



# IFIAR

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

## Survey of Inspection Findings

# 2018

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This report, released on May 16, 2019, presents information collected by IFIAR through its seventh annual survey of the results of its member regulators' inspections of the six largest audit firm networks.

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### 1 Overview

IFIAR, a membership organization of 55 independent audit regulators (“Members”), concluded its seventh annual survey of Members’ inspection results and programs. This report provides a summary of the survey and IFIAR initiatives to advance the regulatory dialogue about audit quality. The report’s appendices provide detailed data collected through the 2018 and prior surveys.

The survey is not designed to – and does not – provide a complete measure of firms’ progress in improving audit quality. Deficiencies identified and reported over the course of an inspection are nevertheless an important metric provided by independent audit regulators, forming one of the many indicators used to assess audit quality. Other quantitative and qualitative indicators also should be considered in conjunction with inspection results. IFIAR is undertaking an initiative to identify broader measures of audit quality, to complement an existing initiative to track reductions in engagement-level inspection findings.

To augment the survey’s information about inspection findings, in the 2018 survey IFIAR collected information about its Members’ practices with respect to reporting the results of inspections to the inspected audit firms, audit committees / those charged with governance (hereafter, “audit

### Highlights: The general decline in overall findings rates continues

*IFIAR’s survey tracks inspection results related to firm-wide systems of quality control and individual audit engagements. Systems of quality control are an area of focus for many audit regulators and audit firms, as these systems serve as the foundation for executing quality audits. As a key metric to understand the effectiveness of audit firms’ systems of quality control in supporting audit quality, IFIAR also tracks the percentage of listed public interest entity audits inspected with at least one finding. The general reduction in this percentage continued in the 2018 survey, reaching 37% (down from 47% when data on this metric was first collected for the 2014 survey). For purposes of this survey, a finding generally is a significant deficiency in satisfying the requirements of auditing standards. **It is important to note that a finding from an audit inspection does not necessarily indicate that the financial statements are misstated.***

*The results of the survey are not a precise measure of firms’ progress in improving audit quality. Inspection findings should not be the sole measure of progress in audit quality as they do not serve as “balanced score cards” or overall rating tools.*

*IFIAR, along with other interested stakeholders, continue efforts to identify, track and promote disclosure of other broader and informative measures of audit quality – otherwise known as audit quality indicators – that contribute to an informed dialogue among stakeholders about audit quality.*

committees”), and the public. While reporting to the inspected firms’ leadership is common, a clear majority of – but not all – IFIAR Members report publicly the results of their inspections. Of those that do report publicly, most do not identify inspection results by firm. Few Members report inspection findings to audit committees. For additional information, see Section 2 of this report, under *Members’ Reporting of Inspection Outcomes*.

The 2018 survey also includes data about certain initiatives, beyond inspections, pursued by IFIAR Members individually that are designed to contribute to improving audit quality. In addition to collaboration among audit regulators, these initiatives include liaising with market and other regulators; issuing publications directed to auditors, investors, and audit committees; holding workshops and roundtables with stakeholders; and direct interactions with audit committees and investors. For additional information, see Section 2 of this report, under *Members’ Initiatives to Improve Audit Quality*. IFIAR undertakes similar initiatives on the international level in the collective interest of audit regulators globally, described in more detail at Section 3 of this report.

IFIAR publishes the results of its annual survey of inspection findings to provide transparency about the results of Members’ inspection programs for stakeholders with the shared goal of improving consistency in high quality audits globally. The annual survey of inspection findings is among the various inputs into IFIAR’s dialogue among regulators about oversight experiences, challenges, and approaches. It also features in IFIAR’s ongoing engagement with international audit and ethics standard setters, and with the global audit firm networks about the networks’ efforts to strengthen their member firms’ systems of quality control and to drive consistent execution of high quality audits throughout the world.

## 2 2018 Survey

During 2018, IFIAR conducted its seventh annual survey of inspection findings arising from its Members’ individual inspections of audit firms affiliated with the six largest global audit firm networks (“GPPC networks”).<sup>1, 2</sup> IFIAR’s survey collects information on the inspection results

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<sup>1</sup> Each of the GPPC networks is comprised of a group of legally separate firms operating locally in countries or regions around the world. The GPPC networks participate in the Global Public Policy Committee (GPPC), represented by the following entities: BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited.

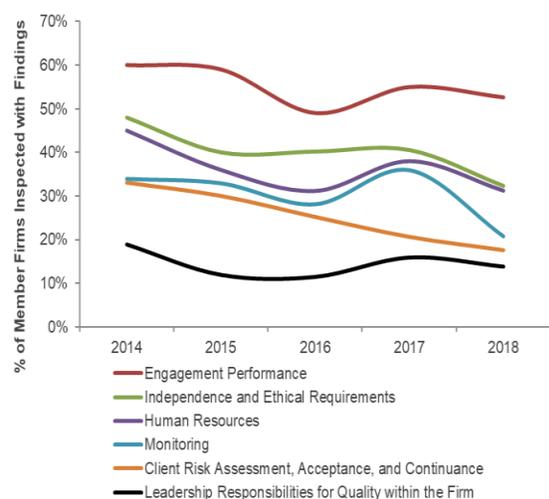
<sup>2</sup> For purposes of this survey, a finding generally is a significant deficiency in satisfying the requirements of auditing standards. With respect to audit engagement findings related to a financial statement balance or disclosure, a deficiency is either a matter with respect to which the member firm did not obtain sufficient audit evidence to support its opinion or a failure to identify or address a material, or likely potential material, error in the application of an accounting principle. With respect to all other themes, a deficiency is a departure from auditing standards or requirements, including standards on quality control and ethics and independence requirements, that may or did have an effect on audit quality, either due to the significance or systemic nature of the departure. An inspection finding related to an audit engagement does not necessarily indicate that the financial statements are misstated; the audited entity’s accounting and disclosure may have been appropriate, whether or not the auditor satisfied the requirements of auditing standards. Appendix C provides further information about the survey methodology, including information about what constitutes a finding, and Appendices A and B present details of the results compiled from each of the seven annual surveys.

reported to audit firms that are members of the GPPC networks (“member firms”) during the twelve months ended June 30. IFIAR Members from 45 jurisdictions participated in the 2018 survey.<sup>3</sup>

As with prior years’ surveys, IFIAR collected information about two categories of inspection activities – those that relate to firm-wide systems of quality control and those that relate to individual audit engagements.

### ***Inspections of Firm-wide Systems of Quality Control***

Inspections performed on firm-wide systems of quality control address those policies and processes established by audit firms to support audit quality, including by monitoring audits for compliance with independence requirements. Appendix A of this report includes the comprehensive set of data on inspections of firm-wide systems of quality control collected through IFIAR’s 2018 and prior surveys. The chart below summarizes certain survey results.



A strong system of quality control is seen by many IFIAR Members to be a critical element in improved and sustained audit quality; accordingly, quality control systems are a primary focus of many inspection programs. Reflecting this, IFIAR plans to continue its dialogue with the GPPC networks about each network’s initiatives to make continual improvement to systems of quality control. In addition, quality management at the firm level is the topic of an important international audit standard-setting initiative. IFIAR remains active in its consideration of international standard-setting bodies’ activities in this area.

### ***Inspections of Individual Audit Engagements***

Inspections of individual audit engagements assess an audit firm’s execution of auditing standards on a selected audit. It is important to note that an inspection addresses the procedures performed by the auditor. A finding from an inspection of the audit does not necessarily indicate that the financial statements are misstated; therefore, the frequency of findings addressed in the appendices of this report is not indicative of the frequency of financial statement misstatements.<sup>4</sup>

<sup>3</sup> IFIAR Members from the following jurisdictions participated in the 2018 survey: Abu Dhabi, Albania, Australia, Austria, Belgium, Botswana, Brazil, Bulgaria, Canada, Chinese Taipei, Cyprus, Czech Republic, Dubai International Financial Centre, Finland, France, Georgia, Germany, Gibraltar, Greece, Hungary, Ireland, Italy, Japan, Lithuania, Luxembourg, Malaysia, Mauritius, Netherlands, New Zealand, Norway, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States.

<sup>4</sup> IFIAR has not sought to quantify misstatements associated with Member findings because 1) the transparency and manners of addressing errors in financial statements vary in Members’ jurisdictions, including in some cases not restating, and 2) the regulatory mandates of many IFIAR Members do not extend to the determination of whether or not financial statements are misstated.

IFIAR’s survey collects data on inspections of listed public interest entity (PIE) audits and audits of systemically-important financial institutions (SIFIs). Appendix B of this report provides the comprehensive set of data on inspections of listed PIE and SIFI audit engagements collected through IFIAR’s 2018 and prior surveys.

The purpose of IFIAR’s survey is to provide historical, quantitative information about inspection experiences, as one means to identify general trends in areas of findings. The survey’s information on inspection findings is an imprecise tool. It neither measures empirically changes in audit quality nor assesses the severity of individual findings. Trends may be impacted by variations across survey years in the composition of Members participating in the survey, the topics of focus in those Members’ inspection programs, and the mix of member firms inspected.<sup>5</sup> Nonetheless, the recurrence and level of findings reflected in the survey indicate a lack of consistency in the execution of high quality audits and the need for a sustained focus on continuing improvement. IFIAR continues to encourage audit firms to execute on an ongoing cycle of identifying areas for improvement to the systems of quality control that support their audit practices; implementing responsive actions; monitoring the impact of such actions; and leveraging the results to adjust or refine their improvement strategies. This cycle of continuous improvement has been – and will remain – a prominent aspect of IFIAR’s dialogue with the GPPC networks, knowledge sharing among IFIAR Members, and communications with stakeholders.

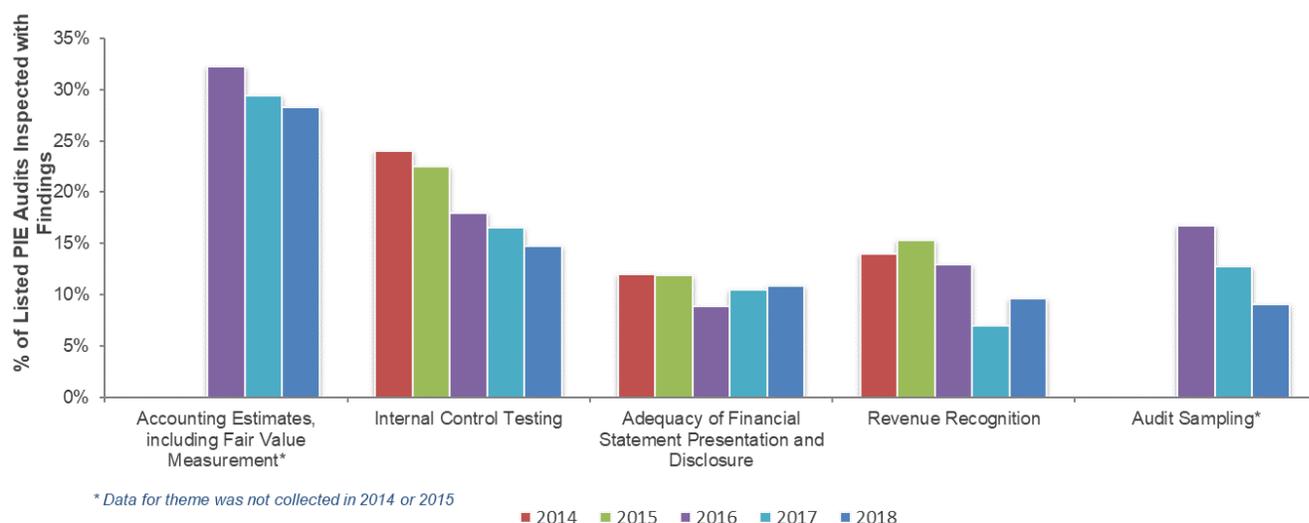
IFIAR continues to track the percentage of listed PIE audits inspected with at least one finding, as one metric to understand the effect changes to quality controls are having on engagement-level inspection results. The general reduction in this percentage continued in the 2018 survey, reaching 37% (down from 47% when this metric was first collected for the 2014 survey), though trends in this metric are challenging to interpret for the reasons mentioned above.

2014	2015	2016	2017	2018
47%	43%	42%	40%	37%

The chart below summarizes historic survey results for the 2018 survey’s five inspection areas with the highest frequency of inspection findings for listed PIE audits.

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<sup>5</sup> Some Members, for example, may focus on different themes (e.g., specific audit areas or audit procedures related to specific areas of accounting or disclosure) or populations of listed PIEs (e.g., industries) between inspection cycles; such variations may impact the risk profile of audits inspected or the level of attention to the individual audit areas captured by the survey. Further, the composition of Members responding to the survey, though largely consistent across recent survey years, can impact survey trends. To better understand the impact of changes in reporting Members, IFIAR determined that 26 Members had reported inspection findings on listed PIE audits for each of the past three survey years (2016-2018). Responses from these 26 Members account for 87% of the listed PIE audits inspected and reported on in the 2018 survey.



### Members' Reporting of Inspection Outcomes

In addition to data on inspection findings, the 2018 survey gathered information about IFIAR Members' inspection reporting practices. Local laws, regulations, and practices determine the extent to which inspection results can be disclosed publicly or with audit committees.

The following summarizes Members' responses to questions about reporting results from inspections of **firm-wide systems of quality controls**. Almost all Members that participated in the survey are able to report results to leadership of the audit firm.

Quality Control inspection results are reported:	# of Members
In a public report that does NOT include results by firm	30
In a public report that reports results by firm inspected	6
To audit committees	5

With respect to **individual engagement file** inspection results, almost all Members participating in the survey report results to leadership of the audit firm. Eight Members indicated that engagement file inspection reviews are reported to the audited entity's audit committee. Of those eight:

Engagement file inspection findings are reported to the audited entity's audit committee:	# of Members
In writing by the audit firm	5
In writing by audit regulator	2
Orally by the audit firm	1

Thirty-three Members indicated that they report publicly on engagement file inspection results. Of those, most do **not** identify the audit firm in the public report, while eight Members indicate that they do identify the audit firm. No Member indicated that the audited entity is identified in a public report along with related inspection findings.

Fifteen Members indicated in the survey that they report ratings on quality control systems and engagement file audits. In almost all cases, these ratings are only reported privately to the audit firm.

### ***Members' Initiatives to Improve Audit Quality***

The 2018 survey also sought information about Members' programs and initiatives that, in addition to inspections, are designed to improve audit quality. Responses are summarized below.<sup>6</sup>

- 92% have **collaborative working arrangement with regulators** (e.g., securities regulators, banking supervisors) that is in addition to collaboration through IFIAR and/or with other IFIAR Members.
- 79% issue **publications directed at auditors**, while 58% issue **publications directed at investors and audit committees**.
- 51% have **direct interactions with audit committees**, while 26% have **direct interactions with investors**.
- 68% hold **workshops and/or roundtables** for engagement with stakeholders.

## **3 IFIAR Activities to Promote Audit Quality**

Expanding upon and learning from its Members' initiatives taken in their respective markets, IFIAR undertakes various activities in the interest of improving audit quality around the world. While responsibility for improving audit quality rests with audit firms, IFIAR seeks to influence progress towards consistent, high quality audits globally through knowledge sharing among its Members, which in turn enhances audit oversight globally.

As mentioned in prior survey reports, inspection findings, while important, should not be the sole measure of progress in audit quality; audit deficiencies identified and reported over the course of an inspection are neither "balanced score cards" nor overall rating tools. A number of audit regulators, individual audit firms, and professional accountancy bodies have sought to identify, track, or promote disclosure of audit quality *indicators* that might contribute to an informed dialogue on audit quality between interested parties, such as between investors, audit committees, and/or current or potential external audit firms. These parties have identified a number of challenges in determining an objective, quantitative approach to *measure* audit quality. Reflecting such challenges, the terminology that has emerged to reflect dialogue about factors used to evaluate audit quality is audit quality *indicators*, rather than *measures*. As mentioned in IFIAR's [2018 Annual Report](#) and summarized below, IFIAR's Global Audit Quality Working Group began an initiative in 2018 that seeks to identify broader measures of audit quality, to complement an existing initiative of that group to track reductions in engagement-level inspection findings. IFIAR anticipates that the discussion of quantitative and qualitative ways to assess audit quality will continue to feature prominently in its future dialogue with the GPPC networks, Members, and the broader community of stakeholders in audit quality.

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<sup>6</sup> The percentages provided represent the number of Members responding for the specific initiative, which ranged between 37 and 39 Members.

Information gained through the survey contributes to IFIAR's efforts to provide a platform for knowledge sharing and collaboration in pursuit of its Members' common objective of enhancing audit oversight and improving audit quality globally. Observations from the survey inform IFIAR's ongoing attention to trends and challenges impacting consistent execution of high quality audits.

- **The survey data informs IFIAR activities directed to its Members in the interest of improving audit oversight globally.** Seeking to be a proactive organization that addresses the forward-looking challenges to audit quality globally and, consequently, to audit oversight locally, IFIAR relies heavily on the insights and strengths of its Members' monitoring of developments impacting the audit environment. The survey's data augments those insights by providing an annual, numerical point of reference about inspection results. Through its annual inspection workshops, IFIAR provides audit inspectors an opportunity to share knowledge and observations on Members' initiatives, but also about recurring, common issues identified through inspections; the survey provides data to confirm that relevant themes are considered.
- **The survey data assists in shaping engagement with the global audit firm networks.** A main objective of IFIAR's dialogue with the GPPC networks is continuous audit quality improvement. This includes how the networks use the results of their monitoring programs, including internal inspections and root cause analyses, to identify ways to strengthen their systems of quality control. An effective internal quality monitoring function is essential for a firm to identify and understand the factors giving rise to audit deficiencies. This positions a firm better to take responsive actions to improve audit quality. Each GPPC network presents annually to IFIAR the results of its internal quality monitoring program, using categories of findings that align with the IFIAR survey to facilitate discussion of similarities and differences between internal and regulatory inspection findings. IFIAR also engages with each network about policies and initiatives to improve audit quality that are undertaken at the global level for implementation at the member firm level. Sharing knowledge within IFIAR of these developments assists Members as they execute their respective oversight activities with respect to the member firms.
- **The survey data also contributes to IFIAR's engagement with outside organizations that have an interest in audit quality.** Insights from the survey form part of IFIAR's regular dialogues with international organizations such as the Financial Stability Board and the International Organization of Securities Commissions. In addition, IFIAR utilizes information learned through the survey to inform its ongoing work to promote the development of high quality international standards of auditing and of ethics for professional accountants.

In addition to the annual survey of inspection findings, IFIAR periodically conducts a survey of its Members' enforcement regimes ("enforcement survey"), highlighting audit regulators' efforts to address audit quality through disciplinary measures and sanctions that influence auditor behavior. In December 2018, IFIAR released a [report on its second enforcement survey](#), providing information about the authority and structures of Members' enforcement programs, the handling and reporting of enforcement matters, and historical and trend information.

# Appendix A:

## Firm-wide Systems of Quality Control Inspection Results

*This appendix provides information on results of the current survey, and selected data from the 2014-2017 surveys, regarding inspections of firm-wide systems of quality control. For additional information, including prior reports and related press releases, please visit [ifiar.org](http://ifiar.org). The first survey was conducted in 2012.*

*What are firm-wide systems of quality control?*

An audit firm's system of quality control serves as a foundation for executing quality audits. Under international standards on quality control, as well as many of the national standards in place in IFIAR Member jurisdictions, audit firms are required to establish a system of quality control. A system of quality control involves a firm's organizational structure and the policies and procedures in place to provide reasonable assurance that:

- the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and
- reports issued by the firm or engagement partners are appropriate in the circumstances.

*What quality control inspection information does the IFIAR survey collect?*

For purposes of the survey, quality control findings are departures from quality control or ethics standards, or from independence requirements, that may have had an effect on audit quality due to the significance or the systemic nature of the departure.

Quality control findings addressed in this appendix do not relate to specific audit engagements, but instead address the policies and procedures in place at the member firm to provide for overall quality control. Quality control findings are more systemic in nature; they are relevant in general to the firm's audit practice and therefore there is an interaction between engagement-level and quality control findings. While quality control findings are attributed to a firm in general, deficiencies in its quality control system may impact the firm's environment for individual audit engagements or for internal monitoring and oversight of audit engagements. Consequently, a deficient system of quality control would likely be manifested in engagement-level findings. In addition, issues observed in inspections of specific engagements determined to be systemic (not engagement-specific) in nature may be considered deficiencies in the effectiveness of a firm's system of quality control.

The survey's categories or inspection themes for quality control findings are based on the different elements of ISQC 1.<sup>7</sup> Inspections of firm-wide systems of quality controls address topics such as

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<sup>7</sup> See International Auditing and Assurance Standards Board (IAASB) International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. ISQC 1 is required in many, but not all, IFIAR Member jurisdictions. The IAASB has an active project to replace ISQC 1 with a restructured and enhanced

## Appendix A: Firm-Wide Systems of Quality Control Inspection Results

systems and processes to manage compliance with auditor independence requirements; procedures to assess risk before accepting or continuing an audit engagement; and personnel systems regarding staff development, promotion, and assignment of audit engagement teams.

*Who participated in the survey and how many member firms did they inspect?*

Thirty-seven Members reported the results of their inspections of 132 member firms' systems of quality control in the 2018 survey, one of the survey's largest year-over-year increases in Member participation, as illustrated in the table below.

**Table A.1**

IFIAR Members Reporting and Member Firms Inspected, 2014-2018 Surveys

	2018	2017	2016	2015	2014
IFIAR Members Submitting Findings	37	32	33	33	30
Audit Firms Inspected	132	111	127	101	123

*What did those inspections find?*

Table A.2 below provides information about the number and rates of member firms with findings by inspection theme. Tables A.3 and A.4 provide additional details about the number of findings by descriptive sub-categories for each theme. IFIAR began collecting findings data by sub-category for four quality control inspection themes in 2016 (see Table A.3) and for the remaining two quality control inspection themes in 2018 (see Table A.4).

**Table A.2**

2014-2018 Survey Results: Member Firms with at Least One Finding by Inspection Theme

Inspection Theme	2018		2017		2016		2015		2014	
	#	%	#	%	#	%	#	%	#	%
Engagement Performance	69	53%	60	55%	55	49%	53	59%	71	60%
Independence and Ethical Requirements	41	32%	45	41%	43	40%	34	40%	55	48%
Human Resources	35	31%	39	38%	29	31%	31	36%	52	45%
Monitoring	27	21%	40	36%	29	28%	27	33%	40	34%
Client Risk Assessment, Acceptance, and Continuance	20	18%	23	21%	26	25%	27	30%	36	33%
Leadership Responsibilities for Quality within the Firm	16	14%	17	16%	12	12%	11	12%	23	19%

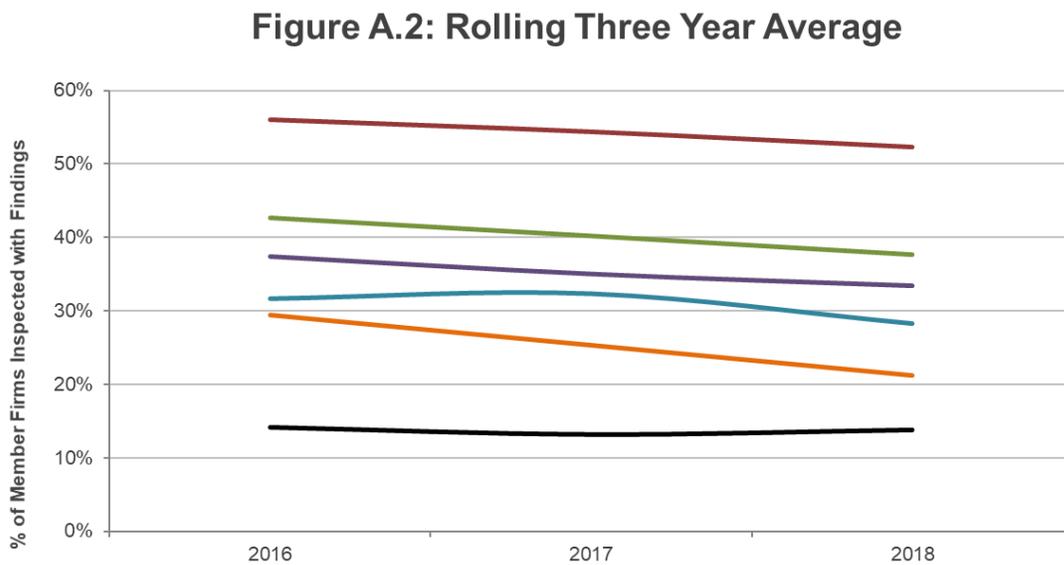
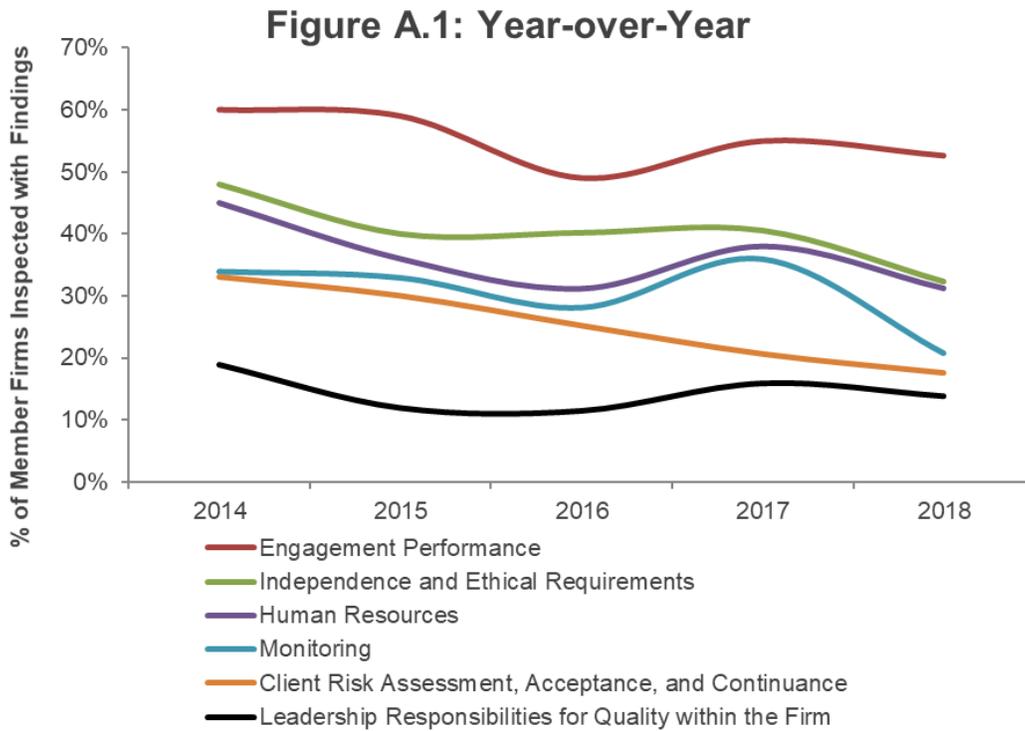
As a summary, Figures A.1 and A.2 below present historical survey results for findings related to firm-wide systems of quality control.

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International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

## Appendix A: Firm-Wide Systems of Quality Control Inspection Results

Figures A.1 and A.2: Percentage of Inspected Member Firms with Quality Control Findings



## Appendix A: Firm-Wide Systems of Quality Control Inspection Results

**Table A.3**  
2016-2018 Supplemental Details on Nature of Findings for Select Inspection Themes

Inspection Theme	Theme Sub Category	Number of Findings		
		2018	2017	2016
Engagement Performance	Audit <b>methodology and guidance</b>	32	30	12
	Insufficient <b>depth / extent of engagement quality control review (EQCR) - New in 2017</b>	26	85	--
	Failure to establish and/or implement policies and procedures for sufficient, timely <b>engagement supervision and review - New in 2017</b>	25	68	--
	<b>Consultations</b>	9	14	6
	Failure to perform a <b>timely EQCR</b> , although required by firm or other applicable policies - <b>New in 2017</b>	10	9	--
	Failure to establish <b>policies and procedures for EQCR</b> that provides an objective evaluation of the significant judgements made by the engagement team	8	6	99
Independence and Ethical Requirements	Failure to monitor effectively Firm <b>staff and partner personal independence</b>	32	15	17
	Failure to consider and evaluate <b>non-audit and/or audit-related services</b> provided to issuer	17	14	23
	Failure to implement a reliable system for tracking <b>business relationships</b> , audit firm financial interests, and corporate family trees, and/or failure to keep the related information up to date - <b>New in 2017</b>	8	11	--
	Failure to maintain independence due to existence of <b>financial relationships</b> including failure to appropriately address those circumstances as impairments of the Firm's independence	7	20	0
	Failure to <b>communicate to the audit committee certain relationships</b> that, in the firm's professional judgment, bear on independence	7	9	6
	Failure to appropriately consider applicable <b>firm or partner rotation rules</b>	5	15	2
	Failure to maintain independence due to an individual on the audit engagement entering into an <b>employment relationship</b> with the former audit client	1	1	4
	Failure to maintain independence due to a <b>business relationship</b> that existed during the professional engagement period	0	1	1
Human Resources	Compliance with the firm training and learning plan	12	22	6
	Evaluation of audit quality as part of partner performance evaluations and admissions	12	19	13
	Assignment of engagement team	10	10	13
	Impact of audit quality deficiencies in partner remuneration and assignments	5	12	5
Monitoring	Failure to identify audit performance issues when performing <b>internal inspections</b> in order to effectively monitor audit quality and respond to possible systemic deficiencies concerning the performance of audits	21	25	23
	Failures in the area of <b>root cause analysis / remedial actions</b>	7	27	41
	Failure to effectively design and implement <b>pre-issuance reviews</b> to monitor the effectiveness of the remedial actions	2	6	5

## Appendix A: Firm-Wide Systems of Quality Control Inspection Results

Data for the following quality control themes was collected for the first time in 2018.

**Table A.4**  
2018 Supplemental Details on Nature of Findings for Select Inspection Themes

Inspection Theme	Theme Sub Category	Number of Findings 2018
<b>Client Risk Assessment, Acceptance and Continuance</b>	Insufficient procedures were performed and/or reliable information obtained to objectively assess the integrity of a new client	10
	Failure in the procedures and systems implemented to identify actual or perceived conflicts of interest or independence issue with an actual or prospective client (including failures in the reliability/up-dates of the databases used)	4
	Failure to assess the engagement risk associated with a new client, a new service or a service requested under specific circumstances	3
	Continuance assessment did not include consideration of significant matters that had arisen during the current or previous engagements	2
	Failure to address actual or perceived conflicts of interest or independence issue	1
	Failure to consult with the risk management function or equivalent when the risk is assessed as being high	1
	Failure to implement procedures to monitor personal and firm independence or business relationships	1
	An engagement was accepted in an industry where the firm did not have sufficient personnel with the necessary experience and skills	0
	Failure to assess at least on a yearly basis the acceptance of continuance of an engagement	0
<b>Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)</b>	Failure of firm leadership to promote high audit quality as a non-negotiable/principal aim of the firm	6
	Failure of firm leadership to demonstrate the values identified as key to the organization	3
	Failure of firm leadership to communicate on a regular basis examples and demonstrations of positive values and behavior	3

## Appendix B: Engagement-level Inspection Results

*This appendix provides information on results from the current survey, and selected data from the 2014-2017 surveys, regarding inspections of listed PIE and SIFI audit engagements. For additional information, including prior reports and related press releases, please visit [ifiar.org](http://ifiar.org). The first survey was conducted in 2012.*

The survey collects data on inspections of audits of listed public interest entities and of systemically important financial institutions. The global population of SIFIs is somewhat limited, such that the number of SIFI audits inspected annually and reported on in the IFIAR survey is significantly smaller than the number of listed PIE audits inspected.

### Listed PIE Audits Inspected

*What type of inspection information does the IFIAR survey collect about listed PIE audits?*

IFIAR collects data on 17 inspection themes. Survey responses provide data about the number of listed PIE audits in which each theme was inspected; the number of inspected audits with at least one finding; and the total number of findings (as one inspected audit can have more than one finding per theme).

*Who participated in the survey and how many audits did they inspect?*

Thirty-nine Members reported the results of their inspections of 921 listed PIE audits in the 2018 survey. The increase in audits inspected increased marginally, despite the significant increase in Members participating in the 2018 survey, as illustrated in the table below.

**Table B.1**

IFIAR Members Reporting and Listed PIE Audits Inspected, 2014-2018 Surveys

	2018	2017	2016	2015	2014
IFIAR Members Submitting Findings	39	33	34	29	29
Audit Firms Inspected	141	120	121	98	122
Listed PIE Audits Inspected	921	918	855	872	948
Inspected Listed PIE Audits with at Least One Finding	343	366	363	376	449

Frequency of Inspections with at Least One Finding	37%	40%	42%	43%	47%
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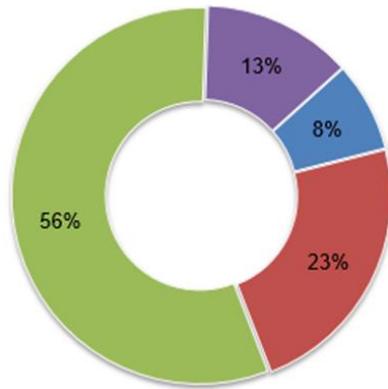
The charts below illustrate the geographic distribution of IFIAR Members contributed data on listed PIE audit inspections results for the 2018 survey, and for the listed PIE audits inspected by these Members. Prior years' survey reports available on IFIAR's website contain similar data for those survey years.

## Appendix B: Engagement-level Inspection Results

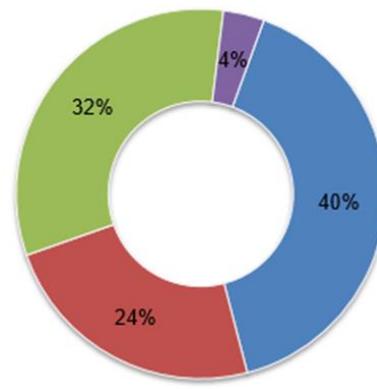
### Figures B.1 and B.2

Geographic Distribution of Members and Listed PIE Audits Inspected, 2018 Survey

B.1: Members Providing Listed PIE Audit Inspections Data



B.2: Listed PIE Audits Inspected



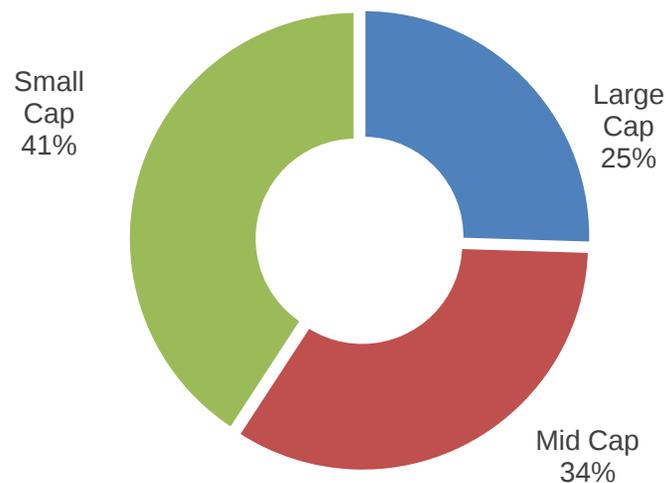
● Americas ● Asia Pacific ● Europe ● Middle East and Africa

*What size and in which industries are the listed PIEs whose audits were inspected?*

In 2018, IFIAR collected information about the size and industries of the listed PIEs whose audits were inspected and reported on in the survey. Recognizing the wide disparity in the sizes of IFIAR Members' equity markets, IFIAR used three categories of market capitalization, determined by each IFIAR Member relative to its own market. Members provided information about relative market size for 95% of the listed PIE audits inspected, summarized in the two figures below.

### Figure B.3

Listed PIE Audits Inspected by Market Capitalization, 2018 Survey

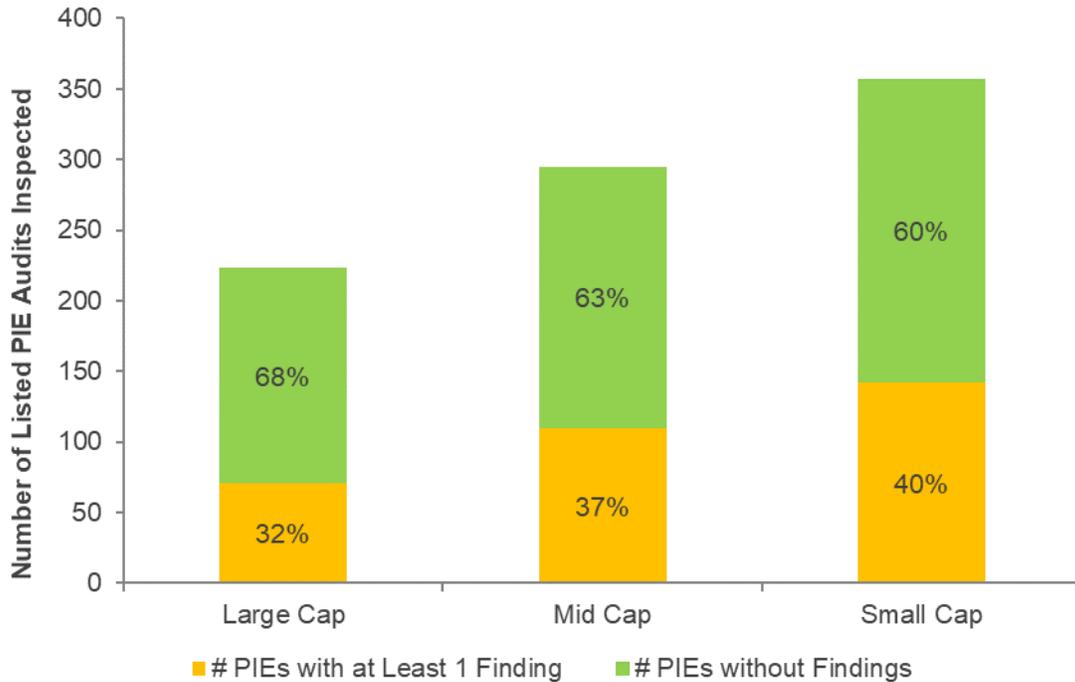


## Appendix B: Engagement-level Inspection Results

New in 2018, IFIAR also collected data about the number of audits inspected with and without findings by market capitalization grouping. That information is presented in the chart below.

**Figure B.4**

Percentage of Listed PIE Audits Inspected with and without Findings by Market Capitalization, 2018 Survey

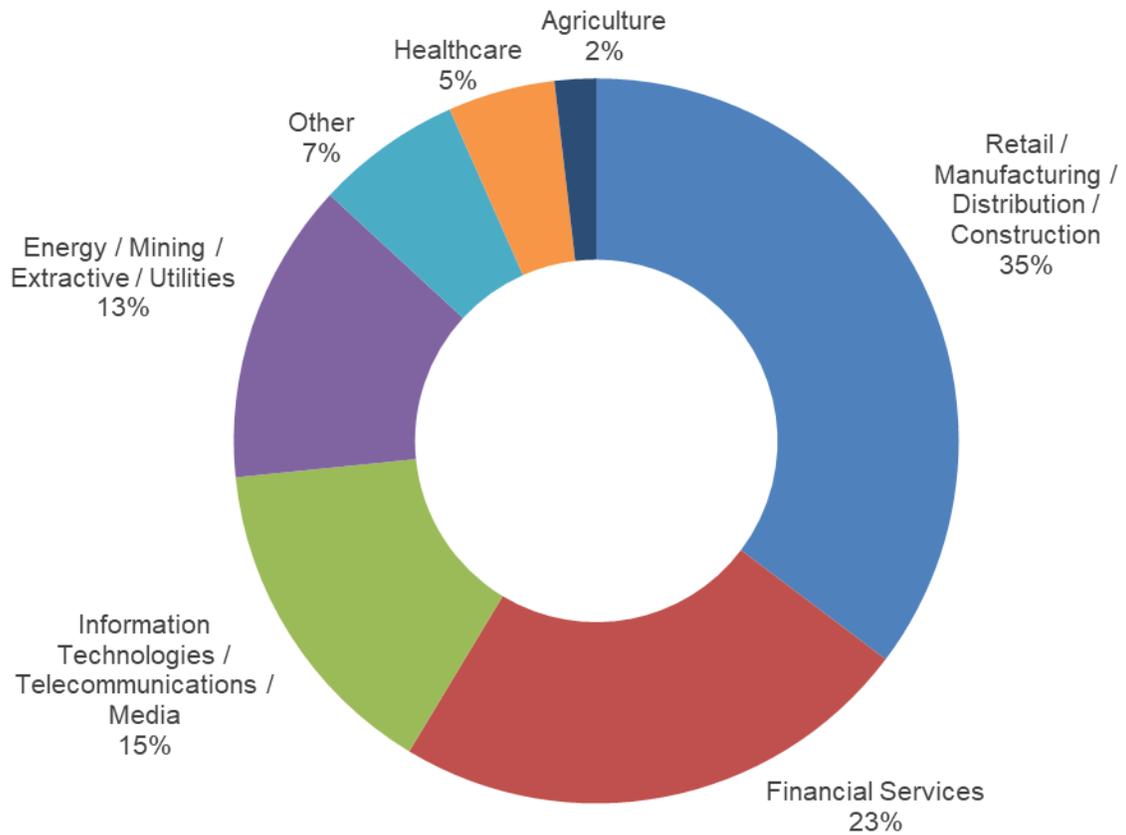


The chart below indicates the industries of the inspected listed PIE audits reported in the 2018 survey.

## Appendix B: Engagement-level Inspection Results

**Figure B.5**

Listed PIE Audits Inspected by Industry, 2018 Survey

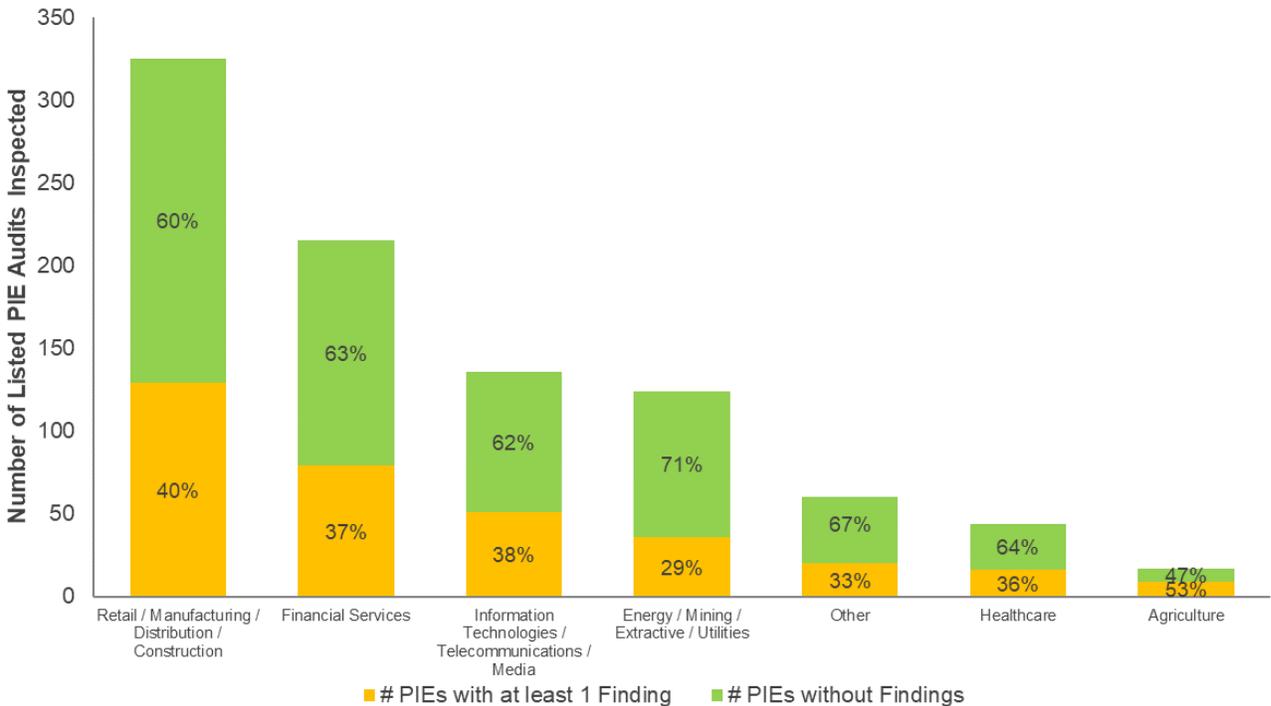


New in 2018, IFIAR also collected data about the number of audits inspected with and without findings by industry. That information is presented in the chart below.

## Appendix B: Engagement-level Inspection Results

**Figure B.6**

Percentage of Listed PIE Audits Inspected with and without Findings by Industry, 2018 Survey



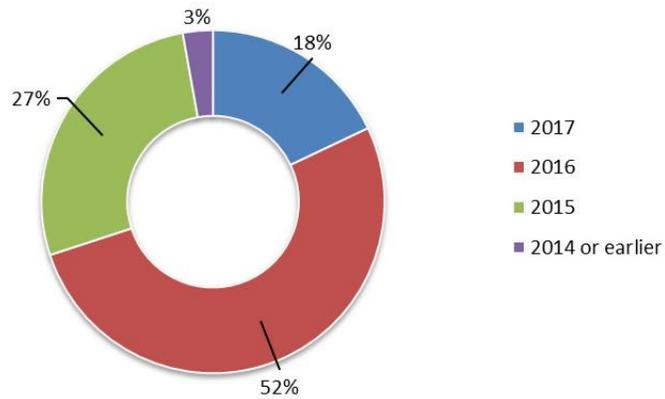
### *How current is the 2018 survey's inspection data?*

The survey data does not reflect the current state of audit performance. This is in part due to the time necessary, after completion of a financial statement audit, for the inspection to occur and for the inspected member firm and the audit regulator to complete any required processes that precede issuance of a final inspection report. Members are instructed to submit data related only to final inspection reports issued to member firms by June 30 of the survey year. As a result of this reporting time lag, actions undertaken to improve audit quality may not be reflected immediately in IFIAR's published survey results. The chart below illustrates this time lag, allocating by fiscal year end of the listed PIE audits inspected with results reported in the 2018 survey.

## Appendix B: Engagement-level Inspection Results

**Figure B.7**

Fiscal Year Ends of Listed PIE Audits Inspected, 2018 Survey



*What did the 2018 survey data show?*

The table below provides details from the 2014-2018 surveys for the calculation by inspection theme of the percentage of listed PIE audits with at least one inspection finding. As disclosed at Appendix C to this report, new inspection themes were added as of the 2013, 2015, and 2016 surveys.

**Table B.2 Listed PIE Audits**

2014-2018 Survey Results: Audits Inspected with at Least One Finding by Inspection Theme

Inspection Theme	2018			2017			2016			2015			2014		
	# of Listed PIE Audits in which the Topic was Inspected	Listed PIE Audits with at Least One Finding		# of Listed PIE Audits in which the Topic was Inspected	Listed PIE Audits with at Least One Finding		# of Listed PIE Audits in which the Topic was Inspected	Listed PIE Audits with at Least One Finding		# of Listed PIE Audits in which the Topic was Inspected	Listed PIE Audits with at Least One Finding		# of Listed PIE Audits in which the Topic was Inspected	Listed PIE Audits with at Least One Finding	
		#	%		#	%		#	%		#	%		#	%
Accounting Estimates, including Fair Value Measurement*	569	161	28%	584	172	29%	514	166	32%	*	*	*	*	*	*
Fair Value Measurement*	*	*	*	*	*	*	*	*	*	661	118	18%	795	156	20%
Audit of Allowance for Loan Losses and Loan Impairments*	*	*	*	*	*	*	*	*	*	165	37	22%	244	31	13%
Internal Control Testing	745	110	15%	769	127	17%	689	124	18%	710	160	23%	638	155	24%
Adequacy of Financial Statement Presentation and Disclosure	572	62	11%	575	60	10%	539	48	9%	570	68	12%	633	79	12%
Revenue Recognition	779	75	10%	748	52	7%	680	88	13%	688	105	15%	732	104	14%
Audit Sampling	587	53	9%	611	78	13%	507	85	17%	**	**	**	**	**	**
Inventory Procedures	322	29	9%	347	30	9%	329	38	12%	365	71	19%	409	64	16%
Group Audits	364	32	9%	434	55	13%	408	44	11%	383	55	14%	506	53	10%
Engagement Quality Control Review	480	40	8%	485	53	11%	361	20	6%	417	32	8%	515	52	10%
Substantive Analytical Procedures	400	33	8%	453	45	10%	368	47	13%	384	44	11%	476	66	14%
Related Party Transactions	318	24	8%	320	20	6%	205	12	6%	300	16	5%	404	33	8%
Adequacy of Review and Supervision	428	24	6%	478	28	6%	406	21	5%	434	35	8%	482	46	10%
Risk Assessment	884	40	5%	888	36	4%	815	39	5%	832	114	14%	652	45	7%
Use of Experts and Specialists	422	19	5%	345	23	7%	284	25	9%	326	29	9%	446	47	11%
Going Concern	230	10	4%	263	8	3%	224	9	4%	321	5	2%	418	23	6%
Audit Report	508	21	4%	500	14	3%	438	14	3%	461	15	3%	**	**	**
Fraud Procedures	568	21	4%	630	43	7%	568	26	5%	574	43	7%	675	43	6%
Audit Committee Communications	617	7	1%	649	11	2%	508	9	2%	592	10	2%	475	13	3%

\* During 2012-2015, IFIAR collected data separately for findings related to "Audit of Allowance for Loan Losses and Loan Impairments" and "Fair Value Measurement". Data collected and reported in previous survey reports for these two themes is included in this table. Beginning in 2016, IFIAR combined these themes as "Accounting Estimates, including Fair Value Measurement".

\*\* Data for this theme was not collected during the survey year.

While the table above details the number of listed PIE audits with at least one finding, the table below provides the total number of findings by inspection theme. Note that an inspected listed PIE audit may have more than one finding under a single inspection theme. Because of this, the total number of findings (per the table above) for most themes exceeds the number of listed PIE audits with at least one finding (per the table below) for that theme.

### Table B.3 Listed PIE Audits

2014-2018 Survey Results: Total Number of Findings by Inspection Theme

Inspection Theme	2018	2017	2016	2015	2014
Accounting Estimates, including Fair Value Measurement*	254	242	258	*	*
Fair Value Measurement*	*	*	*	158	205
Audit of Allowance for Loan Losses and Loan Impairments*	*	*	*	45	46
Internal Control Testing	222	240	278	173	178
Revenue Recognition	94	62	105	116	114
Adequacy of Financial Statement Presentation and Disclosure	89	88	53	85	101
Engagement Quality Control Review	53	54	20	39	53
Audit Sampling	62	107	109	**	**
Group Audits	49	76	53	70	75
Risk Assessment	49	41	51	131	49
Substantive Analytical Procedures	35	54	65	50	79
Inventory Procedures	33	35	43	86	69
Related Party Transactions	26	21	12	17	40
Adequacy of Review and Supervision	25	32	22	49	55
Use of Experts and Specialists	25	28	27	35	54
Fraud Procedures	22	49	35	46	54
Audit Report	21	15	18	15	**
Going Concern	11	13	12	5	24
Audit Committee Communications	7	11	10	10	14
	1,077	1,168	1,171	1,130	1,210

\* During 2012-2015, IFIAR collected data separately for findings related to "Audit of Allowance for Loan Losses and Loan Impairments" and "Fair Value Measurement". Data collected and reported in previous survey reports for these two themes is included in this table. Beginning in 2016, IFIAR combined these themes as "Accounting Estimates, including Fair Value

\*\* Data for this theme was not collected during the survey year. Prior to 2016, Members generally reported Audit Sampling findings under other themes (e.g., Revenue Recognition or Inventory).

In the 2016-2018 surveys, certain IFIAR Members provided additional details regarding findings in the areas of Internal Control Testing, Accounting Estimates and Revenue Recognition. Not all Members reporting listed PIE audit inspection findings provided this supplemental information.

**Table B.4 Listed PIE Audits**

2016-2018 Supplemental Details on Nature of Findings for Select Inspection Themes

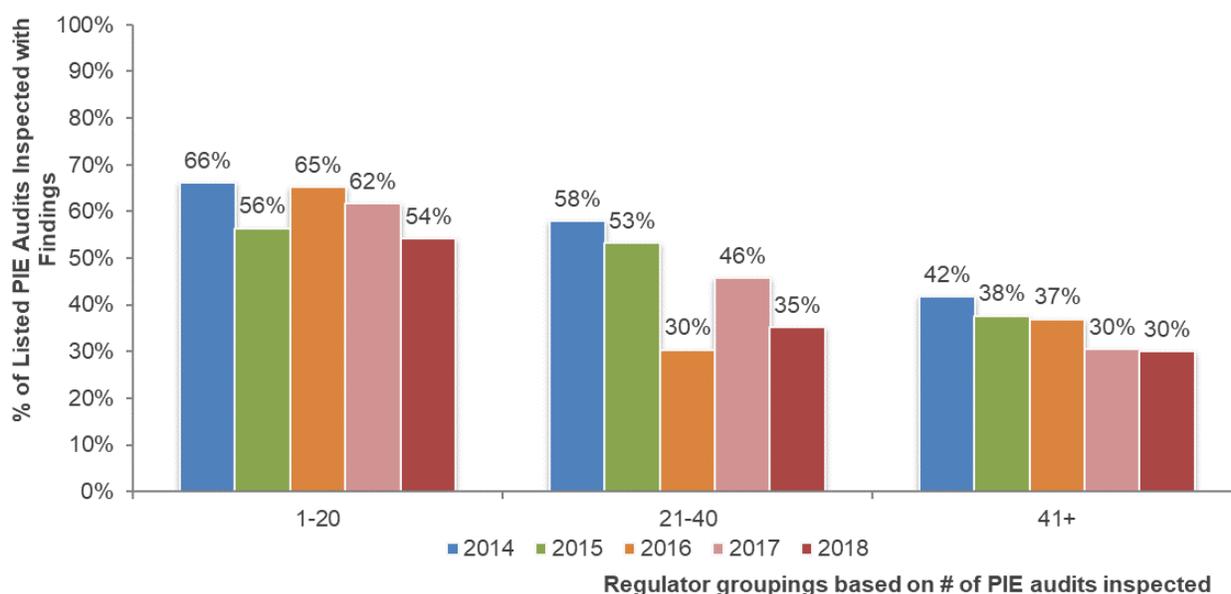
Inspection Theme	Theme Sub Category	Number of Findings		
		2018	2017	2016
Accounting Estimates, including Fair Value Measurement	<b>Reasonableness of assumptions</b> - When testing an accounting estimate, failure to assess the reasonableness of assumptions including consideration of contrary or inconsistent evidence where applicable	131	128	117
	Failure to sufficiently test the <b>accuracy of the data</b>	45	45	25
	Failure to perform sufficient <b>risk assessment</b> procedures	38	25	38
	Failure to take <b>relevant variables</b> into account	17	19	17
	Failure to evaluate how management considered <b>alternative assumptions</b>	12	13	8
	Failure to adequately consider <b>indicators of bias</b>	4	11	5
Internal Control Testing	Failure to obtain sufficient persuasive evidence to support <b>reliance on manual internal controls</b>	95	88	106
	Failure to sufficiently <b>test controls over, or the accuracy and completeness of, data or reports</b> produced by management	48	56	77
	Failure to sufficiently test <b>information technology general and application controls</b>	20	25	19
	Failure to sufficiently evaluate the <b>severity of control deficiencies</b>	11	15	1
	Failure to appropriately <b>adjust testing as a result of ineffective controls</b>	10	9	2
	Failure to adequately assess the <b>appropriateness of placing reliance</b> on the work of others	3	5	9
Revenue Recognition	Failure to appropriately assess and respond to the <b>risk of fraud</b> in revenue recognition	27	25	36
	Failure to sufficiently understand the terms and conditions of <b>complex arrangements</b> and the impact on the accounting	22	10	13
	Failure to perform procedures to determine whether revenue was recorded in the <b>appropriate period</b>	20	10	26

### What factors impact the consistency of findings?

IFIAR has observed that the average rate of inspections with findings varies considerably across IFIAR Members and between years. This may be due to a number of factors unrelated to the actual state of audit quality in Members' jurisdictions. For example, the member firms and the individual listed PIE audits inspected vary year to year. Most Members participating in the 2018 survey do not inspect each GPPC or each Big Four firm annually. Some Members are required to inspect the audits of certain companies within a certain frequency (e.g., at least once every three years). Other Members may choose to select certain engagements based on factors other than risk. Findings rates may be impacted when more engagements are selected (i.e., with an increased sample size) or, related to the point above, the greater diversity in risk profiles of audit selected (i.e., diversification of the sample population's characteristics).

When aggregating Members' survey data, the percentage of audits inspected with findings is higher for Members that inspect relatively fewer audits annually than for those Members inspecting larger numbers of audits. Figure B.8 below illustrates these variations. Most IFIAR Members select audit engagements for inspection based on risk. Riskier audits may experience higher rates of inspection findings, due, for example, to their increased levels of complexity. The resources and expertise assigned often reflect the audit engagement's level of risk. Despite this, audit regulators may still observe deficiencies in complicated or risky audits. A risk-based inspection approach may increase the chance of higher inspection rates; this effect may be more prominent in an inspection program that reviews fewer audits. The large majority of Members participating the survey reported results from inspections of between 1 and 20 listed PIE audits. **It is important to note that *the inspection findings rates within each of the grouping below also varies considerably.***

**Figure B.8:**  
**Percentage of Listed PIE Audits Inspected with Findings by Size of Inspection Program**



## SIFI Audits Inspected

The IFIAR survey collects inspection data specific to audits of SIFIs. These SIFIs include both banks and insurance companies. Some of these SIFIs are considered global SIFIs.<sup>8</sup> Many are listed companies and, therefore, the findings from inspections of these SIFIs also are included in the survey's listed PIE inspection results.

The number of SIFI audits inspected is lower than listed PIE audits inspected due to the limited number of financial institutions deemed to be SIFIs. Trends in survey data for this limited population therefore provide limited information.

## SIFI Audit Inspection Findings

Globally, the number of SIFIs is significantly smaller than the number of listed PIEs. The small number of SIFIs in certain jurisdictions may introduce confidentiality considerations that prevent a Member from reporting SIFI inspection results for purposes of the survey. Further, in some jurisdictions, the IFIAR Member responsible for audit oversight of listed PIE audits may not have authority for oversight of financial institution audits. Finally, beginning with the 2016 survey, IFIAR provided additional guidance to assist Members' identification of which financial institutions are considered to be systemically important in their jurisdiction; this effort was designed to collect more targeted data specific to this important category of reporting companies with aspects of financial reporting that require extensive judgment and estimates and, therefore, present particular audit considerations. For these reasons, the survey reports on a significantly lower number of inspected SIFI audits than of inspected listed PIE audits. While IFIAR's cautions on seeking to analyze trends in survey results apply to all areas of the survey, this is particularly important with the relatively small population of SIFIs.

For the 2018 survey, 15 Members reported the results of their inspections of 40 SIFI audits, of which 17 audits, or 43%, had at least one inspection finding. This compares to twelve Members reporting on inspections of 37 audits for the 2017 survey, of which 54% had at least one finding. The table below provides details from the 2014-2018 surveys for the calculation by inspection theme of the percentage of SIFI audits with at least one inspection finding.

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<sup>8</sup> Based on the most recent data as of the survey data collection period published by the Financial Stability Board regarding financial institutions that are considered systemically-important globally, or G-SIFIs (see the FSB press releases on [global systemically important banks](#) and [global systemically important insurers](#)).

**Table B.5 SIFI Audits**

2014-2018 Survey Results: Audits Inspected with at Least One Finding by Inspection Theme

Inspection Theme	2018			2017			2016			2015			2014		
	Number of SIFI Audits in which the Topic was Inspected	SIFI Audits with at Least One Finding		Number of SIFI Audits in which the Topic was Inspected	SIFI Audits with at Least One Finding		Number of SIFI Audits in which the Topic was Inspected	SIFI Audits with at Least One Finding		Number of SIFI Audits in which the Topic was Inspected	SIFI Audits with at Least One Finding		Number of SIFI Audits in which the Topic was Inspected	SIFI Audits with at Least One Finding	
		#	%		#	%		#	%		#	%		#	%
Adequacy of Financial Statement Presentation and Disclosure	37	11	30%	25	2	8%	25	2	8%	33	6	18%	85	6	7%
Audit of Allowance for Loan Losses and Loan Impairments	27	8	30%	25	9	36%	25	3	12%	53	27	51%	95	16	17%
Internal Control Testing	32	7	22%	33	10	30%	32	8	25%	85	34	40%	98	26	27%
Risk Assessment	35	6	17%	33	2	6%	26	0	0%	84	18	21%	81	3	4%
Audit of Insurance Contract Liabilities	17	3	18%	15	4	27%	12	2	17%	**	**	**	**	**	**
Insufficient Challenge and Testing of Management's Judgments and Assessments	31	5	16%	22	7	32%	22	3	14%	43	18	42%	92	13	14%
Substantive Analytical Procedures	25	4	16%	22	4	18%	23	3	13%	28	2	7%	69	6	9%
Valuation of Investments and Securities	30	4	13%	18	2	11%	20	3	15%	70	19	27%	122	33	27%
Use of Experts and Specialists	32	4	13%	18	2	11%	16	5	31%	31	8	26%	81	9	11%
Audit Report	28	3	11%	24	0	0%	25	2	8%	32	0	0%	**	**	**
Testing of Customer Deposits and Loans	19	2	11%	7	5	71%	21	3	14%	22	5	23%	37	4	11%
Fraud Procedures	31	3	10%	26	0	0%	19	3	16%	29	2	7%	84	5	6%
Audit Methodology, including Programs and Tools	17	0	0%	14	1	7%	19	3	16%	27	5	19%	39	7	18%
Audit Committee Communications	31	0	0%	28	1	4%	27	0	0%	40	1	3%	73	2	3%
Group Audits	12	0	0%	13	0	0%	15	1	7%	20	5	25%	36	4	11%

\*\* Data for this theme was not collected during the survey year.

While the table above details the number of SIFI audits with at least one finding, the table below provides the total number of findings by inspection theme for each year the survey was conducted. Note that an inspected SIFI audit may have more than one finding under a single inspection theme. Because of this, the total number of findings for some themes (per the table below) exceeds the number of SIFI audits with at least one finding (per the table above) for that theme.

**Table B.6 SIFI Audits**

2014-2018 Survey Results: Total Number of Findings by Inspection Theme

Inspection Theme	2018	2017	2016	2015	2014
Audit of Allowance for Loan Losses and Loan Impairments	17	17	3	31	21
Internal Control Testing	14	11	10	37	36
Adequacy of Financial Statement Presentation and Disclosure	12	2	2	6	7
Testing of Customer Deposits and Loans	9	5	3	7	6
Risk Assessment	6	2	0	22	4
Insufficient Challenge and Testing of Management's Judgments and Assessments	6	10	3	20	13
Valuation of Investments and Securities	5	3	3	22	42
Substantive Analytical Procedures	4	5	3	2	6
Audit of Insurance Contract Liabilities	4	6	2	**	**
Use of Experts and Specialists	4	2	6	22	9
Fraud Procedures	3	0	3	2	5
Audit Report	3	0	2	0	**
Audit Methodology, including Programs and Tools	0	6	5	7	11
Audit Committee Communications	0	1	0	1	2
Group Audits	0	0	1	6	4
	87	70	46	185	166

\*\* Data for this theme was not collected during the survey year.

# Appendix C:

## About IFIAR and the Survey of Inspection Findings

### About IFIAR

IFIAR is a membership organization of audit regulators that are independent from the audit profession.<sup>9</sup> IFIAR's membership includes 55 audit regulators from jurisdictions in Africa, the Americas, Asia-Pacific, Europe, and the Middle East. IFIAR focuses on the following activities:

- Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms,
- Promoting collaboration and consistency in regulatory activity, and
- Providing a platform for dialogue with other international organizations that have an interest in audit quality.

An audit firm network is composed of individual audit firms that are members of a global organization. Many audits today involve practitioners from network member firms in a number of countries. The audit of a multinational company may involve significant work performed by many, legally separate audit firms that operate as a network. The audit firms within the network often have a common name and common auditing, quality control, and ethics policies and requirements. The multinational aspects of audit, and the involvement of many local audit firms that are members of a global firm network, call for collaboration by regulators globally.

Through IFIAR, audit regulators seek to coordinate their understanding and assessments of trends in and challenges to audit quality. IFIAR's work positions its Members to evaluate the various issues discussed at the global level with the member firms in their own jurisdictions. Exchanges of perspectives and experiences with fellow IFIAR Members reinforces audit regulators' efforts to promote an audit function that provides the expected degree of confidence in financial reporting.

### The Inspection Findings Survey

In 2012, IFIAR initiated an annual survey of findings resulting from its Members' inspections of audit firms affiliated with the six largest global audit firm networks.<sup>10</sup> The aim of the survey is not to measure empirically, or for statistically significant, changes in audit quality; rather, the survey

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<sup>9</sup> More information on IFIAR and its activities can be found at [ifiar.org](http://ifiar.org).

<sup>10</sup> See [here](#) for past survey reports. Prior to the 2015 survey, Members also could choose to report inspection findings related to other firms considered significant in the reporting Members' jurisdictions (see footnote 10 of the 2015 survey report for information about the impact of this change).

## Appendix C: About IFIAR and the Survey of Inspection Findings

indicates areas of common audit shortcomings and informs IFIAR's efforts to identify areas for discussion among regulators and with audit firm networks and other stakeholders in audit quality.

The survey relates to two types of findings communicated in writing to an inspected member firm in a formal inspection report at the conclusion of an inspection: (1) those related to audit engagements and (2) those related to the member firms' firm-wide systems of quality control. With respect to audit engagement findings related to a financial statement balance or disclosure, a deficiency is either a matter with respect to which the member firm did not obtain sufficient audit evidence to support its opinion or a failure to identify or address a material, or likely potential material, error in the application of an accounting principle. With respect to all other themes, a deficiency is a departure from auditing standards or requirements, including standards on quality control and ethics and independence requirements, that may or did have an effect on audit quality, either due to the significance or systemic nature of the departure. Quality control findings relate to processes and procedures employed on a firm-wide basis by the firm subject to inspection, rather than to work performed on specific audit engagements.

There may be a substantial passage of time from when an audit is completed until an inspection is performed, a final report issued, and the inspection results are reported in IFIAR's survey. Because of this reporting time lag, actions already under way or taken now to improve audit quality may take time to be reflected in IFIAR's published survey results. Therefore, the survey is a lagging indicator and may not reflect the state of the auditing profession at the current time. (See Appendix B, Figure B.7 for information collected in the 2018 survey to understand the extent of the lag.)

IFIAR Members are instructed not to report findings from more than one annual inspection cycle, and to report only on findings related to member firms located in their jurisdiction. Therefore, the findings from no more than one inspection report per member firm are submitted for the survey.

All IFIAR Members are asked to respond to IFIAR's surveys of inspection findings. The surveys solicit data on Members' findings from inspections of:

- member firms' firm-wide systems of **quality control**;
- audits of **listed PIEs**, including any listed SIFIs; and
- audits of **SIFIs**, whether or not a listed entity.<sup>11</sup>

In all years, information was collected on the total number of inspection findings by inspection theme. Respondents reported findings categorized into 17 inspection themes for audits of listed PIEs. Separately, the survey solicited data on findings from inspections of audits of G-SIFIs and other SIFIs, reported using 15 inspection themes relevant to audits of financial institutions. For each inspection theme, Members reported 1) the number of audits inspected, 2) the number of inspected audits with at least one finding, and 3) the total number of findings. The frequency of findings by theme is calculated as the number of inspected audits with at least one finding divided

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<sup>11</sup> The survey also collected findings data on inspections of global SIFIs, or G-SIFIs. Due to national confidentiality limitations and the limited number of G-SIFIs, IFIAR does not publish the results of G-SIFI audit inspections but considers this information for internal purposes.

## Appendix C: About IFIAR and the Survey of Inspection Findings

by the number of audits inspected for that theme. Findings from inspections of firm-wide systems of quality control were reported using six themes. For each quality control inspection theme, Members reported 1) the number of member firms inspected, 2) the number of inspected member firms with at least one finding, and 3) the total number of findings. The frequency of findings by quality control theme is calculated as the number of inspected member firms with at least one finding divided by the number of member firms inspected for that quality control theme.

The survey also included questions about Members' observations from their inspection activities, with particular focus on root causes analysis practices.

The approach taken for the 2018 survey was generally consistent with that used in prior surveys. Previously, various changes were made to the engagement inspection themes.

- For listed PIE audits, "Audit Sampling" was added in the 2016 survey to collect better information on findings related to specific audit procedures. In prior surveys, sampling was an example listed under both the "Revenue Recognition" and "Inventory" themes. Certain audit regulators have observed that deficiencies in sampling occur irrespective of the income statement or balance sheet accounts that are the subject of the audit procedure; accordingly, IFIAR Members sought to collect specific information on the frequency of findings related to sampling.<sup>12,13</sup> IFIAR Members were asked to indicate whether the addition of the Audit Sampling theme resulted in an increase in the total number of findings reported; all participating Members confirmed that the new theme did not affect the total number of findings reported in the survey, as compared to the Members' approaches to reporting data for prior surveys.
- For SIFI audits, a new theme of "Audit of Insurance Contract Liabilities" was added in 2016. This is an area with anticipated forthcoming changes in accounting standards and disclosures, increasing interest in understanding the extent of audit issues currently identified by regulators.
- In the 2016 survey, the listed PIE inspection themes called "Fair Value Measurement" and "Allowance for Loan Losses" in previous surveys were combined; the revised description of this theme is "Accounting Estimates, including Fair Value Measurement". This renamed theme is broader than the prior themes; for example, accounting estimates related to a provision or reserve that is accounted for at an amount other than fair value would be included under this description. This change does not apply to reporting on SIFI audit inspection findings. Findings related to accounting estimates for SIFI audits are reported

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<sup>12</sup> Note that Audit Sampling findings reported on listed PIE audit engagements relate to deficiencies in a specific audit engagement in the application of audit standards on sampling. Findings related to a firm's audit methodology for sampling would be considered a firm-wide quality control finding and reported as an "Engagement Performance" finding.

<sup>13</sup> Related to this change, the theme previously called "Inventory" was revised to "Inventory Procedures" to better reflect auditing standards that require specific procedures to test inventory quantities. Findings related to sampling approaches used when testing inventory are reported under the Audit Sampling theme, and findings related to inventory valuation or reserves are reported under the Accounting Estimates theme.

## Appendix C: About IFIAR and the Survey of Inspection Findings

by more detailed themes to enable more specific reporting on customary matters addressed in financial institution audits. These more detailed accounting estimate themes include “Valuation of Investments and Securities”, “Insufficient Challenge and Testing of Management’s Judgments and Assessments”, and “Audit of Allowance for Loan Losses”.

- In the 2015 survey, a new category of findings, “Audit Report”, was added. For those audits conducted using ISAs, a new standard for audit reporting, ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, is applicable to audits of financial statements for periods ended on or after December 15, 2016.<sup>14</sup> In some jurisdictions, expanded reporting by auditors already had begun prior to ISA 701’s implementation date. IFIAR started collecting survey data on findings related to the Audit Report to monitor trends in findings in this area as the form and content of the auditor’s report evolves.

Individual Members’ classification of findings may change over time, due in part to clarifications and additional instructions provided to assist Members in determining how to classify a finding that relates to multiple themes. For example, a finding about **risk assessment** related to **fraud procedures** in the area of **revenue recognition** could be placed under one of three themes (indicated in bold). To minimize differences in judgment between Members completing the survey, Members periodically are provided additional instructions to improve consistency of individual Members’ approaches to reporting for purposes of the survey (in the example provided, under the “Revenue Recognition” theme).

Beginning with the 2016 survey, IFIAR provides additional guidance to Members to assist in their determination of which financial institutions are considered to be SIFIs in their jurisdiction. This effort is aimed at collecting data about this important category of reporting companies with aspects of financial reporting that require extensive judgment and estimates and, therefore, present particular audit considerations.

Beginning with the 2015 survey, reporting on findings is limited to inspections of a member firm of one of the six GPPC networks.<sup>15</sup> Not all GPPC networks’ audit practices are of significant size in all IFIAR Member jurisdictions, and other firms not covered by this survey may play a significant role in certain jurisdictions. However, the GPPC networks include the six audit firm networks that are most common across IFIAR Members’ jurisdictions, and IFIAR’s discussions with audit firms to date have focused on the GPPC networks. Through its GAQ Working Group, IFIAR has

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<sup>14</sup> For more information about ISA 701, see [here](#).

<sup>15</sup> IFIAR does not collect data by firm for the survey’s inspection findings themes. Because of this, it has not adjusted prior survey information to remove findings related to audit firms that are not part of a GPPC network. To assess the general impact non-GPPC network audit firms had on survey results prior to 2015, IFIAR considered the total number of audit firms and listed PIE audits inspected, and the frequency at which those audits had at least one finding. The 2014 survey included findings from 62 listed PIE audits inspected at 18 non-GPPC network audit firms. Had these inspection results been excluded from the 2014 survey, the frequency of listed PIE audit files inspected and with at least one finding would have been 46%; this compares to 47% with these non-GPPC network audit firms included, as reported in the report on the 2014 survey. The exclusion of findings from inspections of non-GPPC network audit firms in the 2015 survey is not expected to have a significant impact on general trends or frequency of inspection themes.

## **Appendix C: About IFIAR and the Survey of Inspection Findings**

deepened its discussions with the GPPC networks on findings, root cause analysis, and the networks' plans to take responsive action to improve audit quality. Collecting data about findings only on the member firms that are part of the GPPC networks should assist IFIAR in a targeted discussion with the networks on trends in findings and audit quality.