles agreed upon with firms which cover governance, audit practice scope, financial matters, partners' remuneration, transparency, accountability, and transitional arrangements. Two cases studies demonstrating these principles are highlighted; one from Abu Dhabi and the other from Japan. The Abu Dhabi Accountability Authority (ADAA) issued a resolution requesting reporting entities to get an opinion on the Internal Control over Financial Reporting (ICFR) efficiency from external auditors. This is seen as a progressive approach to enhance the required skills and systems for a more effective ICFR and address issues regarding scoping, assurance level, management roles and audit responsibilities. In Japan, after some significant audit failures, the conduct of auditor's accountability was enhanced by introducing an 'audit firm governance code' and 'KAM' in efforts to regain public trust. These changes targeted increased transparency in audit reports and the reasons behind changes in auditors, which was previously lacking. The citation indicates the need for clearer disclosure of reasons for auditor changes beyond mere 'end of tenure' statements.

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