MEDIA RELEASE

IFIAR’s Report, Survey of Inspection Findings 2018

Johannesburg, 06 June 2019 - The International Forum of Independent Audit Regulators (IFIAR), of which the Independent Regulatory Board for Auditors (IRBA) in South Africa is a member, released its report Survey of Inspection Findings 2018 (the IFIAR Report) on 16 May 2019. This is IFIAR’s seventh annual survey of its members’ findings from inspections of audit firms in 45 jurisdictions across the globe.

The South African Institute of Chartered Accountants (SAICA) welcomes the IFIAR report and appreciates the role that it plays in enhancing audit quality. The highest standard of audit quality is essential for the continued relevance and value of the external audit in enhancing the credibility of financial reporting, which in turn contributes to confidence in and the stability of financial markets. SAICA values all input that can be used as a basis to better understand audit areas that may require improvement and use such input to inform our initiatives on how best to respond in terms of supporting our members. The IFIAR Report provides a transparent and useful context for discussions about areas for improvement in terms of achieving consistent high quality audits.

The IFIAR Report focuses on inspections conducted at the six largest global audit firm networks (i.e. the Global Public Policy Committee (GPPC) networks), namely: BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. It provides information about two categories of inspection activities, namely: inspections performed on firm-wide systems of quality control and inspections of individual audit engagements.

The IFIAR Report also includes additional initiatives, beyond inspections, pursued by individual audit regulators that are designed to improve audit quality. These initiatives include practices by audit regulators to report the results of inspections not only to the inspected audit firms, but also audit committees/those charged with governance and the public. This is a new layer of reporting that was not included in the prior years’ reports. SAICA welcomes and supports this knowledge-sharing initiative taken by IFIAR in promoting the interests of consistent, high quality audits globally.

The IFIAR notes in its Report that the survey results are not a precise measure and not the sole factor when considering developments in firms’ progress in improving audit quality. The deficiencies identified and reported during the course of an inspection form one of the many indicators used to assess audit quality. The results do, however, promote the advancement of regulatory dialogue about audit quality. SAICA encourages all audit firms to use the IFIAR Report as a reference point to enhance audit quality in their unique practice circumstances.
IFIAR collected information about two categories of inspection activities – those that relate to firm-wide systems of quality control and those that relate to individual audit engagements.

1. Firm-wide systems of quality control inspection results

The survey’s inspection themes for quality control findings are based on the six elements of quality control, as contained in the International Standard of Quality Control (ISQC 1).

At firm level, 132 (2017: 111) audit firms from the GPPC networks were inspected, as reported by 37 (2017: 32) audit regulators. Three of the firm-wide quality control elements with highest rates of inspection findings were: **Engagement Performance; Independence and Ethical Requirements;** and **Human Resources.**

Notable findings relating to each of the above mentioned elements include:

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<thead>
<tr>
<th>Inspection theme</th>
<th>Theme sub category – Notable findings identified</th>
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<tr>
<td>Engagement performance</td>
<td>- Inadequacies in audit methodology and guidance</td>
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<td></td>
<td>- Insufficient depth/extent of engagement quality control reviews</td>
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<td></td>
<td>- Failure to establish/implement policies and procedures for sufficient, timely engagement supervision and review</td>
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<td>Independence and Ethical Requirements</td>
<td>- Failure to monitor effectively firm staff and partner personal independence</td>
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<td>- Failure to consider and evaluate non-audit and/or audit-related services provided to the issuer</td>
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<td>Human Resources</td>
<td>- Non-compliance with the firms’ training and learning plans</td>
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<td>- Failure to evaluate audit quality as part of partners’ performance evaluations and admissions</td>
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For the first time in 2018, data on **Client Risk Assessment, Acceptance and Continuance** was collected. The most significant finding for this element was that insufficient procedures were performed and/or reliable information obtained to objectively assess the integrity of a new client. Data relating to **Leadership Responsibilities for Quality within the firm** was also collected for the first time in 2018, therefore, there is no comparative information from previous years.

Deficiencies at firm level adversely impact a firm’s overall environment and culture established to perform and achieve high quality engagements. This may have a consequential effect on audit quality at individual audit engagement level. In regaining and sustaining the
public interest’s trust in the profession, SAICA encourages audit firms to reflect on their policies and procedures and take the any necessary remedial action required to correct any identified deficiencies. In performing such reflections, firms should be cognisant of the proposed changes as contained in the Quality Management Exposure Drafts recently issued on exposure for public comment by the International Auditing and Assurance Standards Board (IAASB).

2. Engagement-level inspections results

The reported results received from 39 (2017: 33) audit regulators indicated that 921 (2017: 918) audit engagements of listed Public Interest Entities (listed PIEs), performed by 141 (2017: 120) individual firms from the GPPC networks were inspected. The two engagement-level inspection areas with the highest rates of inspection findings were: Auditing of Accounting Estimates and Internal Control Testing.

Notable findings relating to Auditing of Accounting Estimates included
- the failure to assess the reasonableness of assumptions including consideration of contrary or inconsistent evidence when testing accounting estimates; and
- the failure to sufficiently test the accuracy of the data.

Other audit areas where 10% or more of the listed PIE engagements inspected had at least one finding include: Adequacy of Financial Statement Presentation and Disclosure and Revenue Recognition.

The IFIAR Report also collects inspection data specific to audits of Systemically-Important Financial Institutions (SIFI). SIFIs include both banks and insurance companies. In relation to the 2018 IFIAR Report, 15 (2017: 12) audit regulators reported results of the inspections of 40 (2017: 37) SIFI audits. 43% (2017: 54%) of these audits had at least one inspection finding. For SIFI audits, the two audit engagement inspection areas with the highest rates of inspections findings were:
- Adequacy of Financial Statement Presentation and Disclosure; and
- Audit of Allowance for Loan Losses and Loan Impairments.

Overall, the 2018 results continue to indicate a decrease in the number of engagement level findings for listed PIEs. In 2018, 37% of audit engagements inspected had at least one finding. In 2017, the comparative percentage was 40%, while in 2014, this was 47%.

IFIAR and Audit Regulators’ initiatives to improve audit quality

In the 2018 IFIAR Report, IFIAR sought information from Audit Regulators on programmes and initiatives that they have designed, in addition to inspections, to improve audit quality. Responses include:
- 92% have collaborative working arrangement with other regulators, in addition to collaboration through IFIAR and/or with other IFIAR members
- 79% issue publications directed at auditors, while 58% issue publications directed at investors and audit committees
- 51% have direct interactions with audit committees, while 26% have direct interactions with investors
- 63% hold workshops and/or roundtables for engagement with stakeholders

Over and above the IFIAR Report, IFIAR also undertakes the following activities in their efforts to drive transparency and the consistent execution of high quality audits globally:
- IFIAR has established a Global Audit Quality Working Group that seeks to identify broader measures of audit quality, to complement an existing initiative of that group to track reductions in engagement-level inspections findings.
- IFIAR periodically conducts a survey of the Audit Regulators’ enforcement regimes that highlights efforts by the regulators to address audit quality through disciplinary measures and sanctions that influence auditor behaviour.
- There is continuous dialogue with the GPPC networks to improve audit quality. Amongst others, this includes how network firms use the results of their monitoring programmes, including internal inspections and root cause analyses, to identify ways to strengthen their systems of quality control. Annually, each GPPC network presents the results of its internal quality monitoring programme.
- IFIAR has ongoing engagement with international audit and ethics standard setters.

Inherent limitations
The survey’s information on inspections findings is an imprecise tool and neither measures empirically changes in audit quality nor assesses the severity of individual findings. Limitations are inherently imposed by a number of factors, including:
- Audit regulators apply a risk-based approach when selecting individual audit engagements for inspection which means that results cannot be extrapolated to the entire population of audits conducted.
- The survey data does not necessarily reflect the current state of the audit performance because of a time lag. Audit regulators are instructed to submit data related to inspections reports issued to the member firms by 30 June of the survey year, therefore, any actions taken by member firms since then are not reflected in the results of the survey.
- The geographic distribution of audit regulators and listed PIE audits that have been inspected. South Africa forms part of the Middle East and Africa members that contributed 13% (2017: 4%) of the data.
- The inspection methods, including selection methodologies and areas reviewed may also vary.
Despite these limitations, we cannot deny the fact that there is some commonality in the audit inspections findings globally and some level of congruency when comparing the IFIAR survey results to the local IRBA Inspections results released in April 2019.

Conclusion
The audit profession is currently undergoing unprecedented changes in order to drive and enhance audit quality, including changes in auditing standards and ethics requirements and the environment in which audits are performed. Firms and those in leadership position at the firms have an important role to play in bringing about the intended transformation in the audit profession. The IFIAR Report is one of the tools that can be used to inform that transformation, to bring about a renewed sense of public trust and ensure the survival of a robust auditing profession.

SAICA will continue with initiatives to sustain and enhance audit quality. These include proactive engagement with the IRBA Inspections Department, utilising internal committees and other means to inform members about matters relating to the inspections process and educate members about how to overcome common shortfalls identified in complying with the auditing standards.

From a standard-setting point of view, SAICA continues to participate in the local and international auditing related standard-setting processes through contributing to the outreach activities of the IAASB, raising awareness and soliciting input regarding ongoing projects locally and internationally, and submitting comments on proposed standards and other developments. Improving consistency in the execution of high-quality audits is an important focus area for us and we are committed to playing our part.

The full IFIAR Report can be accessed via the IFIAR website.

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