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**International Audit Regulators Report Persistent Deficiencies
In Critical Areas of Audits of Public Companies
*IFIAR Calls on Auditors to Improve Audit Quality in Key Areas***

Washington, DC, April 10, 2014 – Audits of public companies around the world suffer from persistent deficiencies in critical audit areas, raising increasing concern among international audit regulators, the International Forum of Independent Audit Regulators (IFIAR) reported today.

“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,” said Lewis H. Ferguson, IFIAR Chair and Board member of the U.S. Public Company Accounting Oversight Board.

Report on Inspection Findings

IFIAR’s [Report on 2013 Inspection Findings Survey](#) summarizes key inspection results from audits of public companies, including systemically important financial institutions, submitted by 30 IFIAR members. These results came from inspection reports issued during the members’ most recent annual reporting periods that ended by July 2013.

- 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; human resources; and independence and ethics requirements.

“The survey makes clear that these important inspection findings are prevalent across many nations and firms,” said Chair Ferguson. “IFIAR has an important role to play in monitoring and promoting audit quality across borders.”

Inspection findings are deficiencies in audit procedures that indicate that the audit firm did not obtain sufficient appropriate audit evidence to support its opinion. Most of these findings are consistent with the results of IFIAR’s [inaugural survey](#) issued last year, although the survey does not provide an adequate basis for year-to-year comparison of the quality of audit performance.

The findings discussed in the survey are primarily from inspections of audit firms affiliated with the six largest international audit firm networks, which are BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited. In many cases, a regulator’s response to an inspection finding is to require the audit firm to perform additional procedures necessary to complete the audit satisfactory.

Root-Cause Analysis Needed

Measures undertaken by IFIAR to improve global audit quality include meetings with global network firm leaders to discuss inspection results and actions the firms will take to show demonstrable improvement in audit performance; and using the survey results in members’ home countries to inform their respective inspection and standard-setting activities.

In its meetings with global audit firm leaders, IFIAR expects the firms to provide information about the results of root-cause analyses, the performance measures used to assess progress, and whether measurable improvements are being made. The global network firms with which IFIAR meets have agreed to provide such information.

“The firms should develop robust root-cause analysis to gain a clearer understanding of the factors that underlie inspection findings and to take appropriate remedial actions,” said Janine van Diggelen, IFIAR Vice Chair, and Head of the Audit & Reporting Quality Division at the Netherlands Authority for the Financial Markets.

“Only with a thorough understanding of the underlying factors that have led to findings can audit firms take appropriate measures. These measures should be aimed at improving their auditing techniques, as well as their oversight policies and procedures, but also consider the cultural and behavioral influences in the firms that were relevant to the deficiencies. Both audit firms and regulators must do more to improve audit quality,” added Vice Chair van Diggelen.

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.

A [fact sheet](#) on the 2013 survey also is available.

About IFIAR

IFIAR is comprised of 50 independent audit regulators from jurisdictions in Africa, the Americas, Asia, Europe, the Middle East and Oceania. It was formed in 2006 to provide a forum for regulators to share knowledge of the audit market environment and the practical experience gained from their independent audit regulatory activity.

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. For further information about IFIAR and its activities, visit ifiar.org.