Welcome and thank you all for participating in this press briefing on IFIAR’s survey of 2013 inspection findings.

I am IFIAR Chair Lewis Ferguson and I will be presenting the survey results together with IFIAR Vice Chair Janine van Diggelen.

I’d also like to note that we have approximately 30 representatives of other audit regulators in the room who are here to support our efforts to share the news about IFIAR’s second survey of inspection findings.

We will give opening statements and then open the floor to your questions, first from reporters in the room, followed by those on the phone. You also may e-mail your questions to Colleen Brennan. This meeting is being webcast and available through teleconference.

IFIAR

For those of you who may not know, IFIAR, the International Forum of Independent Audit Regulators, is an association of independent audit regulators whose mission is to provide a forum to share knowledge and experience in overseeing auditing around the world.

Independence means that all IFIAR members are independent of the auditing profession. IFIAR presently has 50 members from countries in Africa, the Americas, Asia, Europe, the Middle East and Oceania.
We are presenting today the results of our second annual global survey of inspection findings from our members. This year, 30 countries submitted results, which are primarily from inspections of audit firms affiliated with the six largest international audit firm networks. Our first survey, released in December 2012, included results from 23 members.

RESULTS

This report on 2013 findings summarizes key inspection results from audits of public companies, including systemically important financial institutions. These results came from inspection reports issued during the members’ most recent annual reporting periods that ended by July 2013.

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, that is, inspections of the audit firms’ own quality control systems.

Inspection findings are deficiencies in audit procedures that indicate that 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.

A deficiency does not necessarily mean that the audited financial statements themselves were necessarily materially misstated. These findings go to the quality of the audit work done on those financial statements.

The results show that:

- The leading areas of deficiency in inspected audits of listed public interest entities, or public companies, relate to auditing fair value measurements; internal control testing; and procedures to assess the adequacy of financial statement presentation and disclosures.

- The leading areas of deficiency in audits of systemically important financial institutions, including global systemically important banks, relate to auditing of allowance for loan losses and loan impairments; internal control testing; and auditing of the valuation of investments and securities.

- Audit firms’ own quality control systems had the highest number of inspection findings in the areas of engagement performance; staffing and compensation; and independence and ethics requirements.

The high rate and severity of inspection deficiencies in critical aspects of the audit, and at some of the world’s largest and systemically important financial institutions, is a
wake-up call to firms and regulators alike: More must be done to improve the reliability of audit work performed globally on behalf of investors.

The survey makes clear that these important inspection findings are prevalent across many nations and firms. The inspection themes with the highest numbers of findings were consistent with the 2012 survey.

However, 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.

IFIAR has an important role to play in monitoring and promoting audit quality across borders. In monitoring the firms’ progress in these areas, IFIAR hopes to gain insight into whether the firms are successful in addressing firm-wide issues and, accordingly, promoting consistency in the execution of their audits.

IFIAR publishes the results of its surveys to inform regulators, investors, the financial community, and the public about the current state of inspections of audits of public companies, including financial institutions, around the world. IFIAR members together and separately pursue improvements in the reliability of audit firms’ work and of the opinions expressed on financial statements.

I see this survey as a first step for IFIAR promoting cross-border audit quality. Now, Vice Chair van Diggelen will walk you through the next steps.