



**Contact IFIAR:**

[IFIARSecretariat@pcaobus.org](mailto:IFIARSecretariat@pcaobus.org)

**For Media Inquiries:**

Colleen Brennan

+1 202-207-9049

[brennanc@pcaobus.org](mailto:brennanc@pcaobus.org)

**Fact Sheet**  
**International Forum of Independent Audit Regulators**  
**Report on 2013 Survey of Inspection Findings**  
**April 10, 2014**

The International Forum of Independent Audit Regulators (IFIAR) was formed in September 2006 to provide a forum for audit regulators from around the world to share knowledge of the audit market environment and the practical experience gained from their independent audit regulatory activity. At the time of the 2013 survey, IFIAR consisted of 46 members from jurisdictions in Africa, the Americas, Asia, Europe, the Middle East and Oceania.

The [2013 survey](#) summarizes the results of findings identified in members' respective inspections of audit firms, primarily those affiliated with the six largest international audit firm networks.<sup>1</sup> This is the second IFIAR global survey of audit inspection findings. IFIAR released its [inaugural survey](#) in December 2012. The frequency and severity of inspection findings in both surveys are of concern to IFIAR members, individually and collectively.

By continuing to conduct and publish the results of this survey, IFIAR seeks to inform regulators, investors, others in the financial community, and the public of audit oversight activities as regulators pursue improvements in the reliability of audit firms' work and of the opinions they express on financial statements.

**Background**

- IFIAR members reported findings from inspections of three categories of audit firm activities— audits of listed public interest entities (PIEs); audits of systemically important financial institutions (SIFIs), including global systemically important banks (G-SIBs); and internal systems for firm-wide quality control.
- Inspection findings are deficiencies in audit procedures that indicate the audit firm did not obtain sufficient audit evidence to support its opinion. This may include a failure to identify or address a potentially material error in application of an accounting principle.<sup>2</sup>

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<sup>1</sup> The six largest audit firm networks are BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers. In certain cases, IFIAR members provided data on inspections of those firms, and also of additional firms considered significant in their jurisdictions.

<sup>2</sup> This does not necessarily indicate that the financial statements were misstated; rather, such a finding occurs if the auditor did not obtain sufficient audit evidence to conclude on the appropriate application of an accounting principle.

- 38 members responded to at least one area of the 2013 survey, an increase from 30 respondents in 2012. Of these respondents:
  - 30 members reported findings from inspections of 989 audits of listed PIEs at 113 audit firms
  - 14 members provided data on inspections of audits conducted by 29 firms of 95 financial institutions deemed SIFIs or G-SIBs
  - 30 members inspected a total of 134 audit firms' internal quality control systems and reported 844 findings
- Because the nature of the survey does not provide an adequate basis for quantitative, year-over-year comparison of the quality of audit performance, IFIAR cannot conclude that audit quality has either improved or deteriorated since the previous survey was conducted.

### **Survey Results**

- The survey indicates the persistence of deficiencies in important aspects of audits and that there is a basis for ongoing concerns with audit quality. The inspection themes with the highest numbers of findings were consistent with the 2012 survey.
- For audits of listed PIEs, the three inspection themes with the highest number findings (of 1,260 total) were:
  - fair value measurement, 17 percent
  - internal control testing, 12 percent
  - adequacy of financial statements and disclosures, 9 percent
- For audits of SIFIs and G-SIBs, the three inspection themes with the highest number of findings (of 188 total) were:
  - audit of allowance for loan losses and loan impairments, 22 percent
  - internal control testing, 21 percent
  - audit of the valuation of investments and securities, 14 percent
- Inspections of quality control systems revealed the three themes with the highest number of findings (of 844 total):
  - engagement performance, 45 percent
  - human resources, 17 percent
  - independence and ethics requirements, 12 percent

## **Next Steps**

### ***Audit Firms***

- The recurrence of inspection findings indicates that audit firms should take steps to develop a robust root cause analysis to gain a clearer understanding of the factors that underlie these findings and take appropriate remedial actions.
- The extent of findings across jurisdictions in various audit areas demonstrates that firms should continue improving their auditing techniques, as well as their oversight policies and procedures.

### ***IFIAR***

- IFIAR intends to continue monitoring developments in audit quality, including by conducting surveys and engaging with the largest audit firm networks. The group expects audit firms to take actions that result in demonstrable improvement in audit performance.
- The results of this survey will inform IFIAR's collective efforts to promote audit quality globally, complementary to individual regulators' audit firm inspection and oversight regimes.