

First global survey of audit inspection findings

IFIAR, the International Forum of Independent Audit Regulators, today releases the first global survey of audit inspection findings bringing together issues identified by IFIAR Members located around the world. The survey was designed to identify the level of inspection activity among IFIAR Members and common findings for Members' inspections of audits of public companies. The survey also responds to a request from the Financial Stability Board to provide details of findings from the inspections of audits of major financial institutions.

The survey asked Members to report findings from their inspections of audit engagements where Members had noted deficiencies in specific areas; it did not seek information regarding instances where auditors had met the required professional standards. Members reported findings that were significant matters where the auditor did not perform sufficient work to meet the applicable auditing standards and other related requirements.

In the last several years, Member updates at the IFIAR plenary meetings on the results of their inspections of audit firms have included a number of common inspection findings across different jurisdictions. Certain inspection findings also have been identified by Members repeatedly from year to year. The survey focused primarily on Members' inspections of audit firms that are members of the six largest international audit firm networks and includes issues identified by:

- Twenty-two IFIAR Members' inspections of audit engagements for 961 public companies at 98 audit firms;
- Ten Members' inspections of audit engagements for 108 major financial institutions at 28 audit firms; and
- Twenty-three Members' inspections of 109 audit firms' internal quality control systems;

The survey identifies common audit findings among Members in a number of areas. For example, the survey results indicate that the largest number of inspection findings in audits of public companies occurred in the following areas: fair value measurements; internal control testing; and engagement quality control reviews.

Additionally, inspections of audits of major financial institutions revealed that the largest number of common inspection findings occurred in the following areas: internal control testing; valuation of investments and securities; and audit of allowance for loan losses and loan impairments.

The survey results also include four areas that have been discussed by IFIAR with representatives from the six largest audit firm networks since 2010: professional skepticism, group audits, revenue recognition, and the role of the engagement quality control reviewer.

Paul George, IFIAR Chair and Executive Director of Conduct at the UK's Financial Reporting Council, said:

“Audit firms need to do more to improve the consistency of performance on individual audit engagements, including remediating the inspection findings and determining the possible root causes underlying these findings.”

IFIAR Members will continue to inspect the public company audit engagements, including major financial institutions, and work closely with the audit firms in their jurisdictions to improve audit quality. Members also will continue to follow-up with the audit firms to evaluate and monitor the audit firms' remedial actions in response to their respective inspection findings. In addition, IFIAR will continue to work with the leadership of the six largest international audit firm networks to discuss inspection findings and the firms' strategies and actions to improve audit quality.

Lewis Ferguson, IFIAR Vice-Chair and Board Member at the U.S. Public Company Accounting Oversight, said:

“IFIAR's goal is to conduct periodic surveys to measure changes in these findings with the goal of allowing Members to identify those areas that need improvement and to share experiences about what practices seem to be most effective in reducing audit deficiencies.”

The information in this report may be of use to audit firms, audit regulators, other regulators, policy makers and standard-setters in their efforts to improve audit quality. It also may be of use to investors and audit committees as an indicator of the current status of inspections of auditors of public companies, including financial institutions in jurisdictions around the world.

[To read IFIAR's 2012 Summary Report of Inspection Findings, please click here.](#)

For further information about this report, please contact:

- The IFIAR Chairman – Paul George, Director of Conduct at the Financial Reporting Council in the United Kingdom, on +44 (0)20 7492 2300 or by e-mail to Jon Hooper, (j.hooper@frc.org.uk).
- The IFIAR Vice-Chairman – Lewis Ferguson, Board Member of the US Public Company Accounting Oversight Board, on +1 202 207 9100 or by e-mail to Bella Rivshin, (rivshinb@pcaobus.org).