

# IFIAR: International Forum of Independent Audit Regulators

Janine van Diggelen, IFIAR Vice Chair

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International Auditing and Assurance Standards Board meeting

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# International Forum of Independent Audit Regulators

- ❑ Established in 2006 by independent audit regulators from 18 jurisdictions
- ❑ Members must be independent of the profession, and engaged in audit regulatory functions, at least including inspections, in the public interest
- ❑ IFIAR's 51 Members are from jurisdictions representing Africa, Asia, Australia, Europe, the Middle East, North America and South America



# IFIAR's Mission

- ❑ To share knowledge of the audit market environment and practical experience of independent audit regulatory activity;
- ❑ To promote collaboration in regulatory activity; and
- ❑ To provide a focus for contacts with other international organizations which have an interest in audit quality.



# IFIAR Today

Most IFIAR activities occur through working groups:

- ☐ Enforcement Working Group
- ☐ Global Public Policy Committee (GPPC) Working Group
- ☐ Inspection Workshop Working Group
- ☐ International Cooperation Working Group
- ☐ Investor and Other Stakeholders Working Group
- ☐ Standards Coordination Working Group



## IFIAR MEMBERS



### OFFICERS

**Chair:** Lew Ferguson; PCAOB US  
**Vice-chair:** Janine van Diggelen; AFM Netherlands

### ADVISORY COUNCIL

Abu Dhabi, Australia, Canada,  
 France, UK, Singapore, Sri Lanka

**IFIAR TREASURER:** Frank Schneider; FAOA Switzerland  
**IFIAR SECRETARIAT:** PCAOB US + AFM Netherlands

**OUTREACH TASK FORCE**  
 Germany, France, UK

## WORKING GROUPS

### INTERNATIONAL COOPERATION WG

*Responsible for considering ways and areas in which IFIAR Members can cooperate and share information relating to audit firms and engagements*

### GLOBAL PUBLIC POLICY COMMITTEE WG

*Responsible for coordinating IFIAR's ongoing dialogue with the member firms of the GPPC, which comprise the six largest international audit networks*

### INVESTOR AND OTHER STAKEHOLDERS WG

*Responsible for organizing IFIAR's dialogue with investor representatives*

### INSPECTION WORKSHOP WG

*Responsible for organizing the annual Inspection Workshops in coordination with an IFIAR Member serving as the Workshop host*

### STANDARDS COORDINATION WG

*Forum for IFIAR Members to share views and concerns about IAASB and IESBA pronouncements, and to prepare IFIAR comment letters on these matters*

### ENFORCEMENT WG

*Forum for Members' enforcement officials to exchange views and information on enforcement systems for investigating and adjudicating alleged auditor misconduct*

# IFIAR Today

## Main events:

- ☐ Annual plenary meeting
- ☐ Annual interim meeting (Advisory Council and Working Group Chairs)
- ☐ Annual Inspection Workshop
  - Keynote presentation on macroeconomic outlook; discussion of current financial reporting and audit trends; smaller group discussions on key aspects of audit inspections



# IFIAR Today

## Main events (continued):

- ❑ GPPC Working Group meetings with the six largest global audit firm networks two-three times per year
- ❑ Standards Coordination WG meets regularly with IAASB and IESBA board members and representatives
- ❑ First Enforcement Workshop planned for April 2015



# IFIAR Today

## Main external IFIAR products

- ☐ Comment letters to international audit and ethics standard setters
- ☐ Papers, presentations and summaries related to annual panels with investors and audit committee members
- ☐ Annual report on a survey of IFIAR Members' inspection findings
- ☐ Annual report including IFIAR initiatives as well as national and regional developments in Members' jurisdictions
- ☐ Inspection Findings Survey Report





# Transparent Dialogue on Investor Issues

Publicly available material from annual panels with investors and audit committee members

- ❑ Summary of panel discussions with investor representatives from 2009-2013
- ❑ Background papers and presentations from 2013 and 2014 panels
  - 2013: how the auditor might best improve audit quality and protect investors; summary of policy developments
  - 2014: Auditor's Communications with Audit Committees

See <https://ifiar.org/Working-Groups/Investor-and-Other-Stakeholders-Working-Group.aspx>



# Standards Coordination WG

- 12 IFIAR Members, from France (Chair), Australia, Canada, Germany, Italy, Japan, Netherlands, South Africa, Spain, Switzerland, United Kingdom, United States;
- Forum for IFIAR Members to share views and concerns about pronouncements from the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA);
- Primary focus of the activities:
  - sharing views on standards and preparing IFIAR comments on relevant consultations issued by IAASB and IESBA
  - organizing the dialogue between IFIAR and the standard setters
  - following up the development of main standard setting projects
  - discussing the new projects envisaged by the standard setters
  - providing input for the Monitoring Group's discussion



# Comments - Consultations and Exposure Drafts

- Following the adoption of internal communication policies, IFIAR issued comments letters, starting in December 2013
- To the IAASB

December 2013	Audit Reporting Exposure Draft
May 2014	The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016
August 2014	Proposed International Standard on Auditing (ISA) 720 (Revised) - the Auditor's Responsibilities Relating to Other Information
October 2014	Addressing Disclosures in the Audit of Financial Statements

- To the IESBA

March 2015	Improving the Structure of the Code of Ethics
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# Some Messages - Extracts from Comment Letters

- Focus on auditing and quality control standards
- Specific focus to clarity and enforceability of standards
  - Attention to requirements versus application material in standards
- Public interest

*“In line with our mandates as audit regulators, we are particularly focused on the consideration given to the public interest in any standard-setting action undertaken. Accordingly, as it pertains to the consultation paper on the IAASB Strategy and Work Program, we believe that the most important criterion in identifying and prioritizing topics for inclusion in the strategy and work program is the potential benefit to the public interest.”*

- Consideration of audit inspections findings

*“... the international standards might further contribute to improving the quality of the audits globally, particularly in the areas identified in the IFIAR inspection surveys ...”*

- Address findings from implementation reviews
- Flexibility for dealing with urgent emerging issues



# Dialogue IFIAR - IAASB

- **Organization of dedicated sessions with IAASB during annual IFIAR plenary meetings**
  - Next Organization of a panel session on the new auditor reporting model for the IFIAR Plenary meeting in April 2015
- **Dedicated conference calls and in-person meetings**
  - Regular meetings between IAASB Chairman and representatives and IFIAR Standards Coordination Working Group
  - Recent dedicated discussions with IAASB Task Forces
    - Auditor Reporting, Other Information (ISA720), Strategy and Work Program 2015-2019, Disclosures
    - Quality Control, Group Audits



# Survey of Inspection Findings: Overview

- ❑ In 2014, IFIAR conducted its third global survey of inspection findings related to the audits of public companies. The results of that survey were published 4 March 2015.
- ❑ 30 IFIAR Members contributed to the 2014 survey (30 in 2013).
- ❑ The survey results generally revealed similarities in the nature and extent of inspection findings as compared to 2013.
  - The top three inspection finding “themes” in each of the survey’s three categories of inspections findings were generally consistent with the 2013 results.



# Survey: Summary of findings

From 29 Members' inspections of audit engagements for **948** public companies at 122 audit firms and 17 Members' inspections of audit engagements for **148** major financial institutions at 41 audit firms.

## For Issuers

- ❑ Fair value measurements;
- ❑ Internal control testing; and
- ❑ Revenue Recognition

## For Financial Institutions

- ❑ Valuation of investments and securities;
- ❑ Audit of allowance for loan losses and loan impairments; and
- ❑ Internal control testing



# 2014 Survey: Findings from Listed PIE Audit Inspections

Inspection Themes	Number of Findings (a single PIE may have multiple findings for the same theme)	# of PIE Audits Inspected	# of PIE Audits with a Finding	% of Listed PIE Audits inspected with at least one finding
Fair Value Measurement	205	795	156	20%
Internal Control Testing	178	638	155	24%
Revenue Recognition	114	732	104	14%
Adequacy of Financial Statements and Disclosures	101	633	79	12%
Substantive Analytical Procedures	79	476	66	14%
Group Audits	75	506	53	10%
Inventory	69	409	64	16%
Adequacy of Review and Supervision	55	482	46	10%



# 2014 Survey: Findings from Listed PIE Audit Inspections (cont'd)

Inspection Themes	Number of Findings (a single PIE may have multiple findings for the same theme)	# of PIE Audits Inspected	# of PIE Audits with a Finding	% of Listed PIE Audits inspected with at least one finding
Fraud Procedures	54	675	43	6%
Use of Experts and Specialists	54	446	47	11%
Engagement Quality Control Review	53	515	52	10%
Risk Assessment	49	652	45	7%
Audit of Allowance for Loan Losses and Loan Impairments	46	244	31	13%
Related Party Transactions	40	404	33	8%
Going Concern	24	418	23	6%
Audit Committee Communications	14	475	13	3%
<b>TOTAL FINDINGS</b>	<b>1,210</b>			

# Summary of Findings for Listed PIE Audit Inspections

Inspection Themes	2014	2013	2012
Fair Value Measurement	205	217	169
Internal Control Testing	178	156	117
Revenue Recognition	114	104	86
Adequacy of Financial Statements and Disclosures	101	120	109
Substantive Analytical Procedures	79	55	75
Group Audits	75	89	75
Inventory	69	76	57
Adequacy of Review and Supervision	55	58	115
Fraud Procedures	54	65	Not Applicable
Use of Experts and Specialists	54	42	41
Engagement Quality Control Review	53	78	116
Risk Assessment	49	59	Not Applicable
Audit of Allowance for Loan Losses and Loan Impairments	46	55	43
Related Party Transactions	40	28	44
Going Concern	24	24	25
Audit Committee Communications	14	34	Not Applicable
<b>TOTAL FINDINGS</b>	<b>1,210</b>	<b>1,260</b>	<b>1,072</b>

# 2014 Survey: Finding from SIFI Audit Inspections

Inspection Themes	# of Findings Related to SIFIs	# of SIFI Audits Inspected	# of SIFI Audits with a Finding	% of SIFI Audits inspected with at least one finding
Valuation of Investments and Securities	42	122	33	27%
Internal Control Testing	36	98	26	27%
Audit of Allowance for Loan Losses and Loan Impairments	21	95	16	17%
Insufficient Challenge and Testing of Management's Judgments and Assessments	13	92	13	14%
Audit Methodology Including Programs and Tools	11	39	7	18%
Use of Experts and Specialists	9	81	9	11%
Adequacy of Financial Statements and Disclosures	7	85	6	7%
Substantive Analytical Review Procedures	6	69	6	9%
Testing of Customer Deposits and Loans	6	37	4	11%
Fraud Procedures	5	84	5	6%
Risk Assessment	4	81	3	4%
Group Audits	4	36	4	11%
Audit Committee Communications	2	73	2	3%
<b>TOTAL FINDINGS</b>	<b>166</b>			

# Summary of Findings for SIFI Audit Inspections

Inspection Themes	2014	2013	2012
Valuation of Investments and Securities	42	26	32
Internal Control Testing	36	39	33
Audit of Allowance for Loan Losses and Loan Impairments	21	42	15
Insufficient Challenge and Testing of Management's Judgments and Assessments	13	21	12
Audit Methodology Including Programs and Tools	11	1	9
Use of Experts and Specialists	9	8	N/A
Adequacy of Financial Statements and Disclosures	7	9	4
Substantive Analytical Review Procedures	6	12	N/A
Testing of Customer Deposits and Loans	6	3	10
Fraud Procedures	5	7	N/A
Risk Assessment	4	10	N/A
Group Audits	4	8	2
Audit Committee Communications	2	2	N/A
<b>TOTAL FINDINGS</b>	<b>166</b>	<b>188</b>	<b>117</b>



# 2014 Survey: Quality Control Findings

Inspection Themes	Audit Firms with at Least One Quality Control Finding	
	#	%
Engagement Performance	71	60%
Independence and Ethical Requirements	55	48%
Human resources	52	45%
Monitoring	40	34%
Client Risk Assessment, Acceptance and Continuance	36	33%
Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)	23	19%



# Summary of Quality Control Findings

Inspection Themes	2014	2013	2012
Engagement Performance	377	380	261
Human resources	111	146	166
Independence and Ethical Requirements	109	104	130
Monitoring	74	93	77
Client Risk Assessment, Acceptance and Continuance	53	78	100
Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)	45	43	33
<b>TOTAL FINDINGS</b>	<b>769</b>	<b>844</b>	<b>767</b>



# Assessment Change in Audit Quality

Assessment Change in Audit Quality	2014
Overall improvement	7
Overall decline	1
Both improvement and decline	6
No significant overall change	11
<b>TOTAL RESPONSES</b>	<b>25</b>



# The Survey's Connection to IFIAR Work

## ❑ GPPC Working Group

- Annual discussion with firms on findings from their internal quality reviews (inspections)
- Discussions on root cause analysis and remediation

## ❑ Annual Inspection Workshop

- Survey results discussed
- Selection of workshop topics informed, in part, by survey results

## ❑ Evaluation of standard-setting projects / focus

- Standards Coordination Working Group considers the survey results when evaluating a standard-setting project or the standard setter's agenda / strategy





# Relevance to Standard setting

- ❑ Inspection findings are deficiencies in audit procedures that indicate that the audit firm did not obtain sufficient appropriate audit evidence to support its opinion.
- ❑ Survey findings therefore do not themselves directly indicate Standards are insufficient
- ❑ However, the persistence in the outcomes over the last three years, and the frequency of certain findings, indicate the need for further consideration of whether improvements to audit quality require clarification of the standards, improved implementation, or both.



# IFIAR Outreach

- ❑ IFIAR Regularly engages with other regulatory bodies:
  - Financial Stability Board (FSB)
  - International Organization of Securities Commissions (IOSCO)
  - Monitoring Group
  - Basel Committee on Banking Supervision (BCBS)
  - Public Interest Oversight Board (PIOB)



# Other Current IFIAR Initiatives

- ❑ Multilateral MOU for Information Sharing
- ❑ Global Joint Audit Inspection
- ❑ Current Trends in the Audit Industry
- ❑ Thematic Review of Regulators' Core Principles
  - Audit regulators should ensure that a risk-based inspections program is in place; and
  - Audit regulators should have a mechanism for reporting inspections findings to the audit firm and ensuring remediation of findings with the audit firm.
- ❑ Consideration of a permanent secretariat function for IFIAR

