International Forum of Independent Audit Regulators
Report on 2015 Survey of Inspection Findings
March 3, 2016

Highlights

- *In 2015, the International Forum of Independent Audit Regulators (IFIAR) conducted its fourth annual survey of findings (Survey) identified by its Members in their individual inspections of audit firms affiliated with six large, international audit firm networks, referred to as the GPPC networks.*[1]

- *IFIAR's fourth annual survey of findings from audit regulators' inspection of GPPC networks indicates that 43% of inspected audits of listed public interest entities (PIEs) had at least one finding.*

- *The most frequent areas of findings generally remain consistent with prior surveys – in particular, in the areas of Fair Value Measurement, Internal Control Testing, and Revenue Recognition – with the exception of a notable increase in the number of Risk Assessment findings.*

- *Inspections of firm-wide systems for quality control also reveal high frequencies of findings, including in the areas of Engagement Performance and Independence and Ethical Requirements.*

- *IFIAR is not yet satisfied that enough has been done by the audit profession to understand and address shortfalls in audit quality. IFIAR will continue its annual Survey of inspection findings, knowledge-sharing and collaboration among Members,*

[1] These six networks are BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited. Collectively, these network firms are referred to herein as the "GPPC networks", reflecting their common membership in the Global Public Policy Committee (GPPC).

and engagement with leadership of the six largest international audit firm networks in order to advance IFIAR Members' shared goal of high-quality audits.

- *IFIAR and the GPPC networks have entered into a new initiative to improve audit quality globally, with particular focus on effective root cause analysis by the firms and implementation of responsive actions. Progress will be measured over four years against a targeted reduction of at least 25% in the number of listed PIE audits with at least one finding from inspection reported in the Survey by certain IFIAR Members.*

Overview

In 2015, the IFIAR conducted its fourth annual Survey of findings identified by its Members in their individual inspections of audit firms affiliated with six large, international audit firm networks. IFIAR Members that participated in the 2015 Survey reported that 43% of the listed PIE audits inspected had at least one finding; the rate of inspected PIE audits with findings reported in the 2014 Survey was 47%. Consistent with the results of IFIAR's prior Surveys, the current Survey reveals high frequency and number of findings in key aspects of the audit and in the inspected audit firms' systems of quality control.

IFIAR collected information about three categories of inspection activities. These categories, and highlights from the audit areas with the most findings reported in the 2015 Survey, are provided below. ***Please refer to the remainder of this report to understand what a "finding" represents, how the "frequency" of a finding is measured, and IFIAR's cautions on interpreting the information presented in this report.***

1. Audits of **public interest entities listed on a national securities exchange (listed PIEs)**:
   (See Table 2 and Appendix A for prior year Survey results)

	Total Number of Findings	Frequency of Findings
Internal Control Testing	173	23%
Fair Value Measurement	158	18%
Risk Assessment	131	14%
Revenue Recognition	116	15%

2. Audits of **systemically important financial institutions** (**SIFIs**), including global systemically important financial institutions (G-SIFIs):

(See Appendix A for prior year Survey results)

	Total Number of Findings	Frequency of Findings
Internal Control Testing	37	40%
Audit of Allowance for Loan Losses and Loan Impairments	31	51%
Valuation of Investments and Securities	22	27%
Use of Experts and Specialists	22	26%

3. The **firm-wide quality control systems** in place within the audit firms:
(See Table 6 and Appendix A for prior year Survey results)

	Total Number of Findings	Frequency of Findings
Engagement Performance	222	59%
Independence and Ethical Requirements	73	40%

While some improvements have been noted, the frequency and total number of findings reflected in the Survey results cause continuing concern to IFIAR. Audit engagement findings imply that the auditor's performance falls below the expected level of diligence to satisfy the public interest role the audit is meant to fulfill, and that the audit failed to provide the level of assurance about the financial statements that it purported to do and that is required by professional standards.

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, it is important to recognize that the frequency of findings addressed in this report is not indicative of the frequency of financial statement misstatements.[2]

[2] IFIAR has not sought to quantify misstatements associated with Member findings because a) the variations in transparency and manners of addressing errors in financial statements in Members' jurisdictions, including in some cases not restating; b) the regulatory mandates of many IFIAR Members do not extent to the determination of whether or not financial statements are misstated; and c) the timing mismatch that generally occurs between the identification of an audit inspection finding and final determination of whether the audited financial statements were misstated, making it difficult to reflect meaningful information about restatements in any particular annual Survey.

Audit regulators do not measure the sufficiency of audit performance based on whether or not the financial statements were misstated. The reporting company's management has primary responsibility for the accuracy and presentation in the financial statements, making benchmarks about misstatements more appropriate to evaluations of management's performance. Audit regulators, rather, evaluate whether the auditor fulfilled the requirements of the auditing standards designed to position the auditor to detect a material misstatement, in the event one exists.[3]

IFIAR Members were asked in the 2015 Survey whether the global networks of the GPPC networks appear to have the ability to introduce changes in the local firm that improve audit quality. Most Members responding to this question opined that the global networks do appear to have such abilities. This opinion was expressed more frequently with respect to the larger global networks. Several Members indicated that they are aware of instances where the global firm has exerted its influence to compel changes at the local firm level to improve audit quality. In addition, Members were asked to report on their observation about any significant change in overall audit quality in their jurisdictions in comparison to their previous inspections. The impressions on overall changes in audit quality varied among those Members responding to this part of the Survey.

IFIAR, through its Global Audit Quality (GAQ) Working Group, engages in an ongoing dialogue with the GPPC networks at the global network level, with the objective of improving audit quality on a global basis.[4] The GAQ Working Group aims to inform IFIAR Members of global initiatives in the firms' audit practices that should be relevant to regulation of the firms' local network affiliates.

Regular meetings are held with the networks to understand actions that are being undertaken to address the specific audit quality issues most frequently identified by IFIAR and the underlying, or "root", causes of these systemic findings. In the past year, the GAQ Working Group has deepened its dialogue with the GPPC networks about root cause analyses, with the intention of understanding better how widespread the practice of root cause analysis is throughout the global networks, and whether the firms that are part of the GPPC networks are taking actions to ensure that the true causes underlying audit deficiencies are detected and remediated. In addition to assessing audit deficiencies, the

[3] When a deficiency is observed, many audit regulators require the audit firm to perform the additional procedures necessary to satisfy the auditing standards. This process often does not identify material misstatements of the underlying financial statements – though in some cases this has occurred.

[4] In early 2016, the IFIAR working group formerly called the Global Public Policy Committee, or GPPC, Working Group, changed its name to the GAQ Working Group.

GAQ believes that analyzing the factors contributing to successful audits can be an important consideration in replicating and promoting quality across an audit practice.

The GAQ Working Group and the GPPC networks began an initiative in 2015 that has intensified their collaborative dialogue about key areas of recurring findings. The objective of this initiative is significant improvement in audit quality across all IFIAR Members' jurisdictions, indicated by decreases in future inspections findings. (*See the* Dialogue with Network Audit Firms *discussion at section III of this report for additional information about this initiative.*) The GAQ Working Group will measure progress specifically related to findings reported by the nine members of the GAQ Working Group. For audits inspected by these Members and reported in the 2015 Survey, 39% of inspected audits of listed PIEs had at least one finding (the findings frequency for listed PIE audits inspected reported by all IFIAR Members participating in the 2015 Survey was 43%). The GAQ Working Group expects that, within four years, the number of listed PIE audit engagements with one or more inspection finding should decrease from this level by at least 25% (to 29% or lower) on an aggregate basis across the firms that are part of the GPPC networks.[5] Future Surveys will provide the information used to measure the firms' aggregate progress. IFIAR recognizes that inspection findings are not the sole measure of progress in audit quality. Further, as addressed below in the explanation of the Survey as a lagging indicator, IFIAR recognizes that actions taken by the firms now or that are already underway will not necessarily be reflected in the results of the next Survey. The 25% reduction goal provides a measurable target for the firms' combined efforts to improve audit quality. IFIAR believes that the firms' achievement of the minimum 25% goal would be a meaningful indication of progress along the longer-term path toward greater improvement in audit quality.

While this initiative focuses on the combined inspection results from the GAQ Working Group members' jurisdictions, the aim of the initiative is for audit quality to improve globally, not just in these nine countries. IFIAR will continue to disclose findings reported by all IFIAR Members in its Survey reports, with the expectation that the Global networks' efforts to improve audit quality are global in reach.

IFIAR's Survey collects inspection results reported to the inspected firms during the twelve-month period ending in the middle of the Survey year (*e.g.*, for the 2015 Survey, reports issued by June 30, 2015). Those inspections may be of audits completed two or more years prior to the Survey. Thus, while many of the 2015 Survey responses relate to inspection results for audits of 2013 or 2014 financial statements, some inspections are of

[5] The nine GAQ Working Group members are the IFIAR Members from Australia, Canada, France, Germany, Japan, the Netherlands, Singapore, the United Kingdom, and the United States of America.

audits of earlier years. As a result of this reporting time lag, actions already under way or taken now to improve audit quality will take some 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.

Information gained through the Surveys contributes to IFIAR's efforts to provide a platform for knowledge sharing and collaboration in pursuit of its Members' common objective of high-quality audit performance. IFIAR ensures that, through its annual inspection workshops, audit inspectors have the opportunity to share knowledge and observations on recurring, common findings and themes identified by the Survey. The workshops help to create awareness among participants on common issues that may be considered in the IFIAR Members' annual work programs and inspection approaches. Further, the dialogue helps promote regulators' shared understanding of findings, as defined for purposes of the Survey, providing ongoing improvement in the consistency in reporting for IFIAR Survey purposes. Finally, IFIAR utilizes information learned through the IFIAR Survey to inform its ongoing work to promote the development of high-quality international standards of auditing and auditor ethics.

I. Introduction

About IFIAR

IFIAR is a membership organization of audit regulators that are independent from the audit profession.[6] IFIAR's membership includes 50 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

[6] More information on IFIAR and its activities can be found at https://ifiar.org/Home.aspx. This report refers to audit regulators that are members of IFIAR as "Members".

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, often with a common name and common auditing, quality control, and ethical 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 network 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 international audit firm networks.[7] 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.

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: those related to audit engagements and those related to the systems of quality control of the audit firms. 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.[8] 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

[7] *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 for information about the impact of this change).

[8] This report uses "finding" and "deficiency" interchangeably.

a firm-wide basis by the firm subject to inspection, rather than to work performed on specific audit engagements.

This report summarizes the results of IFIAR's fourth inspection findings Survey, conducted during 2015 (Surveys are referred to based on the year in which the Survey data was collected; this report covers the "2015 Survey"). Most Members reported inspection findings related to audits of financial statements for years ended in 2013 or 2014, though in some cases earlier audits also were included. In all cases, Members do not report findings from more than one annual inspection cycle, and Members 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:

- audits of ***listed PIEs***, including any listed SIFIs or G-SIFIs;
- audits of ***SIFIs***, including G-SIFIs, whether or not a listed entity; and
- audit firms' ***quality control*** systems.

In all years, information was collected on the total number of inspection findings by audit 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 14 inspection themes relevant to audits of financial institutions. Findings from inspections of audit firms' quality control systems were reported using six themes.

The Survey also included questions about Members' observations from their inspection activities, in particular with respect to root causes analysis practices.

The approach taken for the 2015 Survey was generally consistent with that used in prior Surveys. IFIAR made two main changes from the 2014 Survey. First, a new category of findings, "Audit Report", was added for the 2015 Survey for findings from audits of listed PIEs, G-SIFIs, and other SIFIs. For those audits conducted using International Standards on Auditing (ISA), a new standard for audit reporting, ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, will be effective for audits of financial statements for periods ending on or after December 15, 2016.[9] In some jurisdictions, expanded reporting by auditors already has begun. IFIAR decided to start collecting Survey

[9] For more information about ISA 701, see here.

data on findings related to the Audit Report; this positions IFIAR better to monitor trends in findings in this area as the form and content of the auditor's report evolves.

A second key change from the 2014 Survey was to limit reporting on findings to those that relate to the six GPPC networks.[10] Not all GPPC networks' audit practices are of significant size in all IFIAR Member jurisdictions, and other firms not covered by this Survey do play a significant role in certain jurisdictions. However, the GPPC networks include the six audit firm networks most commonly conducting audits in IFIAR Member 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 intends to deepen its discussion with these global network firms 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.

II. 2015 Survey Results

The results of the 2015 Survey are presented in this section of the report, with selected information on prior year Survey data. Appendix A provides additional details, including further information on findings reported in prior Surveys.

Members reporting findings by inspection theme summarized in the tables below did not necessarily inspect all themes included in the IFIAR Survey. This reflects, in part, the risk-based approach to inspections undertaken by many IFIAR Members. The areas selected for inspection often are those that are inherently more complex to audit. Audit regulators typically do not inspect all audits conducted by an inspected firm; rather, they select and examine a sample of audits that may not necessarily be a representative sample of the audit firm's work.

[10] 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 non-GPPC network firms. To assess the general impact non-GPPC network 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 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 firms included, as reported in the report on the 2014 Survey. The exclusion of findings from inspections of non-GPPC network firms in the 2015 Survey is not expected to have a significant impact on general trends or frequency of inspection themes.

For these reasons, it would not be appropriate to extrapolate the results presented in this report to form broader conclusions about the frequency of deficiencies throughout the firms' audit practices.

Further, it is challenging to evaluate overall audit quality solely on the basis of the numbers of deficiencies reported by IFIAR Members. Please refer to the *Interpreting the Results* section of the 2015 Survey report for important information about the limitations on comparing results across Survey years.

Despite such limitations, monitoring trends in areas of inspection findings can be useful in discussions among regulators and with audit firms, and in identifying challenges and necessary areas of focus in order to advance the objective of high-quality audits.

Inspection Findings from Audits of Listed PIEs

Twenty-nine IFIAR Members provided information on findings from inspections of audits of listed PIEs. These Members inspected the audits of 872 listed PIEs by 98 audit firms in the GPPC networks and found deficiencies in 376 (or 43%) of those audits. Inspections of these 872 listed PIEs did not necessarily include inspection of all themes included in the IFIAR Survey.

Table 1 – *Listed PIE Audits: Findings and Percentage of Audits with Findings*[11]

Inspection Theme	Number of Findings (*a single PIE may have multiple findings for the same theme*)	# of Listed PIE Audits Inspected	# of Listed PIE Audits with at Least One Finding	% of Listed PIE Audits Inspected with at Least One Finding
Internal Control Testing	173	710	160	23%
Fair Value Measurement	158	661	118	18%
Risk Assessment	131	832	114	14%
Revenue Recognition	116	688	105	15%
Inventory	86	365	71	19%
Adequacy of Financial Statement Presentation and Disclosure	85	570	68	12%
Group Audits	70	383	55	14%
Substantive Analytical Procedures	50	384	44	11%
Adequacy of Review and Supervision	49	434	35	8%
Fraud Procedures	46	574	43	7%
Audit of Allowance for Loan Losses and Loan Impairments	45	165	37	22%
Engagement Quality Control Review	39	417	32	8%
Use of Experts and Specialists	35	326	29	9%
Related Party Transactions	17	300	16	5%
Audit Report	15	461	15	3%
Audit Committee Communication	10	592	10	2%
Going Concern	5	321	5	2%
	1,130			

An audit may have more than one finding in a particular theme (*e.g.*, multiple Inventory findings may be identified in the audit of one listed PIE). Because of this, the numbers in the "Number of Findings" column reported in Table 1 may be greater than the numbers in the "# of Listed PIE Audits Inspected with at Least One Finding" column (as an example from the table above, 86 Inventory findings were reported from the inspections of 71 listed PIE audits). The "Percentage of Listed PIE Audits Inspected with at Least One Finding" column reports the number of listed PIE audits with at least one finding divided by the number of listed PIEs inspected. This percentage is the "frequency" information included in this report.

Table 2 provides information on the frequency of inspection findings by theme for listed PIE audits included in the 2015 and 2014 Survey reports. Similar information was not

[11] Some findings may relate to multiple themes. For example, a Member may have a finding from its inspection of the auditor's assessment of the risk of fraud in the area of revenue recognition. Members are requested to select the one theme that they determined to be most relevant to the finding. In this case, the finding could be reported as a Risk Assessment, Fraud, or Revenue Recognition finding. Differences in Members' judgments when reporting findings to IFIAR may result in variations in how they classify findings by inspection theme.

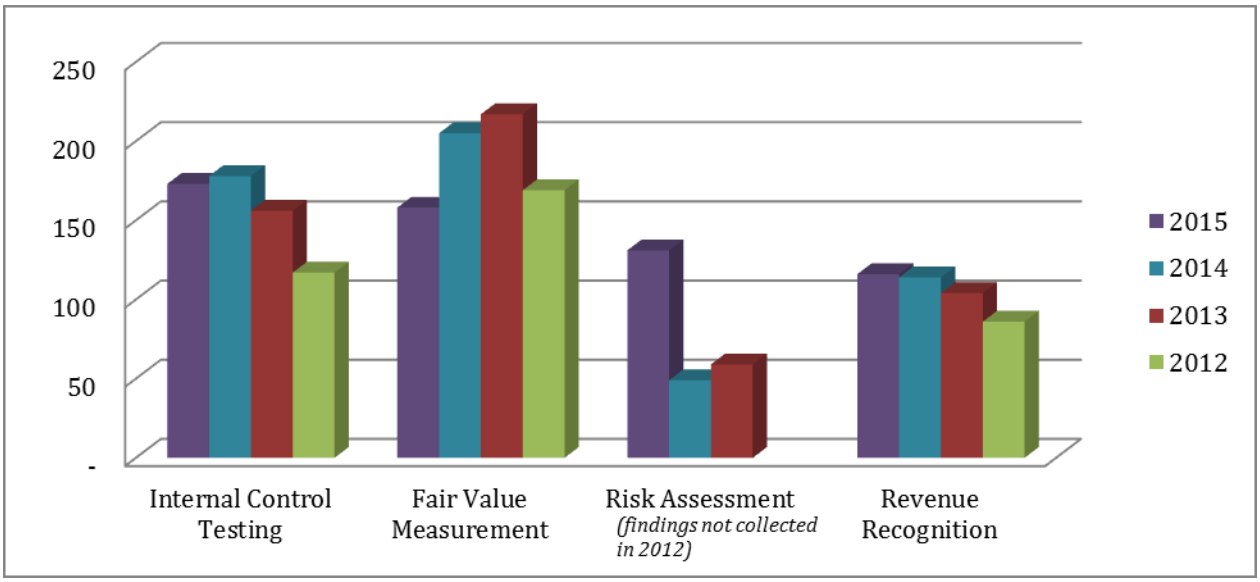
collected for Surveys prior to 2014. See Appendix A for additional details of the 2014 Survey results.

Table 2 – *Listed PIE Audits: Percentage of Audits with Findings, 2015 and 2014*

Inspection Theme	% of Listed PIE Audits with at Least One Finding	
	2015	2014
Internal Control Testing	23%	24%
Audit of Allowance for Loan Losses and Loan Impairments	22%	13%
Inventory	19%	16%
Fair Value Measurement	18%	20%
Revenue Recognition	15%	14%
Group Audits	14%	10%
Risk Assessment	14%	7%
Adequacy of Financial Statement Presentation and Disclosures	12%	12%
Substantive Analytical Procedures	11%	14%
Use of Experts and Specialists	9%	11%
Adequacy of Review and Supervision	8%	10%
Engagement Quality Control Review	8%	10%
Fraud Procedures	7%	6%
Related Party Transactions	5%	8%
Audit Report	3%	Not collected
Audit Committee Communication	2%	3%
Going Concern	2%	6%

Table 3 provides a four-year summary of the four inspection themes with the highest number of findings reported in the 2015 Survey. See Appendix A for additional details of findings for the four Survey years.

Table 3 – *Listed PIE Audits: Number of Inspection Findings, 2015-2012 Selected Summary*



IFIAR first began collecting information on Risk Assessment findings for the 2013 Survey. Risk Assessment findings reported in the 2015 Survey experienced a large increase. IFIAR will monitor in future Surveys whether this increase indicates a trend. Risk Assessment findings may include the failure to identify a risk of material misstatement of the financial statements or a risk of fraud. Another example of a Risk Assessment finding is the failure to respond appropriately to risks identified, whether during audit planning or as new information arises during the course of an audit.

In both the 2014 and 2015 Surveys, Members were asked to provide additional details about the nature of the most commonly observed deficiencies for the three categories with consistently high numbers of inspection findings across the four Survey years – Fair Value Measurement, Internal Control Testing, and Revenue Recognition. Members were asked to rank the prevalence of findings in these areas by 'sub-categories' that gave additional description of the nature of the finding. Common areas of audit deficiencies for each of these themes are summarized below.[12]

[12] Not all Members reported on the nature of findings by inspection theme. While the examples provided here were observed with higher frequency by those Members reporting this information, they are not necessarily the most common issues summarized in the tables of total findings included in this report.

Fair Value Measurement

In the 2015 Survey, 16 IFIAR Members provided additional detail about their Fair Value Measurement findings, of which 11 ranked the "failure to sufficiently test the accuracy of data used" as the most common deficiency in this area. Three additional Members ranked this sub-category as among the top three most common types of Fair Value Measurement findings. The prevalence of this finding is consistent with information reported in the 2014 Survey.

The next most prevalent sub-categories of findings were "failure to perform sufficient risk assessment procedures" and "failure to adequately consider indicators of bias". Each of these sub-categories was reported as one of the top three most recurring types of Fair Value Measurement findings by seven Members.

Through the 2015 Survey, IFIAR sought a better understanding of the types of balance sheet items with the most Fair Value Measurement findings in listed PIE audits. Of the 13 Members reporting this information, the category of "Goodwill and Indefinite Lived Intangible Assets" clearly had the highest proportion of Fair Value Measurement findings. The "Investments and Securities" category was the next most frequent area of Fair Value Measurement findings, though with far less frequency than Goodwill and Indefinite Lived Intangible Assets.

Internal Control Testing

The 2015 and 2014 Survey responses about sub-categories of Internal Control Testing findings were very consistent. Failure to test sufficiently information technology general and application controls was the most common type of finding for this inspection theme. Other frequent findings include the failure to obtain sufficient appropriate evidence to support reliance on manual internal controls and the failure to adjust testing appropriately as a result of ineffective controls (*e.g.*, as indicated by audit adjustments and exceptions identified through substantive testing).

Revenue Recognition

The failure to assess and respond to the risk of fraud in revenue recognition appropriately was a common category of findings in this inspection theme. Other types of findings include the failure to understand sufficiently the terms and conditions of complex arrangements and the impact on the accounting, and the failure to perform procedures to determine whether revenue was recorded in the appropriate period. These responses also were very consistent with those provided in the 2014 Survey.

Inspection Findings from Audits of SIFIs

Fourteen Members reported findings from inspections of audits of systemically-important financial institutions. These Members inspected the audits of 96 SIFIs by 34 audit firms and found deficiencies in 49, or 51%, of those audits.

Inspections of these SIFIs did not necessarily include inspection of all themes included in the IFIAR Survey. Refer to the beginning of this section II and the *Interpreting the Results* section below for important additional information that should be read in conjunction with the tables below.

Findings from the inspection of a SIFI audit, where the SIFI is a listed PIE, also are reported in the listed PIE results. The Survey information on SIFI audit inspections is therefore largely a subset of the listed PIE results.[13] Members are instructed that SIFIs should include those financial institutions whose distress or failure, because of their size, complexity, and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity; individual Members determine which financial institutions to report as a SIFI. The SIFI category includes all financial institutions reported by the Financial Stability Board (FSB) to be G-SIFIs.[14]

[13] For any SIFI that is not a listed PIE, the results of that SIFI's audit inspection would be included in the SIFI results, but not in the listed PIE results.

[14] As of the time of the Survey, the FSB's list of G-SIFIs included 30 banks and nine insurers. For more information on these G-SIFIs, see FSB November 2014 Update of List of G-SIBs and FSB November 2014 Update of List of G-SIIs. Prior to release of this report, the FSB updated its 2014 lists of Global Systemically Important Banks and Global Systemically Important Insurers; in both cases, one institution was removed from the list and another added.

Table 4 – *SIFI Audits: Findings and Percentage of Audits with Findings*

Inspection Theme	Number of Findings (*a single SIFI may have multiple findings for the same theme*)	# of SIFI Audits Inspected	# of SIFI Audits with at Least One Finding	% of SIFI Audits Inspected with at Least One Finding
Internal Control Testing	37	85	34	40%
Audit of Allowance for Loan Losses and Loan Impairments	31	53	27	51%
Valuation of Investments and Securities	22	70	19	27%
Use of Experts and Specialists	22	31	8	26%
Risk Assessment	22	84	18	21%
Insufficient Challenge and Testing of Management's Judgments and Assessments	20	43	18	42%
Testing of Customer Deposits and Loans	7	22	5	23%
Audit Methodology including Programs and Tools	7	27	5	19%
Group Audits	6	20	5	25%
Adequacy of Financial Statement Presentation and Disclosures	6	33	6	18%
Substantive Analytical Procedures	2	28	2	7%
Fraud Procedures	2	29	2	7%
Audit Committee Communication	1	40	1	3%
Audit Report	0	32	0	0%
	185			

The frequency of findings for SIFI audits increased for all but one inspection theme as compared to the 2014 Survey results (see Appendix A for additional details). ***These increases appear primarily to reflect a change in the composition and nature of inspection activities of Members that reported in the 2014 and 2015 Surveys, and should not be interpreted as the result of general deterioration in audit quality for SIFIs.***

Among IFIAR Members' jurisdictions, the population of SIFIs is significantly smaller than that of listed PIEs. The result is far fewer inspections of SIFIs than listed PIEs reported in the Survey.[15] A small number of Members that did not report on SIFI audit inspections in the 2015 Survey reported on the results of a sizable number of SIFI audit inspections in the 2014 Survey. These Members in general reported in the 2014 Survey quite low frequencies of findings from these inspections. The change in inspection focuses and/or reporting to

[15] For example, per the tables above, the 2015 Survey data included inspections of Internal Control Testing at 85 SIFIs. This is the inspection theme with the *most* SIFI audits inspected. By comparison, the inspection theme with the *least* listed PIE audits inspected included almost twice as many inspections.

IFIAR between these Survey years appears to be the main factor in the changes in finding frequencies.

For those Members reporting SIFI audit inspection results in both 2014 and 2015, the variations in frequency of findings was notably less pronounced than indicated by a comparison on the two Survey years' data. Despite that, as described above and in the *Interpreting the Results* section of this report, the population of SIFI audits inspected and inspectors' areas of focus vary between years, the level of findings in complex and important areas of a SIFI audit remain of concern.

Findings from Inspections of Quality Control Systems

Findings from audits of listed PIEs and SIFIs, as reported above, relate to inspections of the financial statement audit of a reporting entity. Findings reported in this section do not relate to specific audit engagements, but instead address the systems in place at the audit firm to provide for overall quality control.[16] Inspections of firm-wide quality control address topics such as monitoring for independence, procedures to assess risk before accepting or continuing an audit engagement, and the overall "tone at the top" of the organization.

Thirty-three Members reported the results of their inspections of firm-wide quality control systems in 2015 at 101 audit firms. Inspections of these audit firms did not necessarily address each quality control theme included in the IFIAR Survey. Refer to the beginning of this section II and the *Interpreting the Results* section below for important additional information that should be read in conjunction with the tables below.

[16] The categories of findings in the IFIAR Surveys align with the elements of the International Auditing and Assurance Standards Board's (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*.

Table 5 – *Quality Control: Findings and Percentage of Inspected Firms with Findings*

Inspection Theme	Total Number of Findings	Audit Firms with at Least One Quality Control Finding	
		#	%
Engagement Performance	222	53	59%
Independence and Ethical Requirements	73	34	40%
Human Resources	77	31	36%
Monitoring	63	27	33%
Client Risk Assessment, Acceptance, and Continuance	52	27	30%
Leadership Responsibilities for Quality within the Firm	21	11	12%
	508		

Table 6 – *Quality Control: Percentage of Firms with Findings, 2015 and 2014*

Inspection Theme	2015		2014	
	Audit Firms with at Least One Quality Control Finding		Audit Firms with at Least One Quality Control Finding	
	#	%	#	%
Engagement Performance	53	59%	71	60%
Independence and Ethical Requirements	34	40%	55	48%
Human Resources	31	36%	52	45%
Monitoring	27	33%	40	34%
Client Risk Assessment, Acceptance, and Continuance	27	30%	36	33%
Leadership Responsibilities for Quality within the Firm	11	12%	23	19%

The total number of findings reported in the 2015 Survey continued to decrease, consistent with the results of the 2014 Survey. The percentage of audit firms inspected and with findings (or, the frequency of findings) decreased notably in the areas of Human Resources, Independence and Ethical Requirements, and Leadership Responsibilities for Quality within the Firm.

Certain Members provided further information on the nature of quality control findings that occur most frequently for two of the areas above with the largest number of findings. Common areas of audit deficiencies for these two inspection themes are summarized below. The results from the 2015 and 2014 Surveys are quite similar.

Engagement Performance

The two sub-categories ranked highest in frequency by Members reporting on this aspect of the Survey were 1) the failure to establish policies and procedures for engagement quality control reviews (EQCR) that provide an objective evaluation of the significant judgments made by the engagement team and conclusions reached and 2) the firm's audit methodology and guidance often are the subject of inspection findings.

Human Resources

Members reported that they frequently have findings related to how the audit firm evaluates audit quality as part of partner performance evaluations and partner admissions. Another recurring type of finding relates to non-compliance with the firm's training and learning plan.

Interpreting the Results

The purpose of IFIAR's Survey is not to measure empirically the changes in audit quality. Members were asked in the 2015 Survey to indicate how they measure changes in audit quality. Certain Members indicated that they measure changes from a national perspective by the *number* of inspection findings; nearly as many indicated that the relevant measure is the *nature* of findings.

The number of findings should not be the sole means to evaluate the information reported in IFIAR's Survey. Audit deficiencies identified and reported through the course of an inspection are not intended to serve as "balanced score cards" or overall rating tools. While an individual regulator may have the ability to assess the nature and severity of its findings, the Survey does not provide this level of information.

Many IFIAR Members employ a risk-based inspection approach, meaning that inspectors are paying particular attention to those aspects of the audit deemed most likely to involve financial reporting and/or audit risk. This results in inspections of those audit areas that are inherently more complex to audit. The risk-based approach may contribute to the frequency of findings. Under such an approach, not all audit engagements and areas of inspection focus are selected randomly; therefore, selections of audits are not necessarily representative samples of the firm's audits. It is not necessarily the case that the auditor would do a better job in a lower risk audit engagement. Still, it is important to recognize the possibility that the risk-based inspection programs employed by most IFIAR Members may influence the frequency of inspection findings reflected in this report. While

complexity presents challenges to fulfillment of audit standards, it also calls for high levels of scrutiny and professional responsibility in the course of completing the audit.

IFIAR also cautions against empirical review of the data because the composition of audit firms inspected, topics of focus in certain Members' inspection programs, and Members reporting may vary between Survey reports. The Members reporting were largely consistent between the 2015, 2014, and 2013 Surveys. However, some Members may focus on different themes between inspection cycles, such that some inspection themes may receive varying levels of inspection attention between Survey years. (See, for example, the discussion above of the impact this had on the 2015 and 2014 Survey information regarding SIFI findings.)

IFIAR Members must make judgments when submitting data for the Survey in cases where a finding relates to multiple inspection themes. The judgments made by individual IFIAR Members may differ when selecting the one theme under which to report the finding. Finally, while individual and aggregate responses are reviewed for reasonableness, IFIAR does not validate the information received, nor does it represent that the data is complete.

Despite these limitations, the recurrence and level of findings in inspection themes demonstrated by the Survey provide a useful point of reference for discussions about areas for improvement in audit performance. Further, the collection of information, beginning with the 2014 Survey, to enable reporting on the percentage of inspected audits that included a finding will enhance IFIAR's ability to analyze trends that continue to challenge audit quality.

III. Related IFIAR Initiatives

All aspects of IFIAR's work aim to improve audit quality through collaboration among those who are charged nationally with auditor oversight. Certain IFIAR activities draw explicitly from the annual Survey of findings to inform their efforts. This is specifically true with respect to IFIAR's dialogues with the six largest international audit firm networks, content development for annual inspection workshops, and consideration of the agendas and projects of international audit-related standard setters.

Dialogue with Network Audit Firms

The nine IFIAR Members who participate in IFIAR's GAQ Working Group meet with representatives of the six largest international audit firm networks that are members of the GPPC individually and collectively on a regular basis; in recent years, these meetings have

been held two to three times annually.[17] The GAQ Working Group's efforts are intended to complement regulatory actions at the national level and further increase the attention the firms should be placing, and in many cases already are placing, on improving audit quality. One of the primary objectives of the GAQ Working Group's meetings with the GPPC networks is to obtain an understanding of the results arising from the networks' internal quality monitoring programs and actions taken to identify and address the underlying root causes of the quality issues identified.

The IFIAR Survey of its Members' inspection findings contributes to the efforts of the GAQ Working Group by providing a basis for assessing the reliability of results arising from the networks' internal quality monitoring programs, and the effectiveness of actions taken by the networks to identify and address the underlying causes of audit quality issues over time. See further discussion in the *Root Cause Analysis* section below for additional information on the GAQ Working Group's initiatives in this regard.

Initiative toward Reduction in Inspection Findings of at Least 25%

IFIAR and the GPPC networks are both committed to the fundamental importance of audit quality to the capital markets and to investor confidence. Since it began collecting and publishing data on its Members' inspection findings in 2012, IFIAR has voiced its concerns about the high level of findings across the inspected firms that are part of the GPPC networks, and the lack of significant observable improvement reflected in the successive Survey results. In 2015, building on prior activities of the respective parties involved, IFIAR and the GPPC networks agreed to work collaboratively on an initiative intended to improve audit quality. While recognizing that frequency of inspection findings should not be the sole means to evaluate changes in audit quality, IFIAR's GAQ Working Group and the GPPC networks have agreed that the percentage of inspected audit engagements with one or more inspection findings should decrease. To provide a means to measure progress, they have agreed to target a reduction of at least 25% within four years in the frequency of findings in listed PIE audit engagements.[18] The measure will be based on data reported for the Survey by the nine GAQ Working Group members on an aggregate basis across the firms that are part of the GPPC networks. The results reported in this 2015 IFIAR Survey will serve as the baseline for the measurement. While the GAQ Working Group's discussions with the GPPC networks focus primarily on inspection results for the nine IFIAR Members on the GAQ Working Group, IFIAR expects to see global improvements in

[17] *See* footnote 5 for a list of the GAQ Working Group members.

[18] As mentioned in the *Overview* section, Survey results are a lagging indicator. Findings reported in the Survey may relate to audits that occurred two or more years earlier. The firms' actions already under way or taken now to improve audit quality will take some time to be reflected in IFIAR's published Survey results.

audit quality and will continue to disclose findings reported by all IFIAR Members in its Survey reports.

The GAQ Working Group collectively has engaged global leadership of the GPPC networks in direct communication on global initiatives to improve audit quality across the networks. IFIAR's GAQ Working Group plans to continue to work with the six GPPC networks to promote a common understanding between the networks and the regulators of the root causes leading to inspection findings, and the measures being taken, or that need to be taken, to address the root causes. The GAQ Working Group and the GPPC networks identified four focus areas: fair value measurement (including management estimates), group audit, internal control testing, and revenue recognition. As these are the areas with the most recurring findings, the GAQ Working Group hopes that an understanding of the root causes and implementation of action plans in these focus areas by the firms that are part of the GPPC networks will contribute to efforts to improve audit quality and, consequently, reduce findings.

Root Cause Analysis

IFIAR's dialogue among Members and with the GPPC networks has expanded awareness of the need for deeper understanding of the causal factors that lead to ongoing audit quality challenges. Many IFIAR Members, dissatisfied with the nature, extent, and persistence of audit deficiencies, evaluate the assessments by audit firms' in their jurisdiction of the root causes behind audit shortcomings, and follow up with consideration of whether responsive action is taken.

Gains in audit quality require improved consistency in how an audit firm performs across teams, offices, industries, and countries. Consistent performance benefits from understanding not only what can go wrong in an audit, but also the attributes of a high-quality audit engagement or systems for quality control across the audit firm.

Audit firms should continue to pursue initiatives to improve audit quality and the consistency of audit execution across their firms. This often begins with a thorough evaluation and understanding of the root causes undermining consistent audit quality.

The GAQ Working Group's discussions with the firms on root cause analysis and action plans has increased steadily over recent years. The GAQ Working Group intends to continue its exploration of these topics, including the rigor of root cause analysis, effectiveness of action plans, and the impact on the frequency of inspection findings.

In the 2015 Survey, IFIAR sought to gain more information about root cause analysis practices observed in firms in Members' jurisdictions. Twenty-four Members participated in this aspect of the Survey. Their observations are summarized as follows:

- In approximately half of these Members' jurisdictions, audit firms typically perform root cause analysis.
- Six Members indicated that root cause analysis is mandated by a regulator or other body external to the audit firm.
- More frequently, root cause analysis is encouraged, but not mandated, by the regulator or other body external to the audit firm.
- In some cases, Members are seeing root cause analysis either mandated or encouraged by the global networks.

Members reporting on this part of the Survey indicated that root cause analysis typically addresses deficiencies observed from either internal quality monitoring review or external inspections by an audit regulator. In most, but not all, cases, the process involves development of an action or remediation plan responsive to the identified root cause(s) behind the deficiency.

Eighteen Members responded to questions about whether the firms' procedures adequately address the root causes underlying audit deficiencies. These Members indicate a good deal of variability across the firms in this regard:

- Several Members indicate that local firms do not formally document the root cause analysis performed.
- Several do not take action to address retrospectively the audit deficiencies identified, while many others do for all significant findings.
- Almost all develop action or remediation plans to address issues prospectively.

Members observed variability in whether firms monitor the actions taken to determine their effectiveness, which is an essential component to ensuring that the appropriate root cause was identified and that the response was appropriate. Several Members indicated that this monitoring aspect does not occur.

Several Members reported in the 2015 Survey that they perform their own root cause analyses. While root causes generally should be considered in more specific contexts, certain recurring root causes identified by IFIAR Members include: insufficient understanding and review of work done by specialists and other auditors; lack of timely involvement and insufficient supervision and direction of the engagement leader; excessive workload and deadline pressures; and pressures from fees and resources, including high staff attrition rates.

A number of root causes were identified related to the lack of professional attitude and insufficient exercise of professional skepticism. Observations reported by these Members included: lack of accountability; insufficient challenge of key assumptions and inputs (related to provisions); inadequate corroboration of management's explanations; and

insufficient verification of supporting calculations. IFIAR believes that enhancing professional skepticism of practitioners contributes significantly to quality financial statement audits and should be a high priority for audit firms, given the recurrence of audit deficiencies.

In its report on the 2014 Survey, IFIAR included a section that suggested measures audit firms should consider to improve audit quality. IFIAR continues to support those suggestions, and accordingly has included the related text from the 2014 report as Appendix C.

Annual Inspection Workshops

The Survey results are a valuable source of information for the preparation of the agenda of IFIAR's annual inspection workshops. Beginning in 2007, these workshops are organized by the Inspection Workshop Working Group for the inspection staff of IFIAR Member organizations. In addition to a general update and presentation of the results from the inspection findings Survey at the workshop, participants discuss specific aspects and topics related to the performance and results of inspections in break out groups and elective sessions. Recurring, common findings and themes identified by the Survey provide a starting point for these discussions and allow for a joint reflection on potential root causes and measures for improvements to be taken by regulators and/or audit firms. In this way, the workshop helps to create awareness among participants on common issues that may be considered in the IFIAR Members' annual work programs and inspection approaches. Participants at the workshops provide meaningful feedback on the Survey's design as well as specific topics and relevant questions, contributing to further development of future Surveys. Overall, this drives further consistency in how IFIAR Members approach completion of future Survey submissions (*e.g.,* the threshold for a reportable "finding").

Consideration of Standard Setting

IFIAR is committed to improving audit quality globally through the promotion of high quality for auditing and professional standards. Through providing insights from audit inspection activities of IFIAR Members to standard setters, IFIAR aims at driving changes in the relevant standards, which have the potential to improve audit quality.

The circumstances that give rise to inspections findings require careful analysis: the cause underlying an inspection finding may suggest considerations related to auditing standards. To address this possibility, IFIAR considers whether knowledge from inspection findings have implications relevant to the international auditing standards. In doing so, IFIAR in particular pays attention to whether those standards are providing sufficient clarity regarding the requirements that the auditor shall comply with and whether standards are

driving the auditor to consistent application and the exercise of sufficient professional skepticism.

Based on the results of IFIAR's Surveys, a preliminary review was performed to identify those international standards that address the topics and audit procedures related to the areas with the greatest level and frequency of observed inspection findings. Those standards are listed in Appendix B.

Some of those standards are included in the current 2015-2016 IAASB work plan. IFIAR, through the Standards Coordination Working Group (SCWG), has an ongoing dialogue with the IAASB in that regard: recent experiences and concerns stemming from inspections related to the *quality control, group audits* and *professional skepticism* projects have been discussed during several meetings. IFIAR encourages the IAASB to continue to make progress on these projects on a timely basis and plans to contribute to the IAASB written consultation on those topics.[19]

IFIAR will also monitor the initiatives by the IAASB to improve audit quality through planned projects regarding the audit of *accounting estimates* (ISA 540) and *risk assessment* and *internal control testing* (ISA 315/ISA 330), and to take into consideration the evolution regarding the use, by audited entities and audit firms, of high volumes of data, and of tools dedicated to analyzing this data (*data analytics*).

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 survey such as *materiality* (ISA 320), *use of experts* (ISA 620), *responses to assessed risks* (ISA 330), and *analytical procedures* (ISA 520), IFIAR encourages the IAASB to consider whether those topics should be included in the upcoming 2017-2018 IAASB work plan. Regarding this upcoming work plan, IFIAR continues to believe that the IAASB should have flexibility in its work program to deal with emerging issues on a timely basis, since it is important that the IAASB remains proactive and responsive to the changing business and audit environment.

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[19] IAASB's *Invitation to Comment: Enhancing Audit Quality in the Public Interest–A Focus on Quality Control, Group Audits and Professional Skepticism* was released on December 17, 2015.

The tables below provide additional information on the current and past Survey results. See here for past Survey reports published by IFIAR.

The composition of audit firms inspected, topics of focus in certain Members' inspection programs, and Members reporting may vary between Survey reports. While the Members reporting were largely consistent between the 2015, 2014, and 2013 Surveys, some Members' inspection approaches involve focusing on differing topics among inspection cycles, such that some inspection themes may receive varying levels of attention by those regulators over the Survey years. Please refer to the Interpreting the Results *section of the 2015 Survey report for important information about the limitations on comparing results across Survey years.*

Despite these limitations, as part of its ongoing work, IFIAR intends to evaluate the data reported through the Surveys over time to identify any trends and to consider areas of significant and/or recurring audit deficiencies. Such identification assists IFIAR in developing its work programs, including its dialogue with the large network audit firms, evaluation of needs in audit or ethical standards, and information sharing through IFIAR's annual inspection workshop.

The approach taken for the 2015 Survey largely followed that used in the three prior Surveys. IFIAR Members reported their findings by "inspection theme". A new theme, "Audit Report", was introduced for the 2015 Survey. The themes remained consistent between the 2014 and 2013 Surveys; the 2012 Survey included three fewer themes for listed PIE audits and five fewer themes for SIFI audits. Accordingly, the tables in this Appendix indicate "Not collected" for Survey years when information for a theme was not collected.

1. Listed PIE Audit Inspection Findings

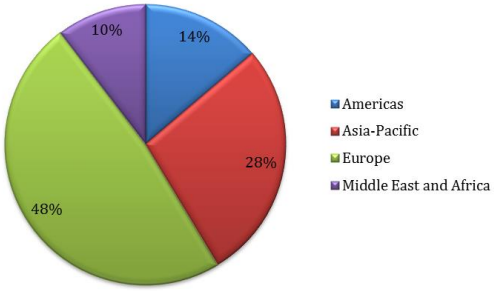
The table below summarizes key information about participation by IFIAR Members in the four Surveys, the numbers of firms and listed PIE audits inspected, and the frequency of at least one finding from inspected listed PIE audits.

IFIAR began collecting and reporting information in 2014 on the number of audits inspected with at least one findings. The table below indicates with dashes those years for which the related information is not available. As disclosed elsewhere in this report, inspection themes were added for the 2013 and 2015 Surveys.

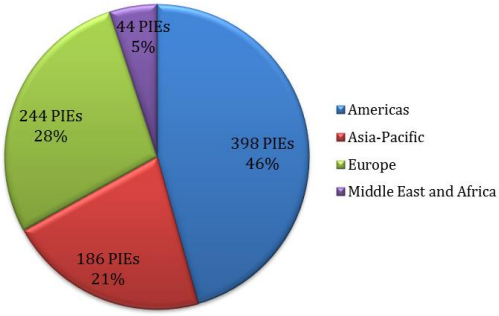
	2015	2014	2013	2012
IFIAR Members Submitting Findings	29	29	30	22
Audit Firms Inspected	98	122	113	98
Listed PIE Audits Inspected	872	948	989	961
Inspected Listed PIE Audits with at Least One Finding	376	449	--	--
Frequency of Inspections with at Least One Finding	43%	47%	--	--

The geographic distribution of Members participating in the 2015 Survey and of audits inspected is illustrated below.

Geographic Distribution of Members Providing Data on Findings from Inspected Audits of Listed PIEs



Geographic Distribution of Listed PIE Audits Inspected



Listed PIEs: Frequency by Inspection Theme

Inspection Theme	2015			2014		
	Number of Listed PIE Audits in which the Topic was Inspected	Listed PIE Audits with at Least One Finding		Number of Listed PIE Audits in which the Topic was Inspected	Listed PIE Audits with at Least One Finding	
		#	%		#	%
Internal Control Testing	710	160	23%	638	155	24%
Audit of Allowance for Loan Losses and Loan Impairments	165	37	22%	244	31	13%
Inventory	365	71	19%	409	64	16%
Fair Value Measurement	661	118	18%	795	156	20%
Revenue Recognition	688	105	15%	732	104	14%
Group Audits	383	55	14%	506	53	10%
Risk Assessment	832	114	14%	652	45	7%
Adequacy of Financial Statement Presentation and Disclosures	570	68	12%	633	79	12%
Substantive Analytical Procedures	384	44	11%	476	66	14%
Use of Experts and Specialists	326	29	9%	446	47	11%
Adequacy of Review and Supervision	434	35	8%	482	46	10%
Engagement Quality Control Review	417	32	8%	515	52	10%
Fraud Procedures	574	43	7%	675	43	6%
Related Party Transactions	300	16	5%	404	33	8%
Audit Report	461	15	3%	Not collected	Not collected	Not collected
Audit Committee Communication	592	10	2%	475	13	3%
Going Concern	321	5	2%	418	23	6%

The following table reports the total number of findings by theme. Because a single inspected audit may have more than one finding, *the total number of findings* for a theme below does not necessarily equal the *number of audits with at least one finding* for the same theme in the table above.

Listed PIEs: Number of Findings by Inspection Theme, 2015-2012

Inspection Themes	2015	2014	2013	2012
Internal Control Testing	173	178	156	117
Fair Value Measurement	158	205	217	169
Risk Assessment	131	49	59	Not collected
Revenue Recognition	116	114	104	86
Inventory	86	69	76	57
Adequacy of Financial Statement Presentation and Disclosures	85	101	120	109
Group Audits	70	75	89	75
Substantive Analytical Procedures	50	79	55	75
Adequacy of Review and Supervision	49	55	58	115
Fraud Procedures	46	54	65	Not collected
Audit of Allowance for Loan Losses and Loan Impairments	45	46	55	43
Engagement Quality Control Review	39	53	78	116
Use of Experts and Specialists	35	54	42	41
Related Party Transactions	17	40	28	44
Audit Report	15	Not collected	Not collected	Not collected
Audit Committee Communication	10	14	34	Not collected
Going Concern	5	24	24	25
	1,130	1,210	1,260	1,072

2. SIFI Audit Inspection Findings

The table below summarizes key information about participation by IFIAR Members in the four Surveys, the numbers of firms and SIFI audits inspected, and the frequency of at least one finding from inspected SIFI audits.

IFIAR began collecting and reporting information in 2014 on the number of audits inspected with at least one findings. The table below indicates with dashes those years for which the related information is not available. As disclosed elsewhere in this report, inspection themes were added for the 2013 and 2015 Surveys.

	2015	2014	2013	2012
IFIAR Members Submitting Findings	14	17	13	10
Audit Firms Inspected	34	41	29	28
SIFI Audits Inspected	96	148	95	108
Inspected SIFI Audits with at Least One Finding	49	60	--	--
Frequency of Inspections with at Least One Finding	51%	41%	--	--

SIFIs: Frequency by Inspection Theme

Inspection Theme	2015			2014		
	Number of SIFI Audits in which the Topic was Inspected	SIFI Audits with at least One Finding		Number of SIFI Audits in which the Topic was Inspected	SIFI Audits with at least One Finding	
		#	%		#	%
Audit of Allowance for Loan Losses and Loan Impairments	53	27	51%	95	16	17%
Insufficient Challenge and Testing of Management's Judgments and Assessments	43	18	42%	92	13	14%
Internal Control Testing	85	34	40%	98	26	27%
Valuation of Investments and Securities	70	19	27%	122	33	27%
Use of Experts and Specialists	31	8	26%	81	9	11%
Group Audits	20	5	25%	36	4	11%
Risk Assessment	84	18	21%	81	3	4%
Testing of Customer Deposits and Loans	22	5	23%	37	4	11%
Audit Methodology including Programs and Tools	27	5	19%	39	7	18%
Adequacy of Financial Statement Presentation and Disclosures	33	6	18%	85	6	7%
Fraud Procedures	29	2	7%	84	5	6%
Substantive Analytical Procedures	28	2	7%	69	6	9%
Audit Committee Communication	40	1	3%	73	2	3%
Audit Report	32	0	0%	Not collected	Not Collected	Not Collected

SIFIs: Number of Findings by Inspection Theme, 2015-2012

Inspection Themes	2015	2014	2013	2012
Internal Control Testing	37	36	39	33
Audit of Allowance for Loan Losses and Loan Impairments	31	21	42	15
Use of Experts and Specialists	22	9	8	Not collected
Risk Assessment	22	4	10	Not collected
Valuation of Investments and Securities	22	42	26	32
Insufficient Challenge and Testing of Management's Judgments and Assessments	20	13	21	12
Testing of Customer Deposits and Loans	7	6	3	10
Audit Methodology including Programs and Tools	7	11	1	9
Group Audits	6	4	8	2
Adequacy of Financial Statement Presentation and Disclosures	6	7	9	4
Substantive Analytical Procedures	2	6	12	Not collected
Fraud Procedures	2	5	7	Not collected
Audit Committee Communication	1	2	2	Not collected
Audit Report	0	Not collected	Not collected	Not collected
	185	166	188	117

3. Quality Control Systems Inspection Findings

The table below summarizes key information about participation by IFIAR Members in the four Surveys and the numbers of audit firms inspected for firm-wide quality control systems.

	2015	2014	2013	2012
IFIAR Members Submitting Findings	33	30	30	23
Audit Firms Inspected	101	123	134	109

Quality Control Systems: Number of Findings by Inspection Theme

Inspection Theme	2015	2014	2013	2012
Engagement Performance	222	377	380	261
Human Resources	77	111	146	166
Independence and Ethical Requirements	73	109	104	130
Monitoring	63	74	93	77
Client Risk Assessment, Acceptance, and Continuance	52	53	78	100
Leadership Responsibilities for Quality within the firm (i.e., Tone at the Top)	21	45	43	33
	508	769	844	767

4. Overall Changes in Audit Quality

IFIAR Members were asked in the 2014 and 2015 Surveys to indicate which among a number of categories best describes any significant changes in audit quality observed in their jurisdictions compared to the prior inspection cycle. Not all Members that submitted information on their inspection findings responded to this question. The responses received, summarized below, indicate mixed views about overall changes in audit quality. These views may be based on the judgment of the responding IFIAR Members, and may or may not reflect an evaluation of audit quality based on objective and/or measureable factors.

	# of Members	
Observation about Overall Changes in Audit Quality	**2015**	**2014**
Overall improvement	6	7
Overall decline	1	1
Both improvement and decline	5	6
No significant overall change	14	11
	26	25

IFIAR's SCWG performed a preliminary review to identify those international standards that address the topics and audit procedures related to the areas with the greatest level and frequency of observed inspection findings. This summary of related standards is provided for information, and does not necessarily imply an IFIAR view about any individual standard.

Table B-1: Engagement Level Findings *(Items marked with an * are included in the 2015-2016 IAASB work plan.)*

INSPECTION THEME	KEY IAASB STANDARDS RELATED TO THE INSPECTION THEME
Internal control testing	- ISQC 1 and ISA 220 on Quality Control * - Professional skepticism * - ISA 315 "*Identifying and assessing the risks of material misstatement through understanding the entity and its environment*" * - Data-analytics * - ISA 330 "*The auditor's responses to assessed risks*"
Fair value measurement [20]	- ISQC 1 and ISA 220 on Quality Control * - Professional skepticism * - ISA 540 "*Auditing accounting estimates, including fair value accounting estimates, and related disclosures*" * - ISA 320 "*Materiality in planning and performing an audit*" - ISA 500 "*Audit evidence*" - ISA 620 "*Using the work of an auditor's expert*"
Risk assessment	- ISQC 1 and ISA 220 on Quality Control * - Professional skepticism * - ISA 315"*Identifying and assessing the risks of material misstatement through understanding the entity and its environment*" * - ISA 330 "*The auditor's responses to assessed risks*"
Revenue recognition	- ISQC 1 and ISA 220, Quality Control * - Professional skepticism * - ISA 315 "*Identifying and assessing the risks of material misstatement through understanding the entity and its environment*" * - ISA 540 "*Auditing accounting estimates, including fair value accounting estimates, and related disclosures*" * - ISA 330 "*The auditor's responses to assessed risks*" - ISA 520 "*Analytical Procedures*"
Group audits	- ISQC 1 and ISA 220 Quality Control * - Professional skepticism * - ISA 600 "*special considerations — audits of group financial statements (including the work of component auditors)*" * - ISA 320 "*Materiality in planning and performing an audit*"

[20] Including, for financial institutions and instruments, allowances for loan losses and impairments and the valuation of investments and securities.

Table B-2: Quality Control Findings *(Items marked with an * are included in the 2015-2016 IAASB work plan.)*

INSPECTION THEME	KEY IAASB STANDARDS RELATED TO THE INSPECTION THEME
Engagement performance	- ISQC 1 and ISA 220 on *Quality Control* *
Independence and Ethical Requirements	- ISQC 1 on *Quality Control* *
Human resources	- ISQC 1 on *Quality Control* *

APPENDIX C: Excerpt from IFIAR's Report on the 2014 Survey

The following text was included in IFIAR's report on the 2014 Survey results. It is included in this report as a reminder of IFIAR's views on measures firms should consider to improve audit quality.

Audit firms should pursue initiatives to improve audit quality and the consistency of audit execution across their firms. This often begins with a thorough evaluation and understanding of the root causes undermining consistent audit quality.

The measures described below illustrate initiatives that have been discussed by various IFIAR Members with the network firms in their jurisdictions, as well as between the global firm representatives and IFIAR Members through the [GAQ] Working Group. Some audit firms have undertaken actions similar to those mentioned below; these actions are not uniform across firms or across jurisdictions, either in nature or extent. IFIAR will continue to urge action across the global network firms, with the objective of achieving sustainable, consistent audit performance.

Firms should consider developing action plans, focusing on areas such as the examples below:

(a) the culture of the firm, including messages from the leadership of the firm focused on audit quality and consultation on complex audit issues;

(b) the experience and expertise of partners and staff, including consideration of effective use of experts;

(c) timely supervision and review, including greater senior-level involvement in working with audit teams in the planning and execution of audits, and new or increased real-time quality reviews of engagements; and

(d) accountability, including impacts on remuneration of engagement partners and review partners for poor audit quality, often extending to firm leadership.

Action plans should be regularly reviewed and updated as to matters such as:

(a) timely and effective implementation;

(b) effectiveness in practice through quality review results and other measures of audit quality; and

(c) the need for new initiatives because earlier initiatives may become less effective over time.

Firms should review their staff structures as to whether changes are needed to ensure the firm has access to resources with appropriate experience and expertise for increasingly

complex audits. Increasing complexity in financial reporting requirements, company business models and judgments on accounting estimates mean that audits require audit staff with a range of experiences and expertise. Many audits involve a number of types of experts, including, for example, valuation specialists, actuaries, geologists, and in the areas of financial instruments and information technology.

While auditors have the primary responsibility for audit quality, there are actions that others can take to promote and support audit quality. For example, non-executive directors in many jurisdictions are charged with recommending audit firm appointments and setting audit fees. Audit committees can assess the commitment of the auditors to audit quality and their level of professional skepticism, monitor how the audit draws on experts in complex aspects of the audit, and have good two-way communication with the auditor about concerns and risk areas.