



IFIAR

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

Survey of Inspection Findings

2019

This report, released on February 17, 2020, presents information collected by IFIAR through its eighth annual survey of the results of its member regulators' inspections of the six largest audit firm networks.

This report on IFIAR’s 2019 Survey of Inspection Findings includes an overview of IFIAR’s annual survey of audit inspection findings and highlights of the 2019 survey results. A more complete description of the survey’s methodology and details of the 2019 and prior survey results are included in the following appendices:

- A Firm-wide Systems of Quality Control Inspection Results
- B Engagement-level Inspection Results
- C About IFIAR and the Survey of Inspection Findings

1 Overview

IFIAR, a membership organization of 55 independent audit regulators (“Members”), during 2019 conducted its eighth annual survey of Members’ inspection results and programs. The survey collects data about inspection findings arising from its Members’ individual inspections of individual audit firms (“member firms”) affiliated with the six largest global audit firm networks (“GPPC networks”).¹ IFIAR Members from 49 jurisdictions participated in the 2019 survey, providing data on inspection reports generally issued to the GPPC networks’ member firms during the twelve months ended June 30, 2019.²

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 consistently high quality audits globally. The annual survey of inspection findings is one of 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.

The survey is not designed to – and does not – provide a complete 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. Deficiencies

¹ 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.

² IFIAR Members from the following jurisdictions participated in the 2019 survey: Abu Dhabi, Albania, Australia, Austria, Belgium, Botswana, Brazil, Bulgaria, Canada, Cayman Islands, Chinese Taipei, Cyprus, Czech Republic, Denmark, Dubai International Financial Centre, Finland, France, Georgia, Germany, Gibraltar, Greece, Ireland, Italy, Japan, Korea, Lithuania, Luxembourg, Malaysia, Mauritius, Netherlands, New Zealand, Norway, Philippines, Poland, Portugal, Romania, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States.

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, along with other interested stakeholders, continues efforts to 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.

The survey provides historical, quantitative information about inspection results, as one means to identify general trends in areas of findings. The survey's information neither measures empirically changes in audit quality nor assesses the degree of 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.³

Nonetheless, the recurrence and level of findings reflected in the survey continue to 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, on an ongoing basis, to identify areas for improvement to the systems of quality control that support their audit practices; implement responsive actions; monitor the impact of such actions; and leverage 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.

2 2019 Survey

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. 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. For insight into the effectiveness of audit firms' systems of quality control in supporting audit quality, IFIAR also tracks the percentage of listed public interest entity (PIE) audits inspected with at least one finding. The general reduction in this percentage continued in the 2019 survey, reaching 33% (down from 47% when data on this metric was first collected for the 2014 survey). While

The general decline in overall findings rates continues

The general reduction in the percentage of audits inspected with one or more findings continued in the 2019 survey, reaching 33%. This is down from 47% when data on this metric was first collected for the 2014 survey.

While

³ 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 types of reporting companies (e.g., certain 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 29 Members had reported inspection findings on listed PIE audits for each of the past three survey years (2017-2019). Responses from these 29 Members account for 88% of the listed PIE audits inspected and reported on in the 2019 survey.

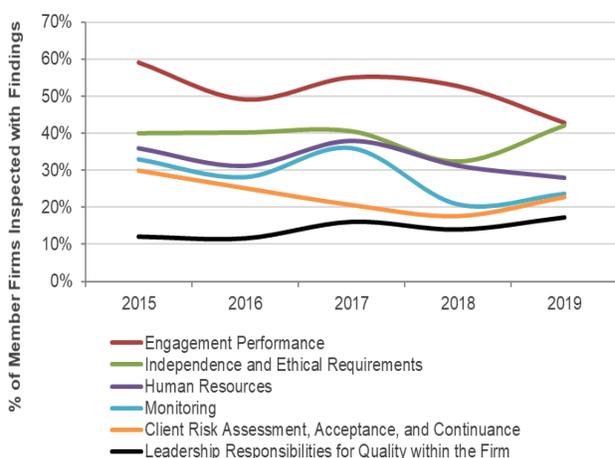
encouraged by this trend, IFIAR urges the GPPC networks and their member firms to continue efforts to achieve improved audit performance as the current rate remains high.

For purposes of the survey, a finding is a significant deficiency in satisfying the requirements of auditing standards. **It is important to note that a finding from an inspection of an audit engagement does not necessarily indicate that the audited financial statements are misstated** or that the audit firm necessarily has a deficient system of quality control related to the finding.⁴

The sections below briefly highlight the 2019 survey’s data on inspections of firm-wide systems of quality control and on engagement-specific audit inspections. See appendices A and B for additional 2019 survey data on inspection results.

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 2019 and prior surveys. The chart below summarizes the percentage of member firms



inspected with at least one finding in the indicated areas of systems of quality control.

A strong system of quality control is 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, the International Auditing and Assurance Standards Board

⁴ For purposes of this survey, a finding 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. 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. 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.

(IAASB) has a current project to revise international standards for quality control. The proposed International Standard on Audit Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM1) presents an opportunity for the GPPC networks to revisit their quality control systems with the goal of identifying the applicable risks that affect audit quality, and designing and implementing controls that best address those risks.

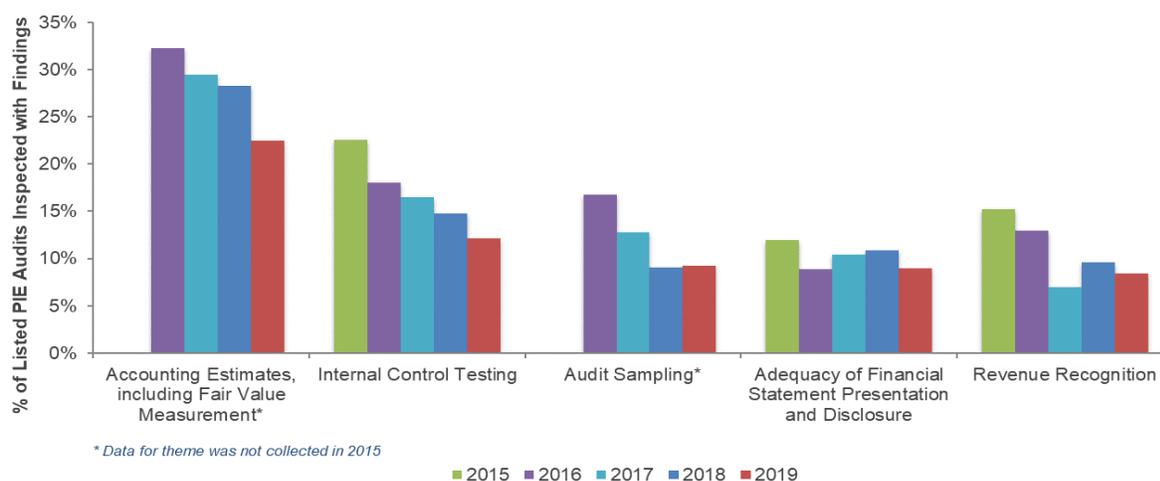
Inspections of Individual Audit Engagements

Inspections of individual audit engagements assess an audit firm’s execution of auditing standards on a selected audit. (As mentioned above, a finding is not necessarily indicative of a financial statement misstatement.) IFIAR’s survey collects data on inspections of listed 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 2019 and prior surveys.

IFIAR continues to track the percentage of listed PIE audits inspected with at least one finding, as one metric to understand the collective effect on engagement-level performance of member firms’ initiatives related to systems of quality controls. The general reduction in this percentage continued in the 2019 survey, as illustrated below.

2014	2015	2016	2017	2018	2019
47%	43%	42%	40%	37%	33%

The chart below summarizes historical survey results for the 2019 survey’s five inspection areas with the highest frequency of inspection findings for listed PIE audits.



In 2015, IFIAR’s Global Audit Quality (GAQ) Working Group announced a goal for the GPPC networks to reduce by at least 25% the rate of audits with inspection findings, based on the survey results submitted by the GAQ Working Group’s members over a four-year period. In January

2020, using data collected through IFIAR’s 2019 survey, the GAQ Working Group announced the results of that initiative. See the IFIAR [announcement](#) for additional details.

Members’ Reporting of Inspection Outcomes

In addition to data on inspection findings, the 2019 survey gathered information about IFIAR Members’ inspection reporting practices. Local laws, regulations, and practices determine the extent to which inspection results can be disclosed to parties other than the inspected firms, for example reported publicly or to audit committees.

The majority of Members (31) publicly report the results from inspections of firm-wide systems of quality controls and the same number of Members publicly report the results from individual engagement file inspections, but do not identify findings by audit firm inspected (note that, while there is significant overlap, these two groups of 31 Members are not identical). Only seven Members report publicly the quality control inspection results by individual firm inspected, and eight Members identify the individual audit firm when reporting the results of engagement file inspections. Only one Member indicated that the audited entity is identified in a public report along with related engagement file inspection findings.

Reporting inspection results to audit committees is a less common practice among IFIAR Members participating in the survey. Six Members report findings from inspections of **firm-wide systems of quality control** to audit committees. Twelve Members indicated that **engagement file** inspection reviews results are reported to the audited entity’s audit committee.

Number of IFIAR Members with engagement file findings reported to audit committees:	
7	<i>In writing by the audit firm</i>
4	<i>In writing by the audit regulator</i>
1	<i>Orally by the audit regulator</i>

Nine Members indicated that they report ratings on quality control systems and 20 rate audit engagements.

In most cases, these ratings are only reported privately to the audit firm.

3 Promotion of Audit Quality

Expanding upon and learning from its Members’ initiatives taken in their respective jurisdictions, IFIAR undertakes various activities in the interest of improving audit quality around the world. While responsibility for improving audit quality rests with the audit firms, IFIAR continuously promotes and influences progress towards consistent, high quality audits globally through knowledge sharing among its Members, which in turn enhance audit oversight globally. IFIAR’s [Annual Reports](#) provide details of IFIAR initiatives aimed at improving audit quality.

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 2015-2018 surveys, regarding inspections of firm-wide systems of quality control. For additional information, including prior reports and related press releases, please visit ifiar.org. The first survey was conducted in 2012.

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.

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 1.⁵ Inspections of firm-wide systems of quality controls address topics such as 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.

⁵ See 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 ISQM 1.

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

Forty-two Members reported the results of their inspections of 143 member firms' systems of quality control in the 2019 survey, continuing the upward trend in the survey's year-over-year increases in Member participation, as illustrated in the table below.

Table A.1

IFIAR Members Reporting and Member Firms Inspected, 2015-2019 Surveys

	2019	2018	2017	2016	2015
IFIAR Members Submitting Findings	42	37	32	33	33
Audit Firms Inspected	143	132	111	127	101

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

2015-2019 Survey Results: Member Firms with at Least One Finding by Inspection Theme

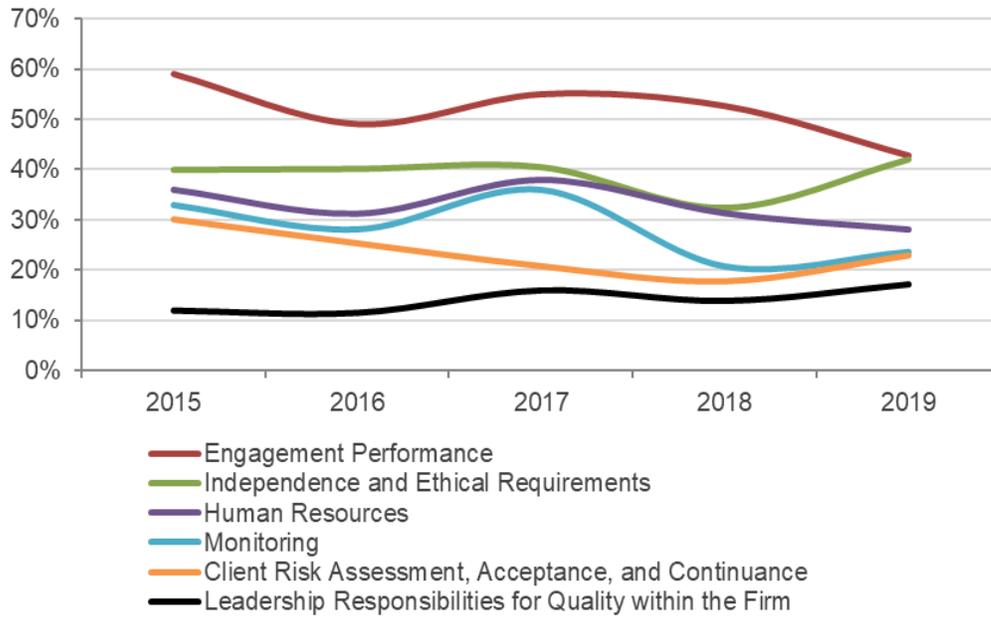
Inspection Theme	2019		2018		2017		2016		2015	
	#	%	#	%	#	%	#	%	#	%
Engagement Performance	60	43%	69	53%	60	55%	55	49%	53	59%
Independence and Ethical Requirements	56	42%	41	32%	45	41%	43	40%	34	40%
Human Resources	33	28%	35	31%	39	38%	29	31%	31	36%
Monitoring	31	24%	27	21%	40	36%	29	28%	27	33%
Client Risk Assessment, Acceptance, and Continuance	29	23%	20	18%	23	21%	26	25%	27	30%
Leadership Responsibilities for Quality within the Firm	22	17%	16	14%	17	16%	12	12%	11	12%

As a summary, Figure A.1 below presents historical survey results for findings related to firm-wide systems of quality control.

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

Figure A.1:

Percentage of Inspected Member Firms with Quality Control Findings



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

Table A.3

2016-2019 Supplemental Details on Nature of Findings for Select Inspection Themes

Inspection Theme	Theme Sub Category	Number of Findings			
		2019	2018	2017	2016
Engagement Performance	Audit methodology and guidance	39	32	30	12
	Failure to establish and/or implement policies and procedures for sufficient, timely engagement supervision and review - <i>New in 2017</i>	37	25	68	--
	Insufficient depth / extent of engagement quality control review (EQCR) - <i>New in 2017</i>	23	26	85	--
	Failure to perform a timely EQCR , although required by firm or other applicable policies - <i>New in 2017</i>	18	10	9	--
	Failure to establish policies and procedures for EQCR that provides an objective evaluation of the significant judgements made by the engagement team	15	8	6	99
	Consultations	5	9	14	6
Independence and Ethical Requirements	Failure to monitor effectively Firm staff and partner personal independence	58	32	15	17
	Failure to consider and evaluate non-audit and/or audit-related services provided to issuer	22	17	14	23
	Failure to appropriately consider applicable firm or partner rotation rules	11	5	15	2
	Failure to implement a reliable system for tracking business relationships , audit firm financial interests, and corporate family trees, and/or failure to keep the related information up to date - <i>New in 2017</i>	10	8	11	--
	Failure to communicate to the audit committee certain relationships that, in the firm's professional judgment, bear on independence	10	7	9	6
	Failure to maintain independence due to existence of financial relationships including failure to appropriately address those circumstances as impairments of the Firm's independence	7	7	20	0
	Failure to maintain independence due to a business relationship that existed during the professional engagement period	2	0	1	1
Failure to maintain independence due to an individual on the audit engagement entering into an employment relationship with the former audit client	1	1	1	4	
Human Resources	Evaluation of audit quality as part of partner performance evaluations and admissions	21	12	19	13
	Assignment of engagement team	14	10	10	13
	Compliance with the firm training and learning plan	10	12	22	6
	Impact of audit quality deficiencies in partner remuneration and assignments	5	5	12	5
Monitoring	Failure to identify audit performance issues when performing internal inspections in order to effectively monitor audit quality and respond to possible systemic deficiencies concerning the performance of audits	14	21	25	23
	Failures in the area of root cause analysis / remedial actions	10	7	27	41
	Failure to effectively design and implement pre-issuance reviews to monitor the effectiveness of the remedial actions	3	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
2018-2019 Supplemental Details on Nature of Findings for Select Inspection Themes

Inspection Theme	Theme Sub Category	Number of Findings	
		2019	2018
Client Risk Assessment, Acceptance and Continuance	Insufficient procedures were performed and/or reliable information obtained to objectively assess the integrity of a new client	10	10
	Continuance assessment did not include consideration of significant matters that had arisen during the current or previous engagements	6	2
	Failure to consult with the risk management function or equivalent when the risk is assessed as being high	6	1
	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	4
	Failure to assess at least on a yearly basis the acceptance of continuance of an engagement	3	0
	Failure to address actual or perceived conflicts of interest or independence issue	1	1
	Failure to implement procedures to monitor personal and firm independence or business relationships	1	1
	Failure to assess the engagement risk associated with a new client, a new service or a service requested under specific circumstances	1	3
	An engagement was accepted in an industry where the firm did not have sufficient personnel with the necessary experience and skills	0	0
Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)	Failure of firm leadership to promote high audit quality as a non-negotiable/principal aim of the firm	14	6
	Failure of firm leadership to demonstrate the values identified as key to the organization	4	3
	Failure of firm leadership to communicate on a regular basis examples and demonstrations of positive values and behavior	3	3

Appendix B: Engagement-level Inspection Results

This appendix provides information on results from the current survey, and selected data from the 2015-2018 surveys, regarding inspections of listed PIE and SIFI audit engagements. For additional information, including prior reports and related press releases, please visit 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.

IFIAR collects data on 17 inspection themes for listed PIE audit inspections and on 16 themes for SIFI audit inspections; four of the SIFI inspection themes differ from the listed PIE themes, to gather more specific information about aspects of audits that typically are more prevalent in SIFI audit engagements. Survey responses provide data about the number of 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).

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 2019 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 audits selected (i.e., diversification of the sample population's characteristics).

Section 1: Listed PIE Audits Inspected

A. Data on Members Reporting and Audits Inspected

Table B.1

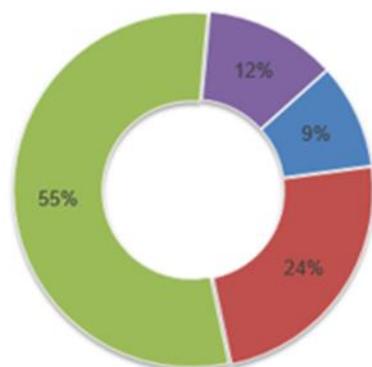
IFIAR Members Reporting and Listed PIE Audits Inspected, 2015-2019 Surveys

	2019	2018	2017	2016	2015
IFIAR Members Submitting Findings	42	39	33	34	29
Audit Firms Inspected	134	141	120	121	98
Listed PIE Audits Inspected	926	921	918	855	872
Inspected Listed PIE Audits with at Least One Finding	309	343	366	363	376
Frequency of Inspections with at Least One Finding	33%	37%	40%	42%	43%

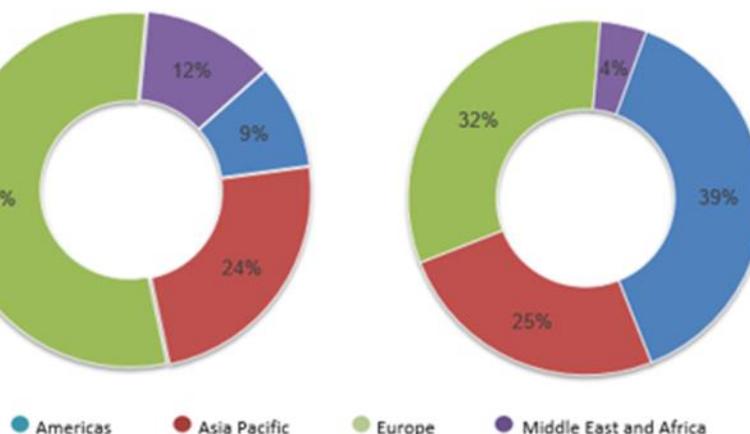
Figures B.1 and B.2

Geographic Distribution of Members and Listed PIE Audits Inspected, 2019 Survey

B.1: Members Providing Listed PIE Audit Inspections Data



B.2: Listed PIE Audits Inspected



In 2019, 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 97% of the listed PIE audits inspected, summarized in the two figures below.

Appendix B: Engagement-level Inspection Results

Figure B.3

Listed PIE Audits Inspected by Market Capitalization, 2019 Survey

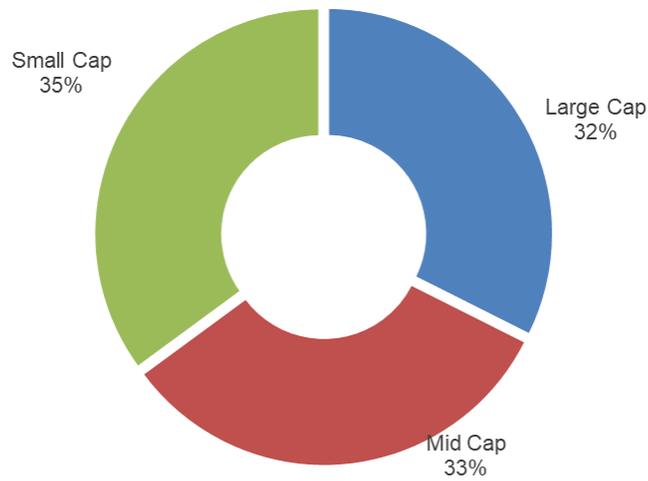
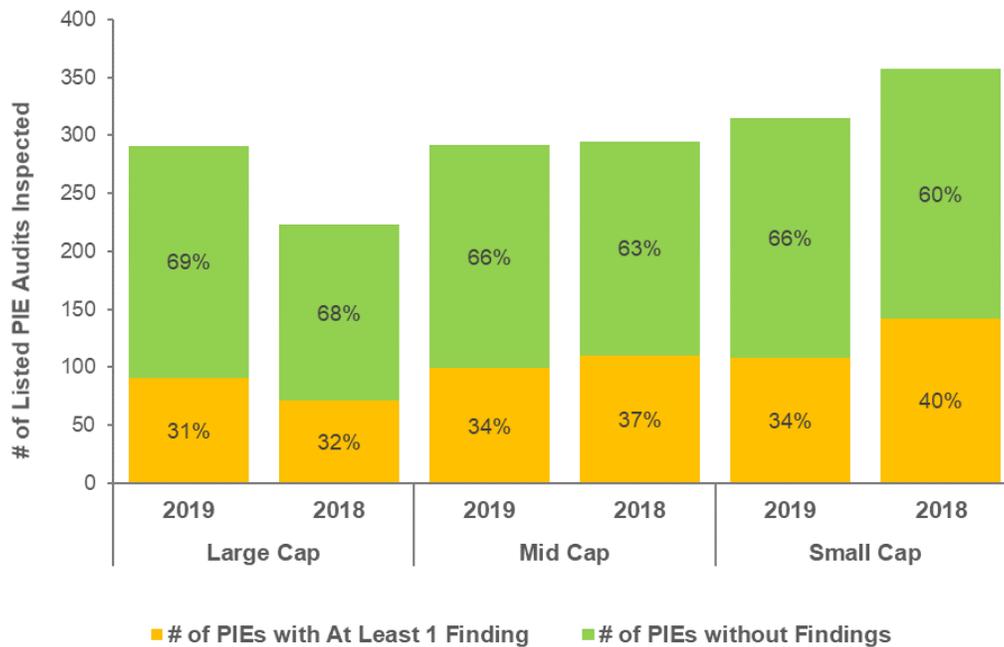


Figure B.4

Percentage of Listed PIE Audits Inspected with and without Findings by Market Capitalization, 2018 and 2019 Survey



Appendix B: Engagement-level Inspection Results

Figure B.5

Listed PIE Audits Inspected by Industry, 2019 Survey

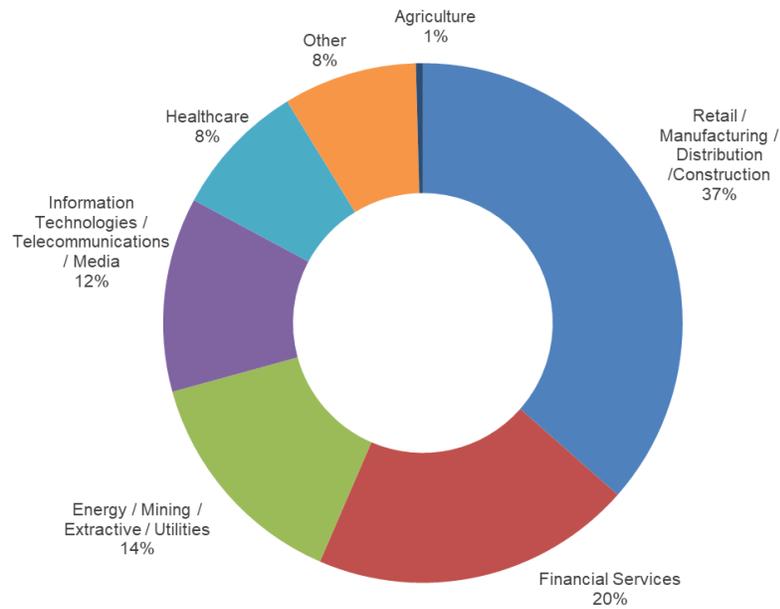
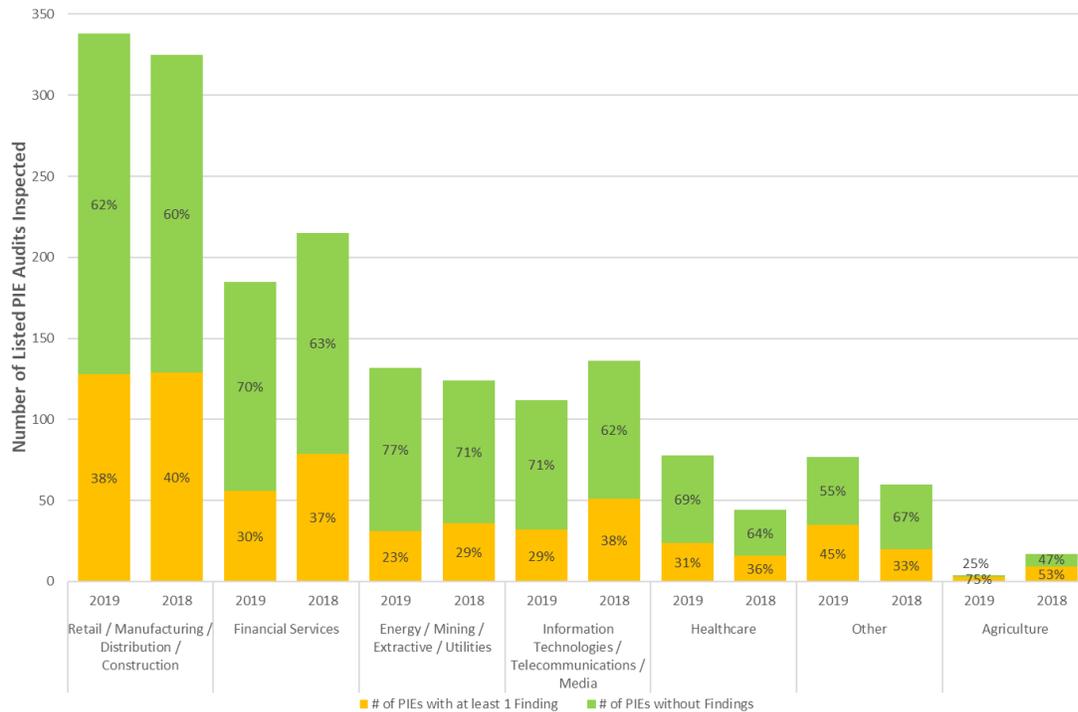


Figure B.6

Percentage of Listed PIE Audits Inspected with and without Findings by Industry, 2018 and 2019 Survey

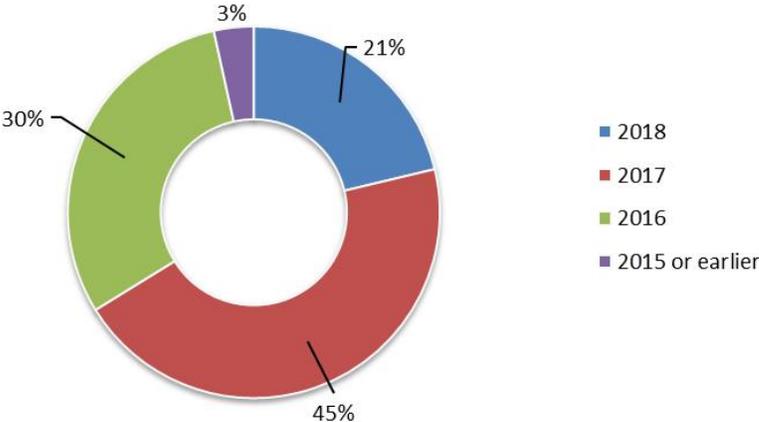


Appendix B: Engagement-level Inspection Results

The survey data may not reflect the most 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. 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 the inspected audits reported in the 2019 survey by the fiscal year end of the listed PIEs’ audited financial statements.

Figure B.7

Fiscal Year Ends of Listed PIE Audits Inspected, 2019 Survey



B. Data on Inspection Results

Table B.2 Listed PIE Audits

2015-2019 Survey Results: Audits Inspected with at Least One Finding by Inspection Theme

Inspection Theme	2019			2018			2017			2016			2015		
	# 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*	614	138	22%	569	161	28%	584	172	29%	514	166	32%	*	*	*
Fair Value Measurement*	*	*	*	*	*	*	*	*	*	*	*	*	661	118	18%
Audit of Allowance for Loan Losses and Loan Impairments*	*	*	*	*	*	*	*	*	*	*	*	*	165	37	22%
Internal Control Testing	789	96	12%	745	110	15%	769	127	17%	689	124	18%	710	160	23%
Audit Sampling	627	58	9%	587	53	9%	611	78	13%	507	85	17%	**	**	**
Adequacy of Financial Statement Presentation and Disclosure	614	55	9%	572	62	11%	575	60	10%	539	48	9%	570	68	12%
Revenue Recognition	803	68	8%	779	75	10%	748	52	7%	680	88	13%	688	105	15%
Adequacy of Review and Supervision	483	30	6%	428	24	6%	478	28	6%	406	21	5%	434	35	8%
Inventory Procedures	388	24	6%	322	29	9%	347	30	9%	329	38	12%	365	71	19%
Group Audits	415	24	6%	364	32	9%	434	55	13%	408	44	11%	383	55	14%
Engagement Quality Control Review	496	28	6%	480	40	8%	485	53	11%	361	20	6%	417	32	8%
Audit Report	549	22	4%	508	21	4%	500	14	3%	438	14	3%	461	15	3%
Risk Assessment	889	27	3%	884	40	5%	888	36	4%	815	39	5%	832	114	14%
Use of Experts and Specialists	432	13	3%	422	19	5%	345	23	7%	284	25	9%	326	29	9%
Substantive Analytical Procedures	441	11	2%	400	33	8%	453	45	10%	368	47	13%	384	44	11%
Related Party Transactions	296	6	2%	318	24	8%	320	20	6%	205	12	6%	300	16	5%
Going Concern	311	6	2%	230	10	4%	263	8	3%	224	9	4%	321	5	2%
Fraud Procedures	645	12	2%	568	21	4%	630	43	7%	568	26	5%	574	43	7%
Audit Committee Communications	678	10	1%	617	7	1%	649	11	2%	508	9	2%	592	10	2%

* 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 below) for most themes exceeds the number of listed PIE audits with at least one finding (per the table above) for that theme.

Table B.3 Listed PIE Audits

2015-2019 Survey Results: Total Number of Findings by Inspection Theme

Inspection Theme	2019	2018	2017	2016	2015
Accounting Estimates, including Fair Value Measurement*	213	254	242	258	*
Fair Value Measurement*	*	*	*	*	158
Audit of Allowance for Loan Losses and Loan Impairments*	*	*	*	*	45
Internal Control Testing	194	222	240	278	173
Revenue Recognition	95	94	62	105	116
Adequacy of Financial Statement Presentation and Disclosure	92	89	88	53	85
Audit Sampling	76	62	107	109	**
Risk Assessment	49	49	41	51	131
Group Audits	37	49	76	53	70
Adequacy of Review and Supervision	34	25	32	22	49
Engagement Quality Control Review	32	53	54	20	39
Inventory Procedures	27	33	35	43	86
Audit Report	26	21	15	18	15
Substantive Analytical Procedures	14	35	54	65	50
Use of Experts and Specialists	13	25	28	27	35
Fraud Procedures	12	22	49	35	46
Audit Committee Communications	11	7	11	10	10
Related Party Transactions	6	26	21	12	17
Going Concern	6	11	13	12	5
	937	1,077	1,168	1,171	1,130

* 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 2016-2019 surveys, certain IFIAR Members provided additional details regarding findings in the areas of Internal Control Testing, Accounting Estimates and Revenue Recognition. In 2019, IFIAR began collecting additional details on three more topics – Group Audits, Adequacy of Financial Statement Presentation and Disclosure, and Audit Sampling – to provide information on those inspection themes with higher rates of findings. Not all Members reporting listed PIE audit inspection findings provided this supplemental information.

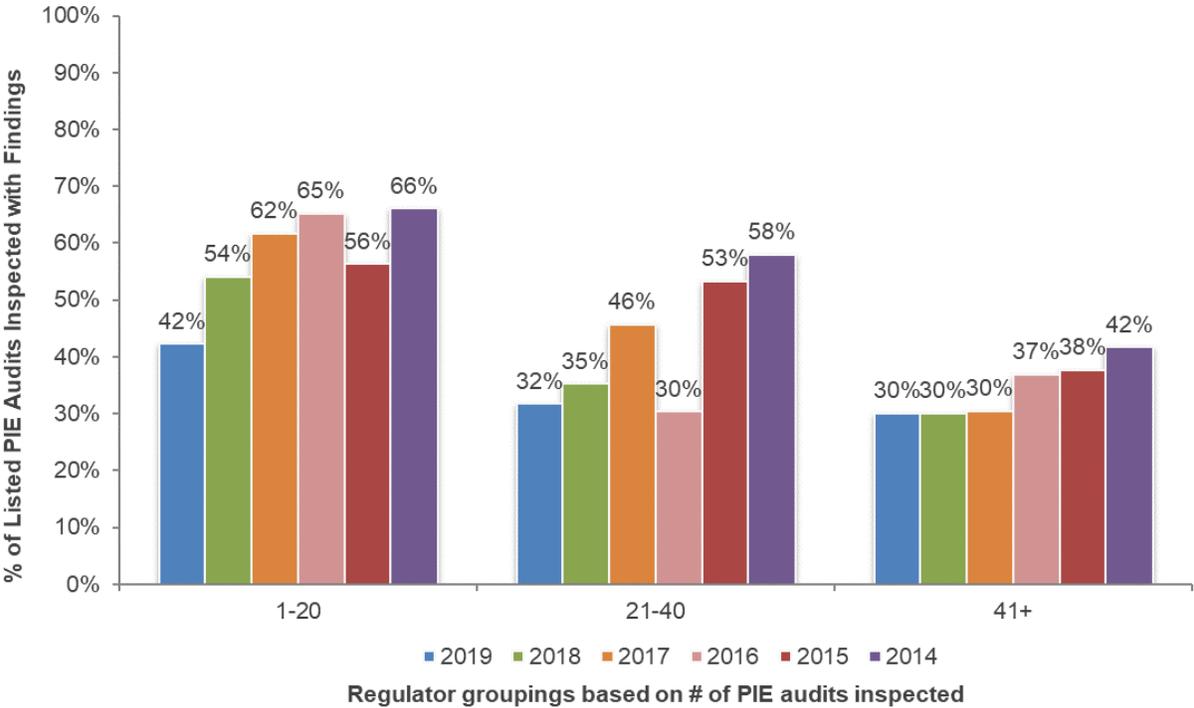
Table B.4 Listed PIE Audits

2016-2019 Supplemental Details on Nature of Findings for Select Inspection Themes

Inspection Theme	Theme Sub Category	Number of Findings			
		2019	2018	2017	2016
Accounting Estimates, including Fair Value Measurement	Reasonableness of assumptions - When testing an accounting estimate, failure to assess the reasonableness of assumptions including consideration of contrary or inconsistent evidence where applicable	115	131	128	117
	Failure to sufficiently test the accuracy of the data	34	45	45	25
	Failure to perform sufficient risk assessment procedures	24	38	25	38
	Failure to adequately consider indicators of bias	16	4	11	5
	Failure to evaluate how management considered alternative assumptions	10	12	13	8
	Failure to take relevant variables into account	8	17	19	17
Internal Control Testing	Failure to obtain sufficient persuasive evidence to support reliance on manual internal controls	76	95	88	106
	Failure to sufficiently test controls over, or the accuracy and completeness of, data or reports produced by management	54	48	56	77
	Failure to sufficiently evaluate the severity of control deficiencies	16	11	15	1
	Failure to sufficiently test information technology general and application controls	14	20	25	19
	Failure to adequately assess the appropriateness of placing reliance on the work of others	7	3	5	9
	Failure to appropriately adjust testing as a result of ineffective controls	3	10	9	2
Revenue Recognition	Failure to sufficiently understand the terms and conditions of complex arrangements and the impact on the accounting	29	22	10	13
	Failure to appropriately assess and respond to the risk of fraud in revenue recognition	19	27	25	36
	Failure to perform procedures to determine whether revenue was recorded in the appropriate period	14	20	10	26
Adequacy of Financial Statement Presentation and Disclosures	Failure to sufficiently consider the adequacy of footnote disclosures (excluding segment data)	44	Data not collected		
	Failure to evaluate and test segment data presentation	6			
Audit Sampling	Failure to identify or assess appropriateness of financial statement classification or presentation, including the Statement of Cash Flows	37			
	Insufficient sample to reduce sampling risk to an acceptable low level	37			
	Sample selected for testing is biased and/or not representative of the population	9			
	Failure to design appropriate procedures to achieve the test objective, and/or to perform suitable alternative procedures when necessary	25			
	Failure to investigate the nature and cause of any deviations and project misstatement to the population	4			
Group Audits	Failure to develop a group audit plan (e.g. scoping) and/or appropriately communicate instructions to the component auditor	12			
	Failure to appropriately calculate materiality for the group and the related component audits	4			
	Failure to sufficiently consider the nature, timing and extent of involvement with the component auditor's work including evidence of reviews performed	13			
	Failure to appropriately resolve issues identified by the component auditor	2			

When aggregating Members’ survey data, the percentage of audits inspected with findings generally 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. The large majority of Members participating in 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 grouping below also varies considerably*.

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



Section 2: 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.⁶ 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. 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 2019 survey, 14 Members reported the results of their inspections of 35 SIFI audits, of which 9 audits, or 26%, had at least one inspection finding. This compares to 15 Members reporting on inspections of 40 audits for the 2018 survey, of which 43% had at least one finding. The table below provides details from the 2015-2019 surveys for the calculation by inspection theme of the percentage of SIFI audits with at least one inspection finding.

⁶ 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

2015-2019 Survey Results: Audits Inspected with at Least One Finding by Inspection Theme

Inspection Theme	2019			2018			2017			2016			2015		
	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	
		#	%		#	%		#	%		#	%		#	%
Testing of Customer Deposits and Loans	24	4	17%	19	2	11%	7	5	71%	21	3	14%	22	5	23%
Internal Control Testing	33	4	12%	32	7	22%	33	10	30%	32	8	25%	85	34	40%
Adequacy of Financial Statement Presentation and Disclosures	27	3	11%	37	11	30%	25	2	8%	25	2	8%	33	6	18%
Audit of Allowance for Loan Losses and Loan Impairments	30	3	10%	27	8	30%	25	9	36%	25	3	12%	53	27	51%
Insufficient Challenge and Testing of Management's Judgments and Assessments	25	2	8%	31	5	16%	22	7	32%	22	3	14%	43	18	42%
Fraud Procedures	29	2	7%	31	3	10%	26	0	0%	19	3	16%	29	2	7%
Group Audits	15	1	7%	12	0	0%	13	0	0%	15	1	7%	20	5	25%
Valuation of Investments and Securities	32	2	6%	30	4	13%	18	2	11%	20	3	15%	70	19	27%
Risk Assessment	33	2	6%	35	6	17%	33	2	6%	26	0	0%	84	18	21%
Substantive Analytical Procedures	23	1	4%	25	4	16%	22	4	18%	23	3	13%	28	2	7%
Audit Methodology, including Programs and Tools	25	1	4%	17	0	0%	14	1	7%	19	3	16%	27	5	19%
Audit Report	26	1	4%	28	3	11%	24	0	0%	25	2	8%	32	0	0%
Audit Committee Communications	26	0	0%	31	0	0%	28	1	4%	27	0	0%	40	1	3%
Use of Experts and Specialists	26	0	0%	32	4	13%	18	2	11%	16	5	31%	31	8	26%
Going Concern	22	0	0%	*	*	*	*	*	*	*	*	*	*	*	*
Audit of Insurance Contract Liabilities	11	0	0%	17	3	18%	15	4	27%	12	2	17%	**	**	**

** 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

2015-2019 Survey Results: Total Number of Findings by Inspection Theme

Inspection Theme	2019	2018	2017	2016	2015
Internal Control Testing	10	14	11	10	37
Testing of Customer Deposits and Loans	6	9	5	3	7
Audit of Allowance for Loan Losses and Loan Impairments	5	17	17	3	31
Risk Assessment	4	6	2	0	22
Adequacy of Financial Statement Presentation and Disclosure	3	12	2	2	6
Insufficient Challenge and Testing of Management's Judgments and Assessments	3	6	10	3	20
Valuation of Investments and Securities	2	5	3	3	22
Fraud Procedures	2	3	0	3	2
Substantive Analytical Procedures	1	4	5	3	2
Audit Report	1	3	0	2	0
Audit Methodology, including Programs and Tools	1	0	6	5	7
Group Audits	1	0	0	1	6
Audit of Insurance Contract Liabilities	0	4	6	2	**
Use of Experts and Specialists	0	4	2	6	22
Audit Committee Communications	0	0	1	0	1
Going Concern	0	**	**	**	**
	39	87	70	46	185

** 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.⁷ 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.⁸ The aim of the survey is not to measure empirically, or for statistically significant, changes in audit quality; rather, the survey

⁷ More information on IFIAR and its activities can be found at ifiar.org.

⁸ 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 inspections 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 2019 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.⁹

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

⁹ 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 2019 survey was generally consistent with that used in prior surveys. A new theme of "Going Concern" was added to SIFI audits in 2019 in light of the increase scrutiny that audits of financial institutions have received. 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.^{10,11} 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

¹⁰ 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.

¹¹ 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

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 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, 2016.¹² 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.¹³ 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

¹² For more information about ISA 701, see [here](#).

¹³ 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

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 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.