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. IFIAR consists of 51 members from jurisdictions in Africa, the Americas, Asia, Europe, the Middle East and Oceania.

The 2014 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.¹ This is the third annual IFIAR survey of audit inspection findings. IFIAR released its report on the 2013 survey in April 2014 and its inaugural survey report in December 2012. The frequency and severity of inspection findings in the surveys conducted to date 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 financial institutions (G-SIFIs); and internal systems for firm-wide quality control.

¹ The six largest audit firm networks are BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited. In certain cases, IFIAR members provided data on inspections of those firms, and also of additional firms considered significant in their jurisdictions.
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.²

30 members responded to at least one area of the 2014 survey, consistent with the number of respondents in 2013. Of these respondents:

- 29 members reported findings from inspections of 948 audits of listed PIEs at 122 audit firms
- 17 members provided data on inspections of audits conducted by 41 firms of 148 financial institutions deemed SIFIs or G-SIFIs
- 30 members inspected 123 audit firms' internal quality control systems and reported 769 findings
- 25 members reported on their overall assessment of audit quality in their jurisdiction

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 largely consistent with the 2013 survey.

- For audits of listed PIEs there were three themes with the highest levels of findings. Each member reported how many audits they inspected for each inspection theme, and of the times they inspected an audit for that theme, how many times they had a finding. The topics inspected with the highest numbers of findings overall were fair value measurement, internal control testing, and revenue recognition. The percentages below reflect the number of times this finding was found out of the number of times the topic was reviewed.
  - internal control testing, 24 percent
  - fair value measurement, 20 percent
  - revenue recognition, 14 percent

- For audits of SIFIs and G-SIFIs, the three inspection themes with the highest number of findings (of 166 total), and the percentage of audits inspected for this theme and with a finding were:
  - internal control testing, 27 percent
  - audit of the valuation of investments and securities, 27 percent
  - audit of allowance for loan losses and loan impairments, 17 percent

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² 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.
Inspections of quality control systems revealed the three themes with the highest number of findings (of 769 total), and the percentage of audit firms inspected and with a finding were:

- engagement performance, 60 percent
- independence and ethics requirements, 48 percent
- human resources, 45 percent

IFIAR members’ impressions of the overall trends in audit quality varied at the jurisdictional level:

- 7 members observed overall improvement
- 1 member observed overall decline
- 6 members observed improvements in certain areas and decline in other areas
- 11 members observed no significant overall changes in audit quality.

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.