

IFIAR launches annual survey

The International Forum of Independent Audit Regulators (IFIAR), of which the Independent Regulatory Board for Auditors (IRBA) in South Africa is a member, released its report [*Survey of Inspection Findings 2018*](#) on 16 May 2019. This is IFIAR's seventh annual survey of its members' findings from inspections of audit firms in 45 jurisdictions across the globe.



“The report focuses on inspections conducted at the six largest global audit firm networks (the Global Public Policy Committee (GPPC) networks), namely: BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. It provides information about two categories of inspection activities, namely: inspections performed on firm-wide systems of quality control and inspections of individual audit engagements.

It also includes additional initiatives, beyond inspections, pursued by individual audit regulators that are designed to improve audit quality. These initiatives include practices by audit regulators to report the results of inspections not only to the inspected audit firms, but also audit committees/those charged with governance and the public. This is a new layer of reporting that was not included in the prior years' reports.

“The highest standard of audit quality is essential for the continued relevance and value of the external audit in enhancing the credibility of financial reporting, which in turn contributes to confidence in and the stability of financial markets,” says Thandokuhle Myoli, Sout African Institute of Chartered Accountants (Saica) project director: assurance.

The deficiencies identified and reported during the course of an inspection form one of the many indicators used to assess audit quality. The results promote the advancement of regulatory dialogue about audit quality.

Firm-wide systems of quality control inspection results

The survey's inspection themes for quality control findings are based on the six elements of quality control, as contained in the International Standard of Quality Control (ISQC 1).

At firm level, 132 audit firms from the GPPC networks were inspected, as reported by 37 audit regulators. Three of the firm-wide quality control elements with highest rates of inspection findings were: engagement performance; independence and ethical requirements; and human resources.

In regaining and sustaining the public interest's trust in the profession, audit firms need to reflect on their policies and procedures and take any necessary remedial action required to correct any identified deficiencies, Myoli says. In performing such reflections, firms should be cognisant of the proposed changes as contained in the Quality Management Exposure Drafts recently issued on exposure for public comment by the International Auditing and Assurance Standards Board (IAASB).

Engagement-level inspections results

The reported results received from 39 audit regulators indicated that 921 audit engagements of listed public interest entities (listed PIEs), performed by 141 individual firms from the GPPC networks were inspected. The two engagement-level inspection areas with the highest rates of inspection findings were: auditing of accounting estimates and internal control testing.

Overall, the 2018 results continue to indicate a decrease in the number of engagement level findings for listed PIEs. In 2018, 37% of audit engagements inspected had at least one finding. In 2017, the comparative percentage was 40%, while in 2014, this was 47%.

IFIAR's initiatives to improve audit quality

Over and above this report, IFIAR also undertakes the following activities in their efforts to drive transparency and the consistent execution of high quality audits globally:

- IFIAR has established a global audit quality working group that seeks to identify broader measures of audit quality, to complement an existing initiative of that group to track reductions in engagement-level inspections findings.
- IFIAR periodically conducts a survey of the audit regulators' enforcement regimes that highlights efforts by the regulators to address audit quality through disciplinary measures and sanctions that influence auditor behaviour.
- There is continuous dialogue with the GPPC networks to improve audit quality.
- IFIAR has ongoing engagement with international audit and ethics standard setters.

Inherent limitations

The survey's information on inspections findings is an imprecise tool and neither measures empirically changes in audit quality nor assesses the severity of individual findings. Limitations are inherently imposed by a number of factors, including:

- The geographic distribution of audit regulators and listed PIE audits that have been inspected. South Africa forms part of the Middle East and Africa members that contributed 13% of the data.
- The inspection methods, including selection methodologies and areas reviewed may also vary.

"Despite these limitations, we cannot deny the fact that there is some commonality in the audit inspections findings globally and some level of congruency when comparing the IFIAR survey results to the local IRBA Inspections results released in

April 2019," he adds.

"The audit profession is currently undergoing unprecedented changes in order to drive and enhance audit quality, including changes in auditing standards and ethics requirements and the environment in which audits are performed. Firms and those in leadership positions at the firms have an important role to play in bringing about the intended transformation in the audit profession. The IFIAR Report is one of the tools that can be used to inform that transformation, to bring about a renewed sense of public trust and ensure the survival of a robust auditing profession," he says.

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