

IFIAR: International Forum of Independent Audit Regulators

Marjolein Doblado, IFIAR SCWG Chair

International Auditing and Assurance Standards Board Consultative
Advisory Group Meeting

Paris, 8 March 2016



International Forum of Independent Audit Regulators

- ❑ Established in 2006 by independent audit regulators from 18 jurisdictions
- ❑ Has grown to 50 Members by 2016
- ❑ Members must be independent of the profession, and engaged in audit regulatory functions, at least including inspections, in the public interest
- ❑ IFIAR's Members are from jurisdictions in 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 Audit Quality (GAQ) Working Group
- Inspection Workshop Working Group
- International Cooperation Working Group
- Investor and Other Stakeholders Working Group
- Standards Coordination Working Group



IFIAR MEMBERS



OFFICERS

Chair: *Janine van Diggelen; AFM Netherlands*
Vice-chair: *Brian Hunt; CPAB Canada*

ADVISORY COUNCIL

*Australia, France, Germany,
Japan, Singapore, UK, US*

IFIAR TREASURER: *Frank Schneider; FAOA Switzerland*
IFIAR SECRETARIAT: *AFM Netherlands + CPAB Canada*

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 (open to all Members)
- ❑ Annual interim meeting (Advisory Council and Working Group Chairs)
- ❑ Annual Inspection Workshop (open to all Members)
 - Keynote presentation; discussion of current financial reporting and audit trends; smaller group discussions on key aspects of audit inspections



IFIAR Today

Officer Led Initiatives:

- ❑ Officers regularly meet with the CEOs of the six largest global audit firm networks
- ❑ Officers regularly meet with key stakeholders to advance audit quality initiatives
- ❑ Officers represent IFIAR at conferences where audit quality is being discussed



IFIAR Today

Working Group Initiatives:

- ❑ Global Audit Quality Working Group meets with the six largest global audit firm networks (two/three times per year)
- ❑ Standards Coordination Working Group meets regularly with IAASB and IESBA
- ❑ Annual Enforcement Workshop



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 activities as well as national and regional developments in Members' jurisdictions



Investor and Other Stakeholders WG

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

- ❑ 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:
 - ❑ 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
 - ❑ providing input for the Monitoring Group's discussion



IFIAR Comment Letters to Standard Setters

❑ 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
November 2015	Exposure Draft on Reponding to Non-Compliance with Laws and Regulations

❑ To the IESBA

March 2015	Improving the Structure of the Code of Ethics
September 2015	Responding to Non-Compliance with Laws and Regulations



Some Messages - from Comment Letters

- ❑ Focus on auditing and quality control standards and ethics relevant to audit
- ❑ Specific focus to clarity and enforceability of standards
 - Attention to requirements versus application material in standards
- ❑ Consideration given to the public interest in any standard-setting action undertaken
- ❑ Consideration of audit inspections findings
- ❑ Flexibility for dealing with urgent emerging issues



Survey of Inspection Findings: Overview

- ❑ In 2015, IFIAR conducted its fourth global survey of inspection findings related to the audits of public companies. The results of that survey were published 3 March 2016.
- ❑ 35 IFIAR Members contributed to the 2015 survey (30 in 2014).
- ❑ The survey results generally revealed similarities in the nature and extent of inspection findings compared to 2014
 - The most frequent areas of findings in each of the survey's categories of inspections findings were generally consistent with the 2014 results.



Survey: Summary of findings

- ❑ **872** inspected audit engagements of which **376** had deficiencies (43%);
- ❑ **96** inspected major financial institutions of which **49** had deficiencies (51%)

For Issuers

- ❑ Internal control testing (23%);
- ❑ Fair value measurements (18%);
- ❑ Risk assessment (14%)
- ❑ Revenue Recognition (15%)

For Financial Institutions

- ❑ Internal control testing (40%);
- ❑ Audit of allowance for loan losses and loan impairment (51%);
- ❑ Valuation of investments and securities (27%);
- ❑ Use of Experts and Specialists (26%)



2015 Survey: Findings from Listed PIE Audit Inspections

Inspection Theme	Number of Findings (a single PIE may have multiple findings for the same theme)	# of Listed PIE Audits Inspected	# of Listed PIE Audits with at Least One Finding	% of Listed PIE Audits Inspected with at Least One Finding
Internal Control Testing	173	710	160	23%
Fair Value Measurement	158	661	118	18%
Risk Assessment	131	832	114	14%
Revenue Recognition	116	688	105	15%
Inventory	86	365	71	19%
Adequacy of Financial Statement Presentation and Disclosure	85	570	68	12%
Group Audits	70	383	55	14%
Substantive Analytical Procedures	50	384	44	11%
Adequacy of Review and Supervision	49	434	35	8%



2015 Survey: Findings from Listed PIE Audit Inspections (cont'd)

Inspection Theme	Number of Findings (a single PIE may have multiple findings for the same theme)	# of Listed PIE Audits Inspected	# of Listed PIE Audits with at Least One Finding	% of Listed PIE Audits Inspected with at Least One Finding
Fraud Procedures	46	574	43	7%
Audit of Allowance for Loan Losses and Loan Impairments	45	165	37	22%
Engagement Quality Control Review	39	417	32	8%
Use of Experts and Specialists	35	326	29	9%
Related Party Transactions	17	300	16	5%
Audit Report	15	461	15	3%
Audit Committee Communication	10	592	10	2%
Going Concern	5	321	5	2%
TOTAL # of FINDINGS	1.130			



2015 Survey: SIFI Findings

Inspection Theme	Number of Findings		# of SIFI Audits Inspected	# of SIFI Audits with at Least One Finding	% of SIFI Audits Inspected with at Least One Finding
Internal Control Testing	37		85	34	40%
Audit of Allowance for Loan Losses and Impairments	31		53	27	51%
Valuation of Investments and Securities	22		70	19	27%
Use of Experts and Specialists	22		31	8	26%
Risk Assessment	22		84	18	21%
Insufficient Challenge and Testing of Management's Judgments and Assessments	20		43	18	42%
Testing of Customer Deposits and Loans	7		22	5	23%
Audit Methodology including Programs and Tools	7		27	5	19%
Group Audits	6		20	5	25%
Adequacy of Financial Statement Presentation and Disclosures	6		33	6	18%
Substantive Analytical Procedures	2		28	2	7%
Fraud Procedures	2		29	2	7%
Audit Committee Communication	1		40	1	3%
Audit Report	0		32	0	0%
TOTAL # of FINDINGS	185				



2015 Survey: Quality Control Findings

Inspection Theme	Total Number of Findings	Audit Firms with at Least One Quality Control Finding	
		#	%
Engagement Performance	222	53	59%
Independence and Ethical Requirements	73	34	40%
Human Resources	77	31	36%
Monitoring	63	27	33%
Client Risk Assessment, Acceptance, and Continuance	52	27	30%
Leadership Responsibilities for Quality within the Firm	21	11	12%
TOTAL # of FINDINGS	508		



The Survey's Connection to IFIAR Work

❑ Global Audit Quality Working Group

- Annual discussion with firms on findings from their internal quality reviews (inspections)
- Discussions on root cause analysis and remediation
- Progress will be measured over 4 years against targeted reduction

❑ 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 setters agenda / strategy



Relevance to Standard setting

- ❑ The circumstances that give rise to inspections findings require careful analysis: the cause underlying an inspection finding may suggest considerations related to standards
- ❑ Consideration whether knowledge from inspection findings have implications relevant to the international auditing standards
- ❑ In particular, attention paid to
 - ❑ whether standards are providing sufficient clarity regarding the requirements that the auditor shall comply with and
 - ❑ whether standards are driving the auditor to consistent application and the exercise of sufficient professional skepticism



Relevance to Standard setting

- ❑ Preliminary review performed to identify the international standards that address the topics and audit procedures related to the areas with the greatest level and frequency of observed inspection findings. A summary of related standards is provided in appendix to the survey and does not necessarily imply an IFIAR view about any individual standard
- ❑ Topics on the current IAASB work plan
 - ❑ quality control, group audits and professional skepticism
 - ❑ audit of accounting estimates and risk assessment and internal control testing, and use of high volumes of data and of dedicated tools (data analytics)
- ❑ Topics not currently on the IAASB work plan
 - ❑ materiality, use of experts, responses to assessed risks, and analytical procedures



IFIAR Outreach

- ❑ IFIAR regularly engages with other regulatory bodies:
 - Monitoring Group (MG)
 - Financial Stability Board (FSB)
 - International Organization of Securities Commissions (IOSCO)
 - Basel Committee on Banking Supervision (BCBS)
 - Public Interest Oversight Board (PIOB)
 - World Bank (WB)
 - European Commission (EC)



Other Ongoing IFIAR Initiatives

- ❑ Multilateral Memorandum of Understanding 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



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