

IFIAR Brief - 2022

Enhancing Global Audit Quality Standards and Practices (audit quality)

Policymakers and organizations are interested in improving audit quality globally, through the promotion of high-quality auditing and professional standards, and adherence to auditing requirements. The International Forum of Independent Audit Regulators (IFIAR) is at the forefront of this undertaking, monitoring the progress of audit firms and advocating for high audit quality. Metrics such as deficiencies identified during inspections serve as indicators of audit quality. Audit firms need to continuously improve audit quality and address increased audit risk. They should also have an effective system of quality control—a critical element in maintaining high audit quality. The newly implemented International Standard on Audit Quality Management (ISQM) requires firms to identify risks affecting audit quality and tailor controls accordingly. Though improvements are expected, the survey data does not conclusively signify changes in audit quality. IFIAR encourages cooperation among its members and stakeholders, facilitating deeper dialogue towards improving audit quality.

Evolving Ethics and Anti-Fraud Measures in Insurance and Finance Sectors (ethics)

The European Insurance and Occupational Pensions Authority (EIOPA) is focused on implementing big data analytics and artificial intelligence for ethical and trustworthy practices in the European Insurance sector. Several rules and practices have been established to stress the importance of ethics, anti-fraud measures, and conflict of interest management. These efforts are seen in ESMA's HR management and control systems, which have been audited and deemed efficient and effective. Efforts have been made by finance firms to improve guidance on considering the perspective of an objective reasonable and informed third party when making decisions related to ethics and independence. Organizations in the industry are also acting on embedding ethics training, guiding staff on third-party interaction, and conducting regular self-assessments. Advanced institutes like the CFA are focusing on advancing ethical standards in investment management. Lastly, attention is being drawn to the importance of ethical behavior and actions in managing organizational reputation and risk.

IFIAR's Governance and Reporting: Structure, Inspection Findings, and Strategy for Inclusiveness (governance)

The International Forum of Independent Audit Regulators (IFIAR) has issued a response to an invitation for comments from the International Auditing and Assurance Standards Board (IAASB) regarding proposed amendments to ISA (International Standards on Auditing). This response focuses on ensuring that the information provided to those in leadership positions is equivalent or superior to the details included in an auditor's report. Within IFIAR, members report their inspection findings, which can be categorized into quality control and engagement inspections, to both their firm leadership and public audience, giving insight into individual audit firms' performances. Additionally, some provide ratings based on these inspections' outcomes. IFIAR's governance structure includes a core board, two committees (Audit and Finance Committee, Human Resources and Governance Committee), and various task forces. Chairperson Duane Desparte and Vice Chair Takashi Nagaoka lead the board, which is

instrumental in shaping IFIAR's strategic direction and operational priorities. Each committee and working group has distinct responsibilities, and their leadership and composition are globally varied, reflecting IFIAR's commitment to diversity. IFIAR's primary focus is on ensuring a balance between the benefit of in-person dialogues and the cost of travel, prioritizing fair and equal treatment, and embracing diversities of geography, race, gender, culture, and experience. The entity charged with governance oversees IFIAR's financial reporting processes.

Proposal for Increased Regulatory Rules to Prevent Fraud in Private Investment Funds (fraud)

The commission proposes new rules intending to prevent fraud in private funds, although it has not demonstrated that current regulations and resources are inadequate to detect and amend fraudulent activities. The commission wants to use section 206 - an anti-fraud provision - to establish these reporting rules but is expected to clearly define an act that is fraudulent, deceptive, or manipulative first. The commission has not shown how proposed disclosures would prevent intentional fraud. It suggests these rules would allow investors to better assess their investments, an objective not directly related to fraud prevention. The commission has not validated specific fraudulent activities these rules would prevent. The proposed rules are considered burdensome to advisers especially, since they target sophisticated investors who already receive extensive reporting. The commission's prohibition of certain practices may deter some fraud but also affects mainly legitimate activities. Requiring investment advisers to be liable for mere negligence that is not willful nor material is seen as arbitrary.

Comprehensive Evaluation of Audit Procedures and Organizational Structure (technology)

The content presents a detailed account of various areas in which failures occurred during the audit process, including testing assumptions, risk assessment, internal controls, revenue recognition, and segment data presentation. These failures include issues such as the lack of consideration for bias indicators, incomplete evidence gathering, inadequate risk assessments, and improper reliance on the work of others. The text also encompasses a comprehensive review of IFIAR's organizational structure, including information on committees, task forces, leaders, members, and responsibilities. Lastly, the document includes a financial reporting section for the International Forum of Independent Audit Regulators Association for the year ended December 31.

Audit Engagement Inspections and Deficiency Identification (auditing standards)

This survey is concerned with auditing standards and the identification of critical deficiencies or departures from these standards, which encompass not only the execution of the audit but also quality control, ethics, and independence requirements. These deficiencies can negatively impact audit quality, whether due to their significance or recurring nature. However, discovering deficiencies during an audit engagement does not automatically imply inaccuracies in the financial statements. The inspected entity's accounting and disclosure might still be correct, regardless of whether the auditor fulfilled all auditing standards. The goal of individual audit engagement inspections is to evaluate the firm's application of auditing standards on a selected audit, but the identification of a deficiency doesn't always suggest a financial statement misstatement.

IFIAR's Objectives and Activities Centered on Enhancing Global Audit Quality and Oversight (environment)

IFIAR aims to share knowledge about the evolving audit market environment and independent audit regulatory activity, focusing on inspections of auditors and audit firms. It also endeavors to foster collaboration and consistency in regulatory activities and promote dialogue with other international organizations interested in audit quality. IFIAR warns of the increased audit risk associated with changes in the business and economic environment, such as higher inflation and interest rates. Moreover, it emphasizes that deficiencies in a firm's quality control system can impact individual audit engagements and internal monitoring. IFIAR continuously adapts its strategies and activities to align with the dynamic global business, audit, and regulatory environment. It maintains an active engagement with its members through its blog and website forum, regularly updating them on effective auditing practices and audit oversight in the COVID-era and other pertinent announcements and publications related to geopolitical uncertainties.

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