



IFIAR

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

Survey of Inspection Findings

2017

This report, released on March 8, 2018, includes information collected by IFIAR through its sixth annual survey of the results of its member regulators' inspections of the six largest audit firm networks.

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Deficiencies cited in a high but decreasing percentage of audit engagements.

Of concern to IFIAR, the global audit firm networks' progress in reducing the rate of findings is not observed consistently across jurisdictions.

1 Overview

IFIAR, a membership organization of 52 independent auditor regulators (Members), concluded its sixth annual survey of Members' inspection results and programs. The survey results do not measure precisely – and should not be the sole measure of developments in – firms' progress in improving audit quality. A comprehensive evaluation of audit quality would require assessment of various indicators in addition to numerical information about deficiencies identified and reported over the course of an inspection.

Many IFIAR Members have programs and initiatives in place, beyond inspections, that are designed to contribute to improved 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.

IFIAR undertakes similar initiatives on the international level in the collective interest of audit regulators globally. Informed by the views of stakeholders in audit quality, IFIAR's dialogues among its Members, with leadership of the largest global audit networks, and with international audit

and ethics standard setters advance a shared goal of improved consistency in execution of high quality audits. As described in recent survey reports, IFIAR has challenged the networks to reduce the percentage of listed public interest entity (PIE) audits that have inspection findings by at least 25% over a four-year period using the 2015 survey results as a baseline.

Although the frequency of findings identified through inspections of listed PIE audits is trending downward on an overall basis, progress is not experienced in all jurisdictions at the same rate and no definitive trends have been noted for findings arising from inspections of firm-wide systems of quality control. These mixed results affirm IFIAR's views that the global networks must continue in their efforts to strengthen their systems of quality control and drive consistent execution of high quality audits throughout the world.

2 Introduction

This report summarizes the results of IFIAR's sixth 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").^{1, 2} Each year, IFIAR's survey collects information on the inspection results reported to audit firms that are members of the GPPC networks ("member firms") during the twelve months ended June 30. For the 2017 survey, 42 IFIAR Members provided the results of their inspections of the member firms in their jurisdictions. IFIAR collected information about two categories of inspection activities.

- **Inspections performed on firm-wide systems of quality control** address those policies and processes established by audit firms that affect the quality of their audits, including by monitoring for compliance with independence requirements. Though there has been some variability year to year in rate of quality control inspection findings, a definitive trend has yet to emerge. Section 4 provides further details. IFIAR regards the continued frequency of quality control findings as an indication that further improvement is needed, and plans to continue its dialogue with the GPPC networks and, as described in Section 6, consideration of standard setting in this area.
- **Inspections of individual audit engagements** assess an audit firm's execution of auditing standards on a selected audit.³ IFIAR's survey collects data on inspections of listed PIE audits and audits of systemically-important financial institutions (SIFIs). While the 2017 survey indicates a modest decrease in the rate of audits inspected with at least one finding on an overall basis, a closer analysis of the data highlights a troubling trend of inconsistent progress among IFIAR Member jurisdictions. Sections 3 and 5 provide additional details.

IFIAR is monitoring closely a project to revise and improve international audit standards for quality control systems.

Inspections of Listed PIE Audits: By the Numbers

- 33 IFIAR Members reported findings
- 918 listed PIE audits inspected
- Overall, 40% of the listed PIE audits inspected had at least one finding (down from a high point of 47% in 2014)

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 For purposes of this survey, a finding generally is a significant failure to satisfy the requirements of auditing standards. Appendix A provides further information about the survey methodology, including additional details about what constitutes a finding, and Appendix B presents details of the results compiled from each of the six annual surveys.

³ 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 this report is not indicative of the frequency of financial statement misstatements. 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.

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 improved audit quality globally. Observations from the survey inform IFIAR's ongoing attention to trends and challenges impacting consistent execution of high quality audits.

- **These observations confirm and provide further direction to the dialogue IFIAR coordinates among its Members.** Seeking to be a proactive organization that addresses the forward-looking challenges to audit quality globally, IFIAR relies heavily on the insights and strengths of its Members' monitoring of developments impacting the audit environment. As a formalized approach to this, the survey's annual, numerical demonstration of trends in historic inspection results provides a point of reference as IFIAR refines areas for focus in collaboration among Members. Through its annual inspection workshops, IFIAR provides audit inspectors an opportunity to share knowledge and observations on recurring, common findings and themes identified by the survey. The workshops help create awareness among participants on common issues that may be considered in the IFIAR Members' annual work programs and inspection approaches.

Investors and other financial statement users seek a high level of confidence in the reliability of the judgments made in the critical and complex aspects of accounting estimates and revenue recognition. These areas of financial reporting are associated with high levels of findings in IFIAR's surveys, though the rate of revenue recognition findings declined notably in the 2017 survey.

Upcoming changes to accounting standards for financial instruments and revenue recognition, and accompanying changes to systems of internal control to support these standards' accounting and disclosures requirements, argue for a particular focus on continuing improvements in each of these areas.
- **The survey data assists in shaping topics for engagement with the global audit firm networks.** A main objective of IFIAR's dialogue with the GPPC networks is continuous audit 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 better positions a firm to take responsive actions to improve audit quality. The individual GPPC networks present annually to IFIAR the results of their 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 findings. As another example, auditor independence is a critical aspect of auditor objectivity. The high frequency of findings in this area is of concern to IFIAR and will remain a matter for attention and discussion with the GPPC networks.
- **The survey also is constructive for 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.

As explained at Section 3, the purpose of IFIAR's survey is not to measure empirically changes in audit quality. The survey's information on inspection findings is an imprecise tool. It is helpful for determining general trends in areas of findings, but does not assess the severity of individual findings. Trends may be impacted by variations across survey years in the composition of audit firms inspected and the topics of focus in certain Members' inspection programs.⁴ 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 continuing need for improvement. The survey confirms the imperative that audit firms execute on a continuous 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. Section 6 explains certain IFIAR initiatives that address this need.

3 Measuring Audit Quality

IFIAR's intention in releasing the results of the survey annually is not to measure precisely firms' progress in improving audit quality. As mentioned in prior survey reports, the number of findings should not be the sole measure of progress in audit quality; audit deficiencies identified and reported over the course of an inspection do not serve as "balanced score cards" or 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; for example, one audit regulator observed that "key contributing factors to audit quality, such as how an audit firm and engagement team are able to deal with the unexpected, are not easily quantifiable."⁵ 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*. In assessing audit quality, an individual regulator may consider the nature and

⁴ Some Members, for example, may focus on different themes 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. Of the Members reporting in the 2017 survey, eight Members inspected each Big Four firm and reported results through the survey each year from 2015 through 2017; these Members account for 65% of the total inspected listed PIE audits reported on in the 2017 survey. To better understand the impact of changes in reporting Members, IFIAR determined that 24 Members had reported inspection findings on listed PIE audits for each of the past three survey years (2015-2017). Responses from these 24 Members account for 89% of the listed PIE audits inspected and reported on in the 2017 survey.

⁵ See the "2016 Audit Quality Indicators Pilot Project: Interim Report Summary" issued by the Canadian Public Accountability Board, at <http://www.cpab-ccrc.ca>.

severity of its findings, or draw conclusions about the quality overall of an individual audit engagement or audit firm inspected based on aggregate findings. Not all IFIAR Members, however, approach inspection findings in this manner, and the survey does not collect information at this level of detail. The survey does, however, provide transparency about the trends audit regulators observe from their individual inspection programs and indicators of areas in need of IFIAR's collective attention. This information also contributes to an evidence-based dialogue with the GPPC networks about their efforts to improve audit quality.

GAQ Working Group's 25% Reduction Target

The recurring level of high findings in IFIAR's initial survey reports indicated that a more focused approach was needed for addressing with the GPPC networks the outcomes of their regulatory inspections. As described in recent survey reports, IFIAR's Global Audit Quality (GAQ) Working Group and the GPPC networks undertook an initiative in 2015 aimed at improving audit quality, using the survey's data as a benchmark for progress.⁶ Specifically, the GPPC networks agreed to a target established by the GAQ Working Group: the networks seek to achieve a decrease of at least 25% over four years in the percentage of their inspected listed PIE audits that have at least one finding, on an aggregate basis across the GPPC networks' member firms within the GAQ Working Group members' jurisdictions. Though the level of findings should not be the sole measure to evaluate audit quality, setting a targeted goal and holding the GPPC networks accountable for its achievement has been a significant initiative, requiring leadership of each network to monitor the effectiveness of actions taken to improve audit quality and consistency of audit execution, as indicated by findings levels.

The baseline results from the GAQ Working Group members' submissions to the 2015 Survey was that 39% of listed PIE audits inspected had at least one finding. Progress toward the 25% target –or 29%— would be published at the mid-point of the measurement period based on 2017 survey data, and at its conclusion based on 2019 survey data.⁷

At the mid-point of the four-year measurement period, the 2017 survey data reflects that 30% of the listed PIE audits inspected by the GAQ Working Group members reporting on the survey annually had one finding or more, bringing the level of findings very close to the 25% reduction target of 29%. This result reflects several years of effort by the GPPC networks and their individual member firms to take actions that address deficiencies in audit execution in these jurisdictions. The GAQ Working Group believes that the rate of findings remains too high. The GPPC networks have indicated their commitment to sustained efforts to maintain and further reduce the level of findings over the target period to 2019.

The initial measurement for the 2015 baseline, as well as progress at the end of four years, is based on inspections results reported through the survey by the GAQ Working Group members,

⁶ See [the IFIAR website](#) for information about the GAQ Working Group, including a list of its members.

⁷ The GAQ Working Group concluded that annual reporting of progress would fail to recognize that actions taken by the firms at the time the initiative was announced, or that are already underway, would not necessarily be reflected immediately in survey results. Also, variation in inspection activity between years may cause analyses of changes over short time periods to be an incomplete indication of progress.

whose markets include the majority of global market capitalization. IFIAR and the GPPC expect reductions in findings throughout the networks as the networks seek to improve consistency of audit quality globally. However, as noted in Section 5, the rate of findings for listed PIE audits inspected by all IFIAR Members contributing to the survey has not decreased to the same extent as in the GAQ Working Group members' jurisdictions; in short, the aggregate findings rate has increased for IFIAR Members that are not members of the GAQ Working Group and that report through the survey. Concerned by this development and seeking improvement of audit quality globally, IFIAR urges the global networks and their member firms to consider what lessons can be learned from the progress made by member firms in GAQ Working Group jurisdictions and to take further actions to enhance quality throughout all member firms of the GPPC networks.

4 Firm-wide Quality Control Inspection Results

Quality control findings addressed in this section of the report do not relate to specific audit engagements, but instead address the policies and procedures in place at the audit 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 following summarizes the results of the 2017 survey of findings from inspections of firm-wide systems of quality control. See Appendix B for complete information on the 2017 and prior years' survey results.

What are firm-wide systems of quality control?

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.

The survey's categories or inspection themes for quality control findings are based on the different elements of ISQC 1.⁸ 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 work assignments. IFIAR Members provided additional information in the 2017 survey about what their assessment of quality control entails. Nearly all who responded undertake the following:

- Test compliance with auditing standards relevant to quality control and/or the firm's policies.
- Consider the results of audit file reviews and what those reviews indicate about the quality control system.
- Interview firm leadership and process owners.
- Review member firm and global network policies and procedures.

What did the 2017 survey data show?

32 Members reported the results of their inspections of 111 audit firms' systems of quality control. On a year-over-year basis, for all but one quality control inspection theme, the rate of firms inspected with at least one finding reported in the 2017 increased compared to the 2016 survey results. By contrast, for the 2016 and 2015 surveys, the rates of findings generally decreased. Quality control inspection data viewed on average over a period of years, however, reflects no definitive trend in quality control findings. Illustrating this, the year-over-year data in Figure 1 is presented in Figure 2 below as three-year rolling averages; this analysis adjusts for variability between survey years in Members reporting or the nature of their inspection activities.

Figures 1 and 2: Percentage of Inspected Audit Firms with Quality Control Findings

Figure 1: Year-over-Year

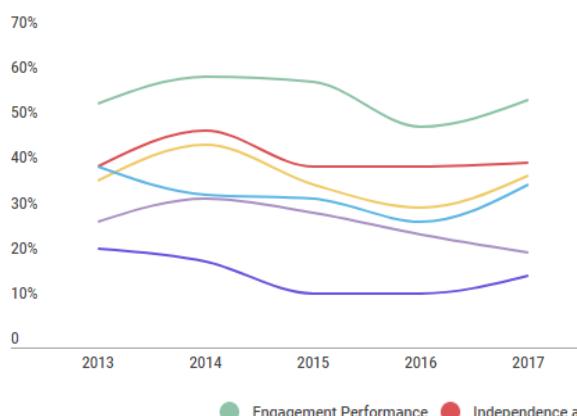
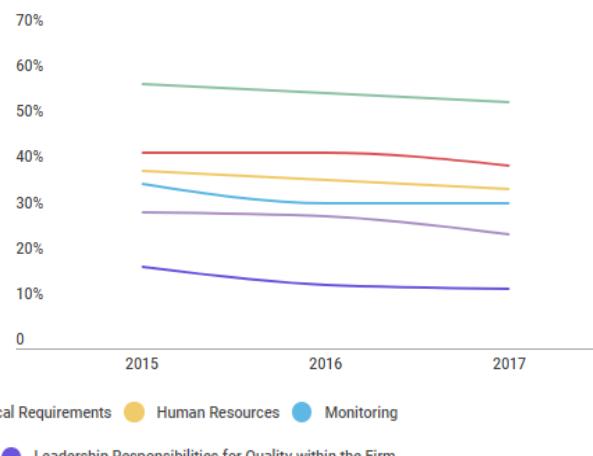


Figure 2: Rolling Three-Year Average



⁸ 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*. The IAASB has an active project to revise and improve the requirements of ISQC 1. ISQC 1 is required in many, but not all, IFIAR Member jurisdictions.

To better understand the nature of quality control findings, IFIAR ask members to allocate findings by descriptive categories within the survey's broader quality control findings themes. Their responses are summarized below.

With respect to **Engagement Performance**, the greatest number of findings related to:

- Insufficient depth / extent of engagement quality control review (EQCR), and
- Failure to establish and/or implement policies and procedures for sufficient, timely engagement supervision and review.

With respect to **Human Resources**, the greatest number of findings related to:

- Compliance with the firm training and learning plan, and
- Evaluation of audit quality as part of partner performance evaluation and admissions.

With respect to **Independence and Ethical Requirements**, findings were relatively evenly spread among the categories of findings. See Appendix B for details.

With respect to **Monitoring**, the greatest number of findings related to:

- Root cause analysis and remedial actions, and
- 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.

Related to these two elements of Monitoring, over recent years, IFIAR has engaged the firms in detailed discussions about their efforts to gain an in-depth understanding of the reasons underlying recurring audit deficiencies. In the 2017 survey, in addition to findings numbers, IFIAR collected information from Members about what they are seeing in their inspections programs with respect to the following two elements of Monitoring.

Observations regarding **root cause analysis** were provided by 19 Members, as follow:

- The majority of IFIAR Members responding to the survey review the firms' root cause analyses as part of the inspection program. A much smaller number of Members conduct their own root cause analysis; these Members typically share the results of such analyses with the inspected firm.
- Firms' root cause analyses tend to focus on negative quality events (adverse findings). Few Members reported observing firms conducting root cause analysis on positive audit quality events; IFIAR views such practices as a good way for firms to understand better those factors that contribute to audit quality, such that they can inform actions to improve the consistency of high quality audit execution.
- A common approach observed among member firms of the GPPC networks is for the internal quality monitoring reviewers to be involved in root cause analysis. Others involved often include the engagement team to which the findings relate, or a dedicated team of root cause analysis specialists within the firm.

- In cases where action or remediation plans are developed, many Members observe fewer engagement review findings in the following inspection cycle, but for other Members it often requires more than one inspection cycle to see results.

Observations from responses from 26 Members regarding **internal quality monitoring** (internal inspections) include:

- Internal quality monitoring reviews conducted under the oversight of the global network firm occur annually at most member firms, and at least every second to third year for other member firms.
- Most frequently, these reviews include reviewers from both within and outside of the local member firm (e.g., staff from another one of the network's member firm).
- Less frequently, the review is conducted solely by reviewers from outside of the local member firm. By contrast, in very limited instances are reviewers staffed solely from within the local member firm; in these cases, the review is monitored by individuals from outside of the member firm.
- The reviews typically address:
 - Compliance with network policies and procedures and, to a lesser extent, with local policies and procedures.
 - Appropriateness of key audit judgments made in reaching the audit opinion.
 - Consideration of firm-wide policies and procedures that may require improvement, as indicated by review of individual audit engagements.
 - With lesser frequency, the reviews sometimes also address root cause analysis, remedial action plans, and monitoring for the effectiveness of those plans.
- In addition to root causes analysis as noted above, most Members observed that, for significant deficiencies found in internal quality monitoring reviews, the engagement partner's performance rating and compensation are impacted.

5 Audit Engagement Inspection Results

The following summarizes the results of the 2017 survey of findings from inspections of individual audit engagements. See Appendix B for complete information on the 2017 and prior years' survey results.

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?

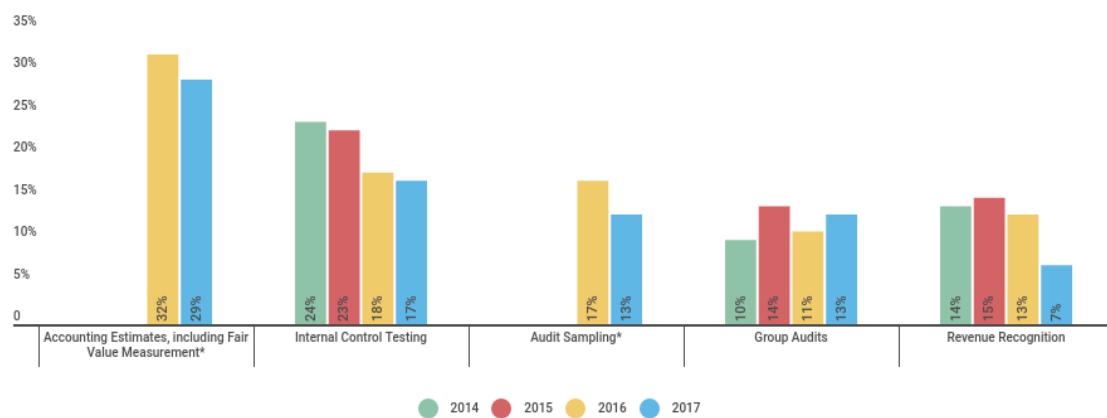
IFIAR collects data on 17 inspection themes. Survey responses provide data about the number of listed PIE audits in which each theme was inspected; the number of inspected audits with at

least one finding; and the total number of findings (as one inspected audit can have more than one finding per theme).

What did the 2017 survey data show?

33 IFIAR Members reported findings from their inspections of 918 audits of listed PIEs performed by 120 audit firms. Forty percent of the audits inspected had at least one finding. The chart below summarizes the survey results for 2014 – 2017 for certain inspection themes with frequent findings in those years.

Figure 3: Listed PIE Audit Inspections – Areas with Frequent Findings



*Data for theme was not collected in 2014 or 2015

The two areas with the highest rate and greatest number of findings in the 2017 survey were Accounting Estimates and Internal Control Testing.

- For **Accounting Estimates**, most findings related to failure to assess the reasonableness of assumptions, including consideration of contrary or inconsistent evidence.
- For **Internal Control Testing**, the most common type of finding was the failure to obtain sufficient persuasive evidence to support reliance on manual internal controls. The next most common type of finding was the failure to sufficiently test controls over, or the accuracy and completeness of, data or reports produced by management.

Over recent years, **Revenue Recognition** has historically been an area with a high number and rate of findings. In the 2017 survey, however, Revenue Recognition findings levels were comparatively lower. Consistent with the results of the 2016 survey, the type of Revenue Recognition finding cited most frequently relates to the failure to appropriately assess and respond to the risk of fraud. With new accounting standards coming into effect, audit of Revenue Recognition will continue to be an area of focus for IFIAR.

Are findings consistent across IFIAR Member jurisdictions?

IFIAR has observed that the average rate of inspections with findings varies considerably across IFIAR Members' jurisdictions. For example, the percentage of audits inspected with findings is higher for Members that inspect relatively few audits annually than for those Members inspecting larger numbers of audits. Specifically, approximately two-thirds of the IFIAR Members participating in the 2017 survey reported on inspections of 20 or fewer listed PIE audits; the combined finding rate for this group was 62%. Members inspecting 21-40 listed PIE audits had a 46% finding rate, and those inspecting 41 or more listed PIE audits had a 30% finding rate. Figure 4 illustrates these variations. As noted in Section 3 and illustrated in Figure 5, the GAQ Working Group members collectively reported a 30% findings rate, those IFIAR Members not in the GAQ Working Group had a combined findings rate in the 2017 survey of 63%.⁹

Figures 4 and 5: Percentage of Listed PIE Audits Inspected with Findings, by IFIAR Member Grouping

Figure 4: by Size of Inspection Program (tiers based on number of listed PIE audits inspected)

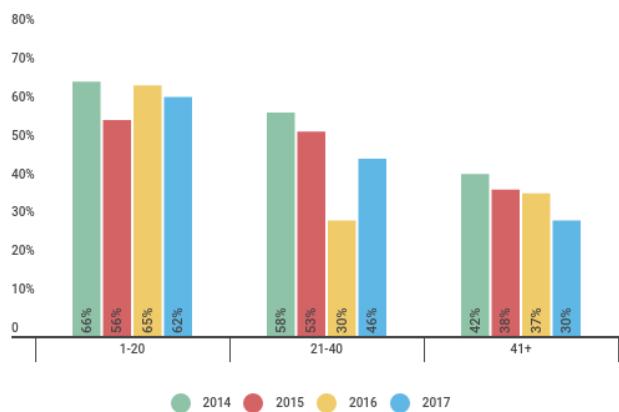
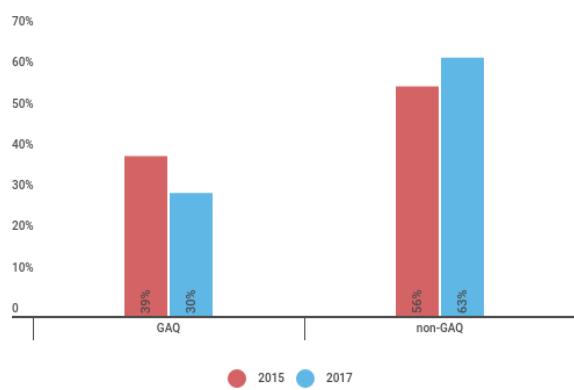


Figure 5: GAQ Working Group Members and Other IFIAR Members



Findings are based primarily on the quality of the audit work performed and subject to inspection. Variations in findings rates among IFIAR Members may be reflect additional factors. Among them may be:

- Risk based inspection approaches. Most IFIAR Members seek to select audit engagement 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**

⁹ Of note, the findings rates among both groups – the GAQ Working Group members and all other IFIAR Members – vary considerably.

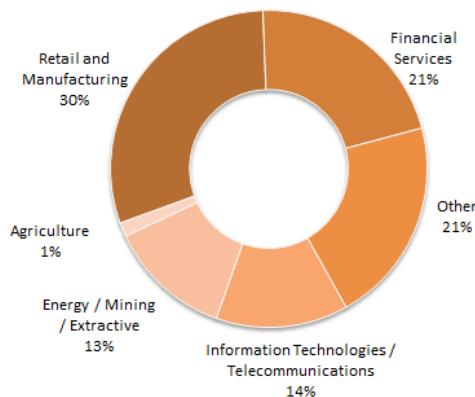
inspection rates; this effect may be more prominent in an inspection program that reviews fewer audits.

- Increasing sophistication of independent audit regulation. Independent audit oversight is a relatively new aspect of market regulation in most countries. IFIAR Member organizations continue to develop and refine their inspection methodology; increased rates of findings in some jurisdictions may indicate improvements in inspection quality that outpace improvements in audit quality. All IFIAR Members have access to a range of opportunities to learn from one another through IFIAR workshops, meetings, and materials. For some Members, regional groups of audit regulators have formed, increasing access to oversight insights and tools.
- Sample size and characteristics. 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).

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

In 2017, IFIAR collected information about the size and industries of the listed PIEs whose audits were inspected and reported on in the survey. The chart below indicates the industries of the inspected listed PIE audits reported in the 2017 survey.

Figure 6: Listed PIE Audits Inspected by Industry



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.

Figures 7 and 8: Listed PIE Audits Inspected by Market Capitalization

Figure 7: Listed PIE Audits Inspected by All Members Reporting

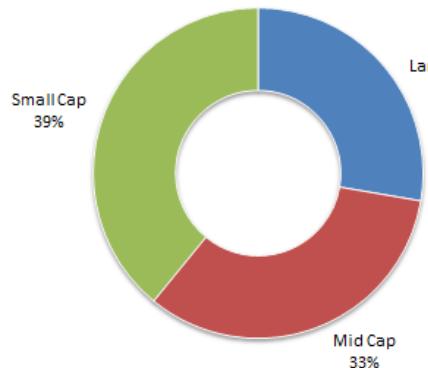
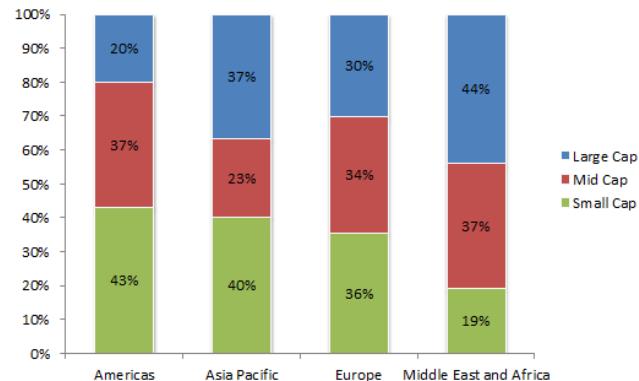


Figure 8: Size of Listed PIE Audits Inspected by Region



How current is the 2017 survey's inspection data?

The survey data may 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 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 audit 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.

For the 2017 survey, 15% of the inspected listed PIE audits relate to financial statements with fiscal years ended in 2016, 53% with fiscal years ended in 2015, and 32% with fiscal years ended in 2014.

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 SIFI.¹⁰ Some are listed companies and, therefore, the findings from inspections of these SIFIs also are included in the survey's listed PIE inspection results.

SIFI Audit Inspections: By the Numbers

- 12 IFIAR Members reported
- 37 SIFI audits inspected
- 54% had at least one finding (2016: 49%)

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. However, IFIAR notes that, similar to listed PIE audits, findings are highest in the area of Internal Control Testing and areas that require significant judgment or involve estimates.

¹⁰ 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](#)).

6 **IFIAR Initiatives**

IFIAR carries out at the international level many of the initiatives undertaken by its Members to contribute to and advance dialogue among the stakeholders in the quality of audit. Informed by the views of the key players in and beneficiaries of audit, IFIAR's dialogue among its Members and with leadership of the global audit networks advance a shared goal in improved consistency in execution of high quality audits.

Dialogue with GPPC Networks

IFIAR's focus in its dialogue with leadership of the GPPC networks has increasingly focused in recent years on how the firms are managing their audit practices to promote audit quality, and how those practices are delivered throughout their networks. These dialogues address issues such as identification and tracking of audit quality indicators; how the firms create a culture that demands and rewards quality; and the firms' project management tools put in place to facilitate timely consideration of the risks in an audit and evaluation of whether those risk were appropriate addressed prior to issuing an audit opinion. While monitoring the results of internal inspections and of this annual IFIAR survey will continue to be a focus, IFIAR's attention more importantly is placed on discussions of actions undertaken by the networks to respond to and remediate areas of recurring audit deficiencies. In addition, as the GPPC networks develop new technologies for deployment globally that impact the way audits are conducted and monitored, IFIAR will continue to engage with the networks and each other to remain attentive to the outlook for changes ahead.

In addition to dialogue with network leadership, IFIAR is a forum for information sharing and the exchange of innovative ideas for its Members. IFIAR's annual plenary meeting and annual inspection workshop are venues for independent audit regulators to provide and gain insight on the challenges faced in the audit environment and actions taken nationally or regionally to address such challenges.

Engagement with International Audit and Ethics Standard Setters

How is the annual survey used by IFIAR to inform the dialogue with standard setters?

IFIAR is committed to improving audit quality globally through the promotion of high quality in auditing and professional standards. When standard setters seek public comment on particular issues or proposals, IFIAR considers the issues and frequently provides its perspective in a public comment letter. IFIAR's Standards Coordination Working Group (SCWG) also organizes regular dialogue with the IAASB and the International Ethics Standards Board for Accountants (IESBA) and provides examples of the types of issues identified during inspections, which can inform the standard setting boards' projects.

IFIAR in particular encourages standard setters' attention on whether the ongoing or envisaged projects address areas of frequent inspection findings; whether the standards provide sufficient clarity regarding the requirements with which the auditor shall comply; and whether the

standards are driving auditors to consistent application and to exercise sufficient professional skepticism.

Inspection findings reported in the Survey generally relate to auditors' failures to comply with applicable standards or requirements. The fact that some auditors have failed to comply with applicable standards in a particular audit area does not in itself indicate a problem with those standards. Even so, IFIAR views inspection findings, and trends in those findings, as relevant to standard setters' consideration of whether standards governing particular audit areas might be changed or supplemented in ways that could result more consistently in high quality audits globally.

What are the areas highlighted by the survey which are relevant to standard setting?

The IAASB has launched several projects which are related to areas where the levels of inspection findings reported in previous IFIAR surveys were high. Those projects encompass, among others, the *audit of accounting estimates* (International Standard on Auditing (ISA) 540), *audit firms' systems of quality control* including EQCR (ISQC 1 and ISA 220), *risk assessment and internal control* (ISA 315), and *group audit* (ISA 600).

Those IAASB projects are still in progress. The 2017 Survey results confirm that high frequencies of findings persist in those areas and continue to deserve standards setters' focus.

Some topics where numbers of findings are lower in the 2017 Survey are also relevant for the standard-setting boards' consideration because some regulators have identified challenges with regards to the related standards. Such areas include: *response to assessed risks* (including internal control testing and sampling), *analytical procedures and use of experts*. IFIAR has encouraged the IAASB to consider those topics for its future work plans. Dialogue on this is ongoing between the SCWG and the IAASB.¹¹

The Survey also provides information about findings on quality control in the area of independence and ethics. The information about the areas of findings might be relevant not only with regards to standards on quality control, but also for the IESBA; this information may be insightful to consideration of whether the provisions in the IESBA Code of Ethics could contribute to driving improvement in consistent and appropriate behavior by auditors globally.

¹¹ See [IFIAR comment letter, 11 October 2016](#): "For the topics that are not currently on the IAASB's work plan and which relate to areas with high numbers of inspection findings in the IFIAR survey such as *materiality, use of experts, response to assessed risks* and *analytical procedures*, IFIAR encourages the IAASB to consider including one or more of those topics in the upcoming IAASB work plan, after having finalized the others projects mentioned above (related to *quality control, group audit, professional skepticism, accounting estimates* and *risk assessment*)."

Appendix A: 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.¹² IFIAR's membership includes 52 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.¹³ The aim of the survey is not to measure empirically, or for statistically significant, changes in audit quality; rather, the survey indicates areas of common audit shortcomings and informs IFIAR's efforts to evaluate better the challenges to improving the reliability of the opinion expressed by the auditor at the conclusion of a financial statement audit.

¹² More information on IFIAR and its activities can be found at ifiar.org.

¹³ 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 A: About IFIAR and the Survey of Inspection Findings

The survey relates to two types of findings communicated in writing to an inspected firm in a formal inspection report at the conclusion of an inspection: (1) those related to audit engagements and (2) those related to audit 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 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 Section 5 for information collected in the 2017 survey to understand the extent of the lag, indicating that two-thirds of the inspections reported in the 2017 survey related to audits of listed PIEs' financial statements for years ended in 2016 or 2015.)

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

- 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.¹⁴

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

¹⁴ 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 A: About IFIAR and the Survey of Inspection Findings

findings by theme is calculated as the number of inspected audits with at least one finding divided 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 audit firms inspected, 2) the number of inspected audit 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 audit firms with at least one finding divided by the number of audit 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 2017 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 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.^{15,16} 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

¹⁵ 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.

¹⁶ Related to this change, the theme previously called "Inventory" was revised to "Inventory Procedures" to better reflect auditing standard 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 A: About IFIAR and the Survey of Inspection Findings

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, 2016.¹⁷ 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).

IFIAR provided additional guidance to Members for the 2016 and 2017 surveys, to assist in their determination of which financial institutions are considered to be SIFIs in their jurisdiction. This effort was aimed 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.

Beginning with the 2015 survey, reporting on findings is limited to inspections of a member firm of one of the six GPPC networks.¹⁸ 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

¹⁷ For more information about ISA 701, see [here](#).

¹⁸ 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 A: About IFIAR and the Survey of Inspection Findings

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

Appendix B: 2012-2017 Inspection Findings Survey Response Details

This annex provides information on the current and past survey results. For additional information, including prior reports and related press releases, please visit ifiar.org.

1 Quality Control Findings

Refer to Section 4 of this report for a description of firm-wide systems of quality control.

Table B.1 Quality Control

IFIAR Members Reporting and Audit Firms Inspected, 2012-2017 Surveys

	2017	2016	2015	2014	2013	2012
IFIAR Members Submitting Findings	32	33	33	30	30	23
Audit Firms Inspected	111	127	101	123	134	109

Table B.2 Quality Control

2014-2017 Survey Results: Audit Firms with at Least One Finding by Inspection Theme

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

Table B.3 Quality Control

2016-2017 Supplemental Details on Nature of Findings for Select Inspection Themes

Inspection Theme	Theme Sub Category	Number of Findings	
		2017	2016
Engagement Performance	Insufficient depth / extent of engagement quality control review (EQCR) - <i>New in 2017</i>	85	--

Appendix B: 2012-2017 Inspection Findings Survey Response Details

Inspection Theme	Theme Sub Category	Number of Findings	
		2017	2016
Independence and Ethical Requirements	Failure to establish and/or implement policies and procedures for sufficient, timely engagement supervision and review - New in 2017	68	--
	Audit methodology and guidance	30	12
	Consultations	14	6
	Failure to perform a timely EQCR , although required by firm or other applicable policies - New in 2017	9	--
	Failure to establish policies and procedures for EQCR that provides an objective evaluation of the significant judgements made by the engagement team	6	99
Human Resources	Failure to maintain independence due to existence of financial relationships including failure to appropriately address those circumstances as impairments of the Firm's independence	20	0
	Failure to appropriately consider applicable firm or partner rotation rules	15	2
	Failure to monitor effectively Firm staff and partner personal independence	15	17
	Failure to consider and evaluate non-audit and/or audit-related services provided to issuer	14	23
	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 - New in 2017	11	--
	Failure to communicate to the audit committee certain relationships that, in the firm's professional judgment, bear on independence	9	6
	Failure to maintain independence due to an individual on the audit engagement entering into an employment relationship with the former audit client	1	4
	Failure to maintain independence due to a business relationship that existed during the professional engagement period	1	1
Monitoring	Compliance with the firm training and learning plan	22	6
	Evaluation of audit quality as part of partner performance evaluations and admissions	19	13
	Impact of audit quality deficiencies in partner remuneration and assignments	12	5
	Assignment of engagement team	10	13
	Failures in the area of root cause analysis / remedial actions	27	41
	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	25	23
	Failure to effectively design and implement pre-issuance reviews to monitor the effectiveness of the remedial actions	6	5

2 Audit Engagement Inspection Findings

The tables below provide data on inspection results reported in this and prior surveys regarding audits of listed PIEs and of SIFIs. Refer to Section 5 of this report for further descriptive information on these categories of findings.

Appendix B: 2012-2017 Inspection Findings Survey Response Details

Listed PIE Audit Inspections

IFIAR began collecting and reporting information in 2014 on the number of audits inspected with at least one finding. The table below indicates with dashes those years for which the related information is not available.

Table B.4 Listed PIE Audits

IFIAR Members Reporting and Listed PIE Audits Inspected, 2012-2017 Surveys

	2017	2016	2015	2014	2013	2012
IFIAR Members Submitting Findings	33	34	29	29	30	22
Audit Firms Inspected	120	121	98	122	113	98
Listed PIE Audits Inspected	918	855	872	948	989	961
Inspected Listed PIE Audits with at Least One Finding	366	363	376	449	-	-
Frequency of Inspections with at Least One Finding	40%	42%	43%	47%	-	-

The charts below illustrate the geographic distribution of IFIAR Members contributed data on listed PIE audit inspections results for the 2017 survey, and for the listed PIE audits inspected by these Members.

Figures B.1 and B.2 Listed PIE Audits

Geographic Distribution of Members Reporting and Listed PIE Audits Inspected

Figure B.1: Geographic Distribution of Members Providing Data on Findings from Inspected Audits of Listed PIEs

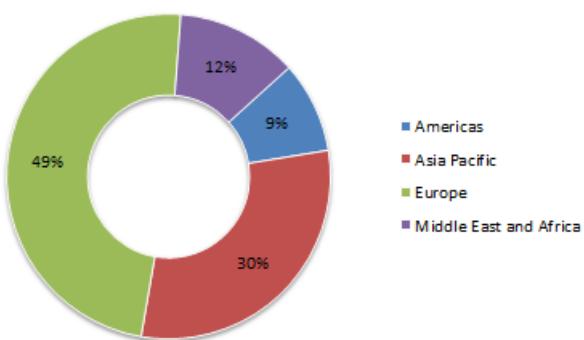
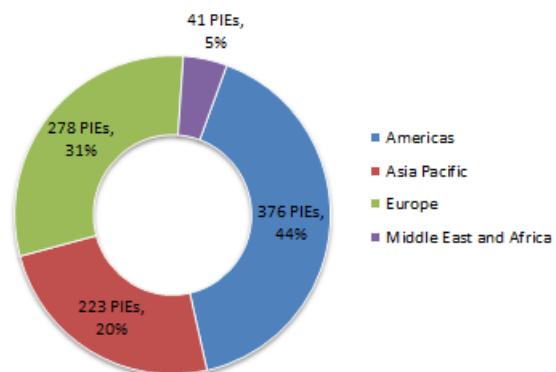


Figure B.2: Geographic Distribution of Listed PIE Audits Inspected



The table below provides details from the 2014-2017 Surveys for the calculation by inspection theme of the percentage of listed PIE audits with at least one inspection finding. As disclosed elsewhere in this report, new inspection themes were added as of the 2013, 2015 and 2016 Surveys.

Appendix B: 2012-2017 Inspection Findings Survey Response Details

Table B.5 Listed PIE Audits

2014-2017 Survey Results: Audits Inspected with at Least One Finding by Inspection Theme

Inspection Theme	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	
		#	%		#	%		#	%		#	%
Accounting Estimates, including Fair Value Measurement*	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	769	127	17%	689	124	18%	710	160	23%	638	155	24%
Audit Sampling	611	78	13%	507	85	17%	**	**	**	**	**	**
Group Audits	434	55	13%	408	44	11%	383	55	14%	506	53	10%
Engagement Quality Control Review	485	53	11%	361	20	6%	417	32	8%	515	52	10%
Adequacy of Financial Statement Presentation and Disclosure	575	60	10%	539	48	9%	570	68	12%	633	79	12%
Substantive Analytical Procedures	453	45	10%	368	47	13%	384	44	11%	476	66	14%
Inventory Procedures	347	30	9%	329	38	12%	365	71	19%	409	64	16%
Revenue Recognition	748	52	7%	680	88	13%	688	105	15%	732	104	14%
Fraud Procedures	630	43	7%	568	26	5%	574	43	7%	675	43	6%
Use of Experts and Specialists	345	23	7%	284	25	9%	326	29	9%	446	47	11%
Related Party Transactions	320	20	6%	205	12	6%	300	16	5%	404	33	8%
Adequacy of Review and Supervision	478	28	6%	406	21	5%	434	35	8%	482	46	10%
Risk Assessment	888	36	4%	815	39	5%	832	114	14%	652	45	7%
Going Concern	263	8	3%	224	9	4%	321	5	2%	418	23	6%
Audit Report	500	14	3%	438	14	3%	461	15	3%	**	**	**
Audit Committee Communications	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 for each year the Survey was conducted. 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.

Appendix B: 2012-2017 Inspection Findings Survey Response Details

Table B.6 Listed PIE Audits

2012-2017 Survey Results: Total Number of Findings by Inspection Theme

Inspection Theme	2017	2016	2015	2014	2013	2012
Accounting Estimates, including Fair Value Measurement*	242	258	*	*	*	*
Internal Control Testing	240	278	173	178	156	117
Fair Value Measurement*	*	*	158	205	217	169
Audit of Allowance for Loan Losses and Loan Impairments*	*	*	45	46	55	43
Audit Sampling	107	109	**	**	**	**
Adequacy of Financial Statement Presentation and Disclosure	88	53	85	101	120	109
Group Audits	76	53	70	75	89	75
Revenue Recognition	62	105	116	114	104	86
Substantive Analytical Procedures	54	65	50	79	55	75
Engagement Quality Control Review	54	20	39	53	78	116
Fraud Procedures	49	35	46	54	65	**
Risk Assessment	41	51	131	49	59	**
Inventory Procedures	35	43	86	69	76	57
Adequacy of Review and Supervision	32	22	49	55	58	115
Use of Experts and Specialists	28	27	35	54	42	41
Related Party Transactions	21	12	17	40	28	44
Audit Report	15	18	15	**	**	**
Going Concern	13	12	5	24	24	25
Audit Committee Communications	11	10	10	14	34	**
	1,168	1,171	1,130	1,210	1,260	1,072

* 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. Prior to 2016, Members generally reported Audit Sampling findings under other themes (e.g., Revenue Recognition or Inventory).

In the 2017 and 2016 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.

Appendix B: 2012-2017 Inspection Findings Survey Response Details

Table B.7 Listed PIE Audits

2016-2017 Supplemental Details on Nature of Findings for Select Inspection Themes

Inspection Theme	Theme Sub Category	Number of Findings	
		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	128	117
	Failure to sufficiently test the accuracy of the data	45	25
	Failure to perform sufficient risk assessment procedures	25	38
	Failure to take relevant variables into account	19	17
	Failure to evaluate how management considered alternative assumptions	13	8
	Failure to adequately consider indicators of bias	11	5
Internal Control Testing	Failure to obtain sufficient persuasive evidence to support reliance on manual internal controls	88	106
	Failure to sufficiently test controls over, or the accuracy and completeness of, data or reports produced by management	56	77
	Failure to sufficiently test information technology general and application controls	25	19
	Failure to sufficiently evaluate the severity of control deficiencies	15	1
	Failure to appropriately adjust testing as a result of ineffective controls	9	2
	Failure to adequately assess the appropriateness of placing reliance on the work of others	5	9
Revenue Recognition	Failure to appropriately assess and respond to the risk of fraud in revenue recognition	25	36
	Failure to perform procedures to determine whether revenue was recorded in the appropriate period	10	26
	Failure to sufficiently understand the terms and conditions of complex arrangements and the impact on the accounting	10	13

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

Appendix B: 2012-2017 Inspection Findings Survey Response Details

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.

The table below provides details from the 2014-2017 surveys for the calculation by inspection theme of the percentage of SIFI audits with at least one inspection finding.

Table B.8 SIFI Audits

2014-2017 Survey Results: Audits Inspected with at Least One Finding by Inspection Theme

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

** 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.

Appendix B: 2012-2017 Inspection Findings Survey Response Details

Table B.9 SIFI Audits

2012-2017 Survey Results: Total Number of Findings by Inspection Theme

Inspection Theme	2017	2016	2015	2014	2013	2012
Audit of Allowance for Loan Losses and Loan Impairments	17	3	31	21	42	15
Internal Control Testing	11	10	37	36	39	33
Insufficient Challenge and Testing of Management's Judgments and Assessments	10	3	20	13	21	12
Audit Methodology, including Programs and Tools	6	5	7	11	1	9
Audit of Insurance Contract Liabilities	6	2	**	**	**	**
Testing of Customer Deposits and Loans	5	3	7	6	3	10
Substantive Analytical Procedures	5	3	2	6	12	**
Valuation of Investments and Securities	3	3	22	42	26	32
Use of Experts and Specialists	2	6	22	9	8	**
Adequacy of Financial Statement Presentation and Disclosure	2	2	6	7	9	4
Risk Assessment	2	0	22	4	10	**
Audit Committee Communications	1	0	1	2	2	**
Fraud Procedures	0	3	2	5	7	**
Audit Report	0	2	0	**	**	**
Group Audits	0	1	6	4	8	2
	70	46	185	166	188	117

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