

International Forum of Independent Audit Regulators

PRESS RELEASE

Meeting highlights

- IFIAR Members discussed a set of proposed IFIAR Core Principles for Independent Audit Regulators and anticipate finalising these at the April 2011 meeting in Egypt
- IFIAR Members held a joint meeting with both representatives of the Investor community and the Global CEOs of the six largest international audit networks to discuss improving communications between auditors and investors and the governance and transparency of audit firms
- IFIAR Members discussed with the Global CEOs of the six largest international audit networks progress on addressing the issues which have been raised at the previous IFIAR meeting in Abu Dhabi
- IFIAR Members provided input to the Chairs of IAASB and IESBA on their respective standards

On 27-29 September 2010, independent audit regulators from 37 jurisdictions participated in the eighth meeting of the International Forum of Independent Audit Regulators ("IFIAR"). Details of the membership of IFIAR can be found on the IFIAR website (www.ifiar.org). The Thailand Securities and Exchange Commission, the Capital Markets Board of Turkey and the Malaysian Audit Oversight Board attended for the first time.

The host for the meeting was Spain's audit regulator (Instituto de Contabilidad y Auditoría de Cuentas, ICAC). The meeting was chaired by Steven Maijor, Chairman of IFIAR and Managing Director, Netherlands Authority for the Financial Markets, and Paul George, Vice-Chairman of IFIAR and Director of Auditing and the Professional Oversight Board at the UK's Financial Reporting Council.

Representatives of the International Organization of Securities Commissions, the Public Interest Oversight Board, the Basel Committee on Banking Supervision and the European Commission participated as Observers and presented their work relevant to audit. Members also received written reports from the Financial Stability Board and the International Association of Insurance Supervisors on their work relevant to audit.

IFIAR Members discussed the introduction of a set of Core Principles for Independent Audit Regulators. The discussion covered the objectives, scope and status of the proposed Core Principles. The proposed Core Principles are intended to promote the common goal shared by IFIAR Members as set forth in the Charter to serve the public interest and enhance investor protection by improving audit quality globally, including through independent inspections of auditors and/or audit firms. The proposed Core Principles cover the following areas: (i) the structure of audit oversight, (ii) the operations of audit regulators and (iii) principles for inspection processes. The proposed IFIAR Core Principles, which are intended to be drafted at a high level, will not be binding on Members. However, Members will be encouraged to comply with these proposed Core Principles in their own jurisdictions, subject to local requirements or legislation. IFIAR Members gave broad support for the

general direction of the proposed Core Principles, and agreed the focus of further work to be done with the intention of reaching final agreement on the proposed Core Principles for Independent Audit Regulators at IFIAR's next plenary meeting.

The Members of IFIAR agreed on the budget for the provision of administrative resources for the year 2011 and the resulting membership fees. They also agreed to improve IFIAR's external communications. This will include producing a more extensive activity report, publication of membership profiles describing the roles and functions of each Member starting in 2011 and further consideration of the role of IFIAR in the Monitoring Group¹ and how to facilitate individual members providing input to audit standard setters.

IFIAR Members discussed the role of IFIAR in relation to audit firms which are not members of the Global Public Policy Committee (GPPC)². IFIAR recognized the contribution of the non-GPPC firms to confidence in audit quality. IFIAR agreed to discuss the oversight of non-public interest entity audits at its next Inspection Workshop. Members also agreed that, given the substantial presence of the GPPC firms in most markets, the priority for IFIAR's interaction with the profession should for now remain at the GPPC level. The extent of interaction with non-GPPC firms would be considered further at subsequent meetings.

In IFIAR's continuing dialogue with investors, the following three topics were raised by representatives of the investor community: (i) improving choice among auditing firms; (ii) improving the scope and focus of audit regulation; and (iii) improving the Auditor's Report. For this dialogue, IFIAR was joined by Mr Gerben Everts from Eumedion, Ms Mami Indo from the Daiwa Institute of Research, Mr Guy Jubb from Standard Life Investments and Mr Jeff Mahoney from the Council of Institutional Investors. A presentation by investors on each of these topics was followed by a discussion on the issues raised.

IFIAR also held a session in which both the investor representatives and the Global CEOs of the international networks of BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers participated. In this session, the Global CEOs and the IFIAR Membership discussed two issues raised by the investor representatives: improving the Auditor's Report and improving the governance and transparency of audit firms.

IFIAR Members agreed with the importance of continued dialogue with investors and that they would consider further the issues raised.

IFIAR Members held a separate discussion with the Global CEOs on the next steps in the dialogue between IFIAR and the networks. These next steps will include discussion of the progress that the networks made in addressing certain issues arising from Members inspection activity that IFIAR raised with the networks at the Abu Dhabi meeting in March 2010. These issues are Scepticism, Group Audits, Engagement Quality Control Review and Revenue Recognition. Since the Abu Dhabi meeting each of the networks have individually informed IFIAR of their plans to address these issues. It was agreed that the networks would in due course update IFIAR on the implementation of these plans. The Global CEOs presented a paper on a framework for professional judgement. IFIAR

¹ The Monitoring Group is a group of international regulatory bodies and related organizations committed to advancing the public interest in areas related to international audit quality. It comprises of the Basel Committee of Banking Supervision, the Financial Stability Board, the International Organization of Securities Commissions, the European Commission and the International Association of Insurance Supervisors. IFIAR is an Observer to the Monitoring Group.

² The GPPC is comprised of the six largest international audit networks.

Members also discussed with the Global CEOs the firms' responses to the issues raised by the investor representatives.

IFIAR Members informed each other about recent national developments, including inspection findings. Some Members noted concerns with the implications that audit fee pressure resulting from the current economic crisis may have on audit quality.

Some IFIAR Members presented their recently published reports. Examples of areas of inspection findings at the engagement level in these reports included:

- Concerns with the exercise of professional scepticism;
- The recognition and handling of fraud risk;
- The audit of impairments; and
- The provision of non-audit services and other threats to auditor independence.

At the firm level, examples of findings related to Engagement Quality Control Reviews and the firms' own inspection processes and the firms' incentive structures.

The Members discussed a paper on the effect of changes in the regional structure of some of the firms on the work of audit regulators.

With regard to international cooperation IFIAR Members discussed information sharing generally and how best information could be shared on inspection reports.

Prof. Arnold Schilder, Chair of the International Auditing and Assurance Standards Board (IAASB), provided IFIAR with a presentation on the work of the IAASB and on ISA Implementation Monitoring. IFIAR Members discussed how to improve the feedback from inspections into IAASB standard setting. They also raised issues in relation to the standard on the Audit Report (ISA 700) and the revision of the standard on Using the Work of Internal Auditors (ISA 610). Members discussed IAASB's plans to enhance audit quality in the area of Engagement Quality Control Review. Finally, they discussed the project on International Audit Practice Statement "Special Considerations in Auditing Complex Financial Instruments" (IAPS 1000).

Ken Dakdduk, Chair of the International Ethics Standards Board for Accountants (IESBA), informed IFIAR about the IESBA's current work and more specifically the status of the Code of Ethics. Members discussed with Mr. Dakdduk the consistent application of the Network definition and the application of the Code of Ethics in a group audit situation. There was also discussion of the independence requirements for members of the engagement team, especially in relation to the proposed revision of the International Standard on Auditing "Using the Work of Internal Auditors" (ISA 610).

IFIAR agreed that the next Inspection Workshop would be held in Washington D.C. from February 23 to 25, 2011, at the invitation of the US Public Company Accounting Oversight Board (PCAOB). The format of the workshop will remain unchanged, and consist of a main Workshop and a half-day Induction Workshop aimed at new IFIAR Members.

IFIAR will hold its next plenary meeting in Egypt on 11-13 April 2011 at the invitation of the Auditors Oversight Board of the Egyptian Financial Supervisory Authority.

Further details

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