



It is a great pleasure to be here and to have the opportunity to speak to you all today at this Conference on Enhancing Audit Quality. Many thanks to the Public Oversight Accounting & Auditing Standards Authority (POA) for organizing this important event for us. Both within the International Forum of Independent Audit Regulators (IFIAR), which I feel honored to Chair, and nationally at the Netherlands Authority for the Financial Markets, enhancing audit quality is the number one priority. I am pleased to see that the program offered to you the coming days addresses all kind of aspects relevant to this important topic and I think it will be very beneficial to all of us, whether from the audit sector, audit regulation, standard setting, academia or otherwise.

It is also of particular interest that we have this conference here in Istanbul, as there is a long history in accounting in this part of the world. When you search the internet for the origins of modern accounting, you will find that in the late 15th century Luca Pacioli first codified the system of double-entry bookkeeping and published it in 1495 in Venice, Italy. But you will also find that the origins of double-entry bookkeeping, being the single-entry bookkeeping system and before that, the so-called staircase method, go back much longer. The origins date from the 8th century where the Abbasids used the staircase method for their state accounting and was inherited later by the Ottoman Empire which takes us to where we are here and now, in Istanbul. I always learned that Pacioli was the ‘father of accounting and bookkeeping’. Until I met Mr Baş who learned me that the origins of nowadays accounting go back much longer and that Turkish historians have researched and published this. Knowing the rich accounting history of Turkey makes being here today for a conference on audit quality and its importance for ensuring high quality financial reporting even more special.

It may not be surprising that the origins of auditing also go back a long way. The ancient checking activities found in Greece around 350 BC appear to be the closest to the present-day auditing. The aim of such checking and examination of accounts was to detect and prevent fraudulent actions. In the 12th century, the person responsible for such examination of accounts was for the first time in history referred to as auditor. By then auditing was still focused on government accounting. Only when ownership and management of companies were no longer in one hand, the audit function was introduced in commercial business and did not become firmly established until the industrial revolution started in the 19th century.

With this brief introduction on the history of accounting and auditing, I have to say that the history of independent audit oversight and in particular of IFIAR is relatively young and not yet to be found in the history books. In my speech today I like to explain to you what IFIAR is about, its mission and priorities and what it expects from the international audit network firms and what we all can do in our respective roles. I will do so in light of the evolution of audit regulation in general and of IFIAR in particular.

Against this backdrop, I like to say that we should not forget how important the role of auditing and accounting still is today. Confidence in the audit reports issued by the audit firms is amongst other factors very important for the functioning of and confidence in the capital markets globally. The fact that there were major accounting scandals and audit failures in the early years of this century was a big shock to everyone. These scandals led globally to the set-up of independent audit oversight. The PCAOB in the US, represented here by PCAOB Board Member and my predecessor as IFIAR Chair, Lew



Ferguson, was one of the first audit regulators to start its operations, an example which was quickly followed in other jurisdictions. With that new development, the era of self-regulation by the audit profession came to an end.

These independent audit regulators started doing inspections at audit firms. Apart from that, audit regulators are, depending on their respective mandates, also involved in investigations and enforcement, registration or licensing and standard setting. They are all committed to the same objective: the conduct of high quality audits in their jurisdictions to serve the public interest and enhance investor protection.

In the first years of operations, it became apparent that more is needed for effective audit oversight. Because of the cross-border nature of audits of multinational banks and listed companies, major parts of such group audits are carried out in other jurisdictions than the jurisdiction of the group auditor and the audit regulator. Besides, companies can be listed on stock exchanges outside the home jurisdiction. These dual listed companies and their auditors have to deal with audit regulation in several countries, and the auditors could be subject to inspections by more than one regulator. And last but not least, the large international audit firms operate as international network firms which are increasingly integrating their policy-making and management and control structures. In fact, most of the audits of banks and listed companies and other so called Public Interest Entities (PIEs) are performed by audit firms belonging to the Big-6 global network firms, being BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. And although each of these networks is organized in a manner that the national member firms of these networks are legally independent and that there is no liability for the work performed by other network member firms, in practice each of these networks operates increasingly in a globally and regionally organized and controlled manner, with global and regional leadership, whereby amongst others the quality at the member firm level is monitored through quality monitoring programs which are organized globally. The globalization of auditing led a number of audit regulators to the belief that international cooperation between audit regulators should also be organized. A handful of audit regulators got together - and I had the honor to be part thereof - to discuss the need for setting up an organization through which audit regulators could share information and work together to serve the public interest and enhance investor protection by improving audit quality globally.

This is how and when the formal history of IFIAR began. The first formal IFIAR meeting was in Paris in the fall of 2006. This means that next year IFIAR will celebrate its 10th anniversary, and I am pleased and sure that the POA is proud to host IFIAR's Plenary meeting here in Istanbul in which we will celebrate the 10th anniversary of IFIAR.

In the past years, IFIAR has grown considerably, having about 50 members now from all continents, so a truly global organization. As such IFIAR is over the years being recognized as the leading global organization on auditing matters. IFIAR works together with other international organizations, like the Financial Stability Board, IOSCO, BCBS and World Bank who have a clear interest in improvement of audit quality globally, which is IFIAR's key objective. These international organizations rely on IFIAR and its work with the Big-6 international network firms to increase the consistency in execution of high quality audits globally. These organizations call upon IFIAR to keep on doing so, as there are still great



concerns about the audit quality delivered by the firms based on IFIAR's Inspection Findings Survey Report.

IFIAR has published its Inspection Findings Survey Reports for three years in a row now. The latest Survey published earlier this year showed that the level of inspection findings in key areas of the audit is persistently too high. On average 47% of the inspected audits of Public Interest Entities showed deficiencies for which the audit firm did not obtain sufficient appropriate audit evidence to support its opinion. It should be noted that this does not necessarily mean that the audited financial statements themselves were materially misstated. It should also be noted that the Survey results represent a backward look on audit quality as these relate to audits carried out in 2011 through 2013. Notwithstanding this, the persistence in inspection findings and the high level of these findings is clearly unacceptable going forward and implies that more needs to be done by the firms and IFIAR.

As IFIAR we will therefore increase our efforts to push the firms to deliver better and more consistent audit quality globally. IFIAR will do so through its continued dialogues with the international leadership of the Big-6 firms. In these regular meetings the firms report to IFIAR the outcomes of their internal quality monitoring programs in order to assess how these relate to the outcomes of the external inspections as per IFIAR's Inspection Findings Survey Reports. As a result of these discussions a common measurement framework has been developed to report the nature and extent of inspection findings based on a common definition of a finding. This enhances the comparability with IFIAR's Inspection Findings Survey outcomes. Besides the robustness of the quality monitoring programs by the firms were strengthened. Furthermore we discuss the underlying root causes and the effectiveness to date of action plans implemented to remediate these root causes with the individual global network firms. Often root causes like lack of knowledge and experience in audit teams, budget and time pressure and partner workload were mentioned. The question is: are these really the root causes or merely symptoms of the real underlying root causes. To get to the answer one should ask why there could be a lack of experience in the team, or why budget or time pressures could occur and why this led to the decision by the audit team or the individual partner to do things differently. By asking the 'why of the why'-questions, you touch upon the drivers of behavior and decision making within the firms. This includes matters like tone at the top, business model, structures, governance and the culture in which people work and which make people behave in a certain way.

How successful a firm will be in sustainable improvement of audit quality will in my view be very dependent upon the quality of the underlying root cause analysis and whether the changes the firm decides to make are specifically addressing these root causes leading to different kind of behavior when needed in practice. More training, tooling and guidance and limiting partner workload, being the most common responses by the audit sector at large to date, are not sufficient. That is why IFIAR will intensify and focus its continued discussions with the global leadership of the big 6 the coming years on deepening of the root cause analysis, implementation of action plans, timely monitoring of the effectiveness of actions taken and whether global policies to root cause analysis, action plans and effectiveness measurement issued have been complied with by the network member firms. Improvement of audit quality globally will be IFIARs number one priority in the coming years.



Let me also say a few words on other priorities IFIAR has for the coming years.

IFIAR will continue to provide input into the international standard setting activities by the International Auditing and Assurance Standards Board and the International Ethical Standards Board for Accountants. These standard setting Boards have recognized IFIAR as an important stakeholder when developing their standards, as IFIAR has unique insights into the application of Auditing and Ethical standards in practice through its members inspections and Inspection Findings Survey Report. As Auditing and Ethical standards drive auditor behavior in the conduct of audits, improving the standards when deemed necessary based on the inspection outcomes in terms of their clarity and enforceability, should be considered as it can clearly contribute to improvement of audit quality globally. Additionally IFIAR is member of the Monitoring Group, which consists of a group of regulators that oversees the standard setting framework, and the work of the Public Interest Oversight Board, which in turn oversees directly the standard setting process. In this capacity, IFIAR is directly involved in reviewing and evaluating the functioning of the standard setting framework including its governance.

IFIAR also plays a very important role in facilitating learning and cooperation by its members. In terms of learning, our main annual event apart from the Plenary meeting is the Inspection Workshop. This event can be best seen as a training for inspectors on various aspects relevant to audits and inspections of audits. Not only do we discuss recent inspection findings, but also topics like economic outlook, findings specific to bank audits, current trends in the audit sector and what this all means for planning, performing and reporting on risk based inspections. In terms of cooperation I would like to mention a very important recent development. Recently IFIAR members have concluded a Multilateral Memorandum of Understanding on the exchange of confidential information for purposes of cross-border registration, inspections and investigations. This MMOU was developed under Chairman Ferguson's tenure in just two years' time, and we are now in the process of assessing whether IFIAR members who want to become a signatory to the MMOU, meet the requirements as laid down in the MMOU. After finalizing the assessments, I hope that we can actually have the first IFIAR members joining the MMOU at our Plenary meeting next year here in Istanbul. IFIAR members that are signatories to the MMOU can more easily exchange confidential information, provided that such exchange is not prohibited by local legislation. The MMOU and what it can enable, will in my view contribute to the strengthening of the effectiveness of audit oversight globally.

In the past 25 minutes, I have highlighted IFIAR's priorities for the coming years which contribute directly or indirectly to IFIAR's mission to serve the public interest and enhance investor protection by improving audit quality globally. I hope that from all that I have said, there is one thing that you will take with you from here. That is that enhancing audit quality is important and needed, and is not something that happens by regulatory actions or audit reforms only, but that it is primarily in the hands of the audit sector itself. I understand that many of you here present today work in the audit sector. For the continued relevance of our profession it is key that audit quality will improve considerably in the short term. The audit market dynamics and competition in the market are changing, putting more focus on audit quality as a result of regulators actions, greater transparency of audit quality, the role of audit committees in this respect and current regulatory reforms. These external impulses together



with a strong will, motivation and dedication by the audit sector itself to respond to the need for consistently high quality audits are in my view prerequisites for sustainable improvement of audit quality and the continued importance and relevance of audits for the functioning of the capital markets. Our latest IFIAR Inspection Findings Survey showed that there are signs of overall improvement of audit quality in a few of our members' jurisdictions. I hope that this turns out to be the start of a sustainable positive trend in improvement of audit quality. As there are also many audits inspected by audit regulators that are not considered inadequate, I am confident that prolonging the history of audit and since recent years inseparably linked thereto, of independent audit oversight, is within our reach. With a shared and continued commitment to improvement of audit quality this can be done. May I count on you?