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International Audit Regulators Say Pace of Audit Quality Improvement Too Slow; Call for Measurable Improvement By 2019

Amsterdam, the Netherlands, March 3, 2016 – In response to persistent levels of deficiencies in public company audits reported by members in its annual inspections findings survey released today, the International Forum of Independent Audit Regulators (IFIAR) has agreed with the six largest audit networks on a new initiative to achieve a measurable reduction in findings by 2019.

“IFIAR’s 2015 survey of findings from the inspections of the six largest global network audit firms (BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited) indicates that 43 per cent of inspected audits of listed public interest entities (PIEs) had at least one inspection finding during the survey period,” said Janine van Diggelen, IFIAR Chair and Head, International Auditing and Accounting, Policies and Standard Setting, Netherlands Authority for the Financial Markets (AFM). “While this is a four percentage point drop in deficient audits over last year, IFIAR is not yet satisfied that enough has been done by the audit profession to understand and address shortfalls in audit quality. The outcomes continue to show a lack of consistency in the execution of high quality audits and highlight concerns over the robustness of the firms’ internal quality management systems.”

IFIAR and the six largest network firms have agreed on a new initiative to improve audit quality globally. The goal is to reduce the number of deficient audits reported by our members in the survey. To provide a means to measure progress, for the first time IFIAR’s working group that engages regularly with the largest global audit firms has set a measurable target for the reduction of audits with findings: a reduction of at least 25 per cent in the next four years in audits with at least one finding as reported by the members of this working group. This goal is a meaningful progress indicator on the longer-term path to improvement of audit quality globally. IFIAR will support this objective by encouraging root cause analysis along with intensive quality monitoring, and increased dialogue with the networks’ international leadership.

Report on 2015 Inspection Findings

IFIAR’s [Report on 2015 Inspection Findings Survey](#) summarizes key inspection results from the audits of public companies, including systemically important financial institutions, and firm systems for quality control submitted by 35 IFIAR members in jurisdictions around the world. Inspection findings are

deficiencies in audit procedures that indicate that the audit firm did not obtain sufficient appropriate audit evidence to support its opinion, but does not necessarily imply that those financial statements are also materially misstated.

Consistent with the results of prior surveys, this year's survey reveals high frequency and number of findings in key areas of the audit and in the inspected audit firms' quality control systems. While some improvements have been noted, the frequency and total findings continue to concern IFIAR and its members. Inspection themes with the highest numbers of findings were similar to 2014. Inspections of firm-wide systems for quality control also reveal high frequencies of findings, including in the areas of (1) engagement quality control review and firms' audit methodologies and (2) independence and ethical requirements.

Overall, the survey found the highest number of audit inspection deficiencies in the areas of internal control testing, fair value measurement, risk assessment, and revenue recognition – topics among the core building blocks of audited financial statements. The rate of deficiencies in these areas, measured as the percentage of all inspected audits for these areas, is as follows:

- Internal control testing, 23 per cent
- Fair value measurement, 18 per cent
- Revenue Recognition, 15 per cent
- Risk assessment, 14 per cent

For audits of systemically important financial institutions (SIFIs), including those designated as G-SIFI by the Financial Stability Board, the survey found the highest number of deficiencies related to internal control testing, auditing of allowance for loan losses and loan impairments, auditing the valuation of investments and securities, and use of experts and specialists.

This year's survey results are derived from inspection reports issued during the members' most recent annual reporting periods ended June 2015, therefore it's important to note the survey is a lagging indicator and may not reflect the state of the auditing profession at the current time. The survey is not meant to measure empirically or for statistically significant changes in audit quality – rather, it provides a useful point of reference for discussions about areas for improvement in audit performance and informs IFIAR's efforts to better evaluate the challenges in improving the reliability of the auditor's opinion regarding the financial statements.

Next Steps

IFIAR will continue its annual inspections survey, knowledge-sharing and collaboration among members, and intensify its engagement with leadership of the six largest international audit firm networks to advance IFIAR's goal of high quality audits. In addition to the reduction target in inspection findings, IFIAR will continue to work directly with audit network leadership and the profession to discuss inspection findings, recurring quality themes and the firms' strategies and actions to improve audit quality overall.

IFIAR will continue to discuss with the International Auditing and Assurance Standards Board (IAASB) and other standard setters how standards in the areas of most frequent inspection findings can contribute to more consistency and compliance in auditor behavior, along with other regulators and policy makers on issues raised through member inspections.

IFIAR will also intensify its outreach to and interactions with audit committees to create further awareness regarding audit quality issues and what audit committee members can do to contribute to the improvement of audit quality globally.

Established in 2006, the International Forum for Independent Audit Regulators (IFIAR) comprises independent audit regulators from 50 jurisdictions. Dedicated to serving the public interest and enhancing investor protection, IFIAR provides a platform for dialogue and information-sharing regarding audit quality matters and regulatory practices around the world, and promotes collaboration and consistency in regulatory activity. IFIAR's official observer organizations are the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the Public Interest Oversight Board and the World Bank. For more information about IFIAR and its members, please visit www.ifiar.org.