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At-A-Glance

In this issue, the articles address both audit and accounting. The first article looks at two reports that assess how well firms across the world are achieving audit quality and providing useful information for investors. The International Forum of Independent Audit Regulators (IFIAR) finds that audit quality is generally improving, but still has much room for further improvement. The Association of Chartered Certified Accountants (ACCA) is also encouraged by results of early adaptors of the new audit standard that requires auditors to describe “key audit matters” (KAM) in the auditors’ report.

The second article describes the new update of the International Accounting Standards Board’s *Conceptual Framework for Financial Reporting*. Though in the past, the *Framework* was primarily designed for standard setters, the new version is also intended to assist preparers, especially with issues that have not yet been dealt with in the formal standards.

Finally, our Worldwide Update covers news from organizations across the globe.

Financial Statement Audits: Past Results and New Reports

Audit quality improving as expanded reporting arrives

The International Forum of Independent Audit Regulators (IFIAR) in March 2018 released the sixth annual *Survey of Inspection Findings – 2017*. With 52 members from around the world, the IFIAR’s mission is to “serve the public interest and to enhance investor protection by improving audit quality globally.” Through the sharing of knowledge, promoting collaboration and consistency, and providing a platform for dialogue, the organization seeks to encourage the implementation of uniformly high standards of audit performance quality worldwide.

As the survey report states, the findings point to overall trends in audit quality as opposed to results in specific areas. As such, the survey has reported improvement in each of the last four years. The improvement has been measured by the percentage of audits inspected where there was at least one deficiency finding. In the 2017 survey, 40% of inspected public interest entities (PIE) had at least one finding. A PIE is an entity required to have an audit by regulatory or legislative directive. That result is an improvement from the 47% result reported in 2014, the first year measured, as shown by the following chart:

	2017	2016	2015	2014	2013	2012
IFIAR Members Submitting Findings	33	34	29	29	30	22
Audit Firms Inspected	120	121	98	122	113	98
Listed PIE Audits Inspected	918	855	872	948	989	961
Inspected Listed PIE Audits with at Least One Finding	366	363	376	449	-	-
Frequency of Inspections with at Least One Finding	40%	42%	43%	47%	-	-

Source: IFIAR Survey of Inspection Findings 2017

However, the results also found that there was a lack of consistency across the world. In a subset that just included jurisdictions of the IFIAR's Global Audit Quality Working Group (representing ten countries with robust audit regulators, such as the USA and UK), the findings were at the 30% level. However, the range of jurisdictions with small regulating bodies reported results of 60%. Nevertheless, the ratio of deficiencies is higher than desirable in all situations, for which the survey provides useful visibility.

The three categories of findings with the highest percentage of deficiency findings in 2016, accounting estimates, internal control testing, and audit sampling, all improved in 2017, with findings decreasing from 1% to 4%. Revenue recognition findings decreased the most from 13% to 7%, possibly due to the attention from the new financial reporting standard.

Along with the individual audit inspection results, the survey covered inspections of firm-wide systems of quality control. No "definitive trends" were found in this area over the four years. For audit firms having at least one quality control deficiency finding, the top current finding involved engagement performance, where insufficient engagement quality control reviews as well as insufficient supervision and review policies had the most frequent occurrences. Next were shortcomings in adherence to independence and ethical requirements, such as the failure to address impairments caused by financial relationships.

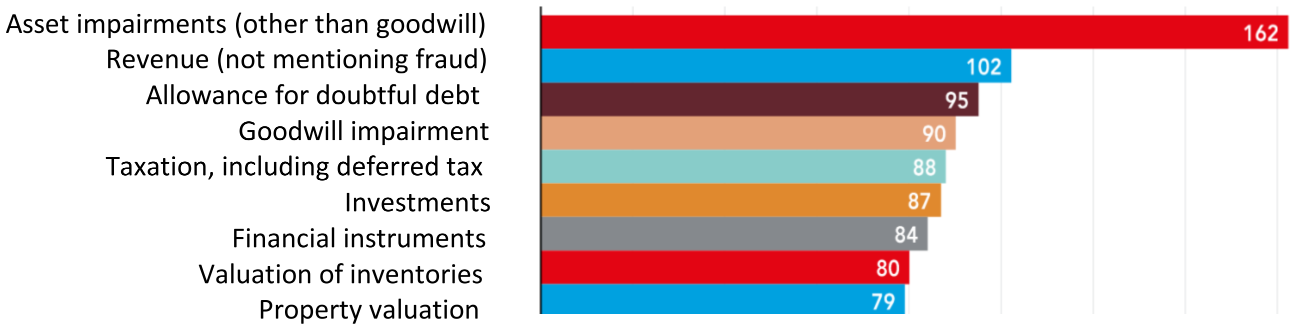
With the bulk of the audits inspected in the 2017 IFIAR survey covering financial statements with fiscal years ending in 2015 (53%) and 2014 (32%), and only 15% with 2016 year ends, the new auditor reporting standards, issued by the International Auditing and Assurance Standards Board (IAASB) in January, 2015, will not start to come into play until the 2018 survey, since they went into effect generally for December, 2016 audit year-ends. But some early indicators can be found in a new report from the Association of Chartered Certified Accountants (ACCA) titled *Key Audit Matters: unlocking the secrets of the audit*.

ACCA researched 560 audit reports from 11 countries that first implemented the new standards with the 2016 audits. Along with moving the audit opinion to the first paragraph and expanding going concern disclosure, the major change to the auditor's report involves discussion of "key audit matters" (KAM), explaining the audit approach for areas with the most risk, which consequently require the most judgment. The KAM requirement is mandatory for listed (public) entities, while voluntary for all others.

Overall, the report states that from a review of first year implementations, "it finds that these standards not only provide better information for investors, but also encourage improvements throughout the financial reporting chain." The report lists these additional benefits:

1. encouraging better conversations between the auditor and those charged with governance; this in turn contributes to better governance;
2. helping the auditor to focus on the areas of the audit requiring the most careful judgement; this in turn contributes to higher audit quality;
3. giving preparers incentives to revisit financial reporting and disclosures in areas related to those KAMs; this in turn contributes to higher quality financial reporting.

The most common KAM's and the number of times reported were:



Source: ACCA Report: Key Audit Matters

The Public Company Accounting Oversight Board (PCAOB) issued a new standard on June 1, 2017 (PCAOB Release No. 2017-001) that has a category similar to KAM, which is described as Critical Audit Matters (CAM). The differences between KAM and CAM are described in a document on the International Federation of Accountants website titled A Comparison Between the IAASB and the US PCAOB Standards, issued in July, 2017.

Additional details on this subject can be found at [IFIAR releases 2017 Inspection Findings Survey](https://www.ifiar.org/latest-news/ifiar-releases-2017-inspection-findings-survey/) and [Introduction of Key Audit Matters Leads to Improved Governance, Audit Quality and Corporate Reporting.](http://www.accaglobal.com/us/en/news/2018/march/key-audit-matters0.html?from=1514851200000)

(https://www.ifiar.org/latest-news/ifiar-releases-2017-inspection-findings-survey/)

and http://www.accaglobal.com/us/en/news/2018/march/key-audit-matters0.html?from=1514851200000).