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MEDIA RELEASE

GLOBAL AUDIT INSPECTION SURVEY FINDS RECURRING AUDIT DEFICIENCIES IN SAME AREAS

Singapore, 16 March 2015 – The latest global survey of audit inspections by the International Forum of Independent Audit Regulators (IFIAR) has found recurring and high levels of deficiencies in key areas of public company audits. In IFIAR’s third annual report of audit inspection findings, fair value measurements, internal control testing and revenue recognition were amongst the common and persistent deficiencies noted in vital aspects of public company audits.

2 Singapore, a founding member of IFIAR, was one of the 29 IFIAR members that contributed to IFIAR’s 2014 Inspection Findings Survey. IFIAR members have called on audit firms to place as high priority, the need to improve audit quality and the consistency of audit execution across their national firms and international audit firm networks.

3 The type of findings observed in the global survey correspond with those observed in ACRA’s own audit inspections under the Practice Monitoring Programme (PMP). In recent years, key steps have been taken to raise the quality of audits. This includes the enhancement of the PMP to a more risk-focused programme as well as raising the practical experience requirements for those applying to be public accountants. The enhanced PMP has enabled ACRA to focus on key risk areas that truly matter and inspect more audit engagements annually.

4 Said ACRA’s Chief Executive, Mr Kenneth Yap, “Singapore has maintained a consistently high quality of audit, although some of the deficiencies observed by IFIAR’s survey do feature in our own inspection finding. Nevertheless, audit quality is constantly a work-in-progress, and we will continue to take all necessary steps to further raise the quality of audit. One upcoming initiative is to have audit firms share their audit quality indicators as a gauge to assess improvements in audit quality amongst firms in Singapore.”

5 The IFIAR inspection report comprises key findings of significant audit firms, particularly those affiliated with the six largest global networks, and their inspections of 948 company audits of listed public interest entities, systemically important

financial institutions and the overall quality control systems in place within the audit firms.

6 Due to the composition of firms inspected and variation in the thematic focus of some IFIAR members' inspections, the survey results do not provide an adequate basis for year-on-year comparison of audit quality trends. Nonetheless, they provide useful insights on the areas of improvement for audit firms to focus their action plans on.

7 At the global level, IFIAR is engaging the six largest network firms on the root causes of these audit deficiencies, as well as challenging the robustness of the action plans taken to address these deficiencies.

8 Please refer to IFIAR's press release in Annex A for more information on the IFIAR's global survey of audit inspection findings.

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About ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession.

The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants. As at 28 February 2015, 465,852 business entities and 1036 public accountants practising in public accounting firms, accounting limited liability partnerships and accounting corporations are registered with ACRA.

For more information, please visit www.acra.gov.sg



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**International Audit Regulators Express Concern
Over Continued Significant Deficiencies in Audits of Public Companies
*IFIAR Calls for Root Cause Analysis and Responsive Action by Firms***

London, United Kingdom, March 3, 2015 – The recurrence of high levels of deficiencies in key areas of public company audits around the world demonstrates the need for audit firms to pursue initiatives to improve audit quality and the consistency of audit execution, the International Forum of Independent Audit Regulators (IFIAR) reported today.

IFIAR's *2014 Survey of Inspection Findings* found the highest number of audit inspection deficiencies in the areas of fair value measurement, internal control, and revenue – topics among the core building blocks of audited financial statements. The rate of deficiencies in these audited areas, measured as the percentage of all inspected audits for these areas, also is high:

- Internal control testing, 24 percent
- Fair value measurement, 20 percent
- Revenue recognition, 14 percent

For audits of systemically important financial institutions, or SIFIs, including global banks and insurers, the survey found the highest number of deficiencies related to auditing of allowance for loan losses and loan impairments, internal control testing, and auditing the valuation of investments and securities.

“We continue to see high levels of inspection deficiencies in vital areas of public company audits. This is a problem for investors and stakeholders around the world,” said Lewis H. Ferguson, IFIAR Chair and Board member of the U.S. Public Company Accounting Oversight Board (PCAOB).

Report on 2014 Inspection Findings

[IFIAR's Report on 2014 Inspection Findings Survey](#) summarizes key inspection results from audits of public companies, including systemically important financial institutions, submitted by 29 IFIAR members from around the world.

These results came from inspection reports issued during the members' most recent annual reporting periods that ended by July 2014.

- The areas with most deficiencies in inspected audits of listed public interest entities, or public companies, relate to auditing fair value measurements; internal control testing; and revenue recognition.
- The areas with most deficiencies in audits of systemically important financial institutions, including global systemically important banks and insurers, relate to auditing of allowance for loan losses and loan impairments; internal control testing; and auditing of the valuation of investments and securities.
- Audit firms' own quality control systems had the highest number of inspection findings in the areas of engagement performance; independence and ethics requirements; and human resources.

Most of these findings are consistent with the results of IFIAR's [prior surveys](#), although the survey does not provide an adequate basis for year-over-year trend analysis of the quality of audit performance.

Inspection findings related to audit engagements are deficiencies in audit procedures that indicate that the audit firm did not obtain sufficient appropriate audit evidence to support its opinion. Findings identify areas where the auditor's performance fell 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.

The 29 IFIAR member countries reporting 2014 inspection findings inspected 948 public company audits and found deficiencies in 47 percent. Seventeen IFIAR member countries reported 2014 inspection findings on audits of systemically important financial institutions. Those members inspected 148 financial institution audits, of which 41 percent had deficiencies.

IFIAR members also reported their impression as to whether audit quality in their jurisdictions had changed. Although it is encouraging that almost 30 percent of the respondents observed overall improvement, this is offset by almost half of the respondents noting no significant overall changes, and by mixed observations by the other respondents. This underscores that further efforts are needed.

Consistency in execution of high quality audit is a priority of IFIAR members, as 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, often with a common name. Through IFIAR, audit regulators seek to coordinate their understanding and assessments of trends in and challenges 3

to audit quality. Still, it is important to keep in mind that the level of deficiencies among individual regulators' jurisdictions can differ significantly.

The findings discussed in the survey are primarily from inspections of audit firms affiliated with the six largest international audit firm networks, which are BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited. IFIAR and its members will continue to discuss the findings with the networks and the individual member firms in pursuit of audit regulators' mandates to improve audit quality.

In many cases, a regulator's response to an inspection finding is to require the audit firm to perform additional procedures necessary to complete the audit satisfactorily.

Root-Cause Analysis Needed

IFIAR's dialogue with the largest international audit firms has expanded all parties' awareness of the need for deeper understanding of the causal factors of the underlying challenges to audit quality. This requires root cause analysis and responsive action.

"It is encouraging to see that root cause analysis is high on the agenda, both in the discussions at the global level between IFIAR and the networks comprising the Global Public Policy Committee, and within individual jurisdictions. I hope that the effects of the analysis of causal factors and the measures taken by networks and member firms in response to those causal factors will increasingly become observable in future surveys," said Janine van Diggelen, IFIAR Vice Chair, and Head of the Audit & Reporting Quality Division at the Netherlands Authority for the Financial Markets (AFM).

IFIAR believes that enhancing the 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.

IFIAR encourages audit firms to consider initiatives to improve audit quality and the consistency of audit execution across their national firms and international audit firm networks. This includes reviewing staffing structures to ensure that sufficient and appropriate expertise and experience is available for increasingly complex entities and audits that require significant judgments.

Knowledge Sharing to Improve Audit Quality

IFIAR's report is published as 163 inspectors from 43 of IFIAR's members meet in London for a three-day workshop. The annual IFIAR workshop is a platform for knowledge sharing and collaboration in pursuit of its members' shared objective of high quality audit performance. 4

The workshops give audit inspectors the opportunity to address recurring, common findings and themes identified by the survey. The workshops help to create awareness among participants of common issues, for consideration in IFIAR members' annual work programs and inspection approaches.

[A fact sheet on the 2014](#) survey also is available.

About IFIAR

IFIAR is composed of 51 independent audit regulators from jurisdictions in Africa, the Americas, Asia, Europe, the Middle East and Oceania. It was formed in 2006 to provide a forum for regulators to share knowledge of the audit market environment and the practical experience gained from their independent audit regulatory activity.

IFIAR publishes the results of its surveys to inform investors, regulators, the financial community, auditors and the public about the current state of inspections of audits of public companies, including financial institutions, around the world. For further information about IFIAR and its activities, visit ifiar.org.