



**INTERNATIONAL FORUM OF
INDEPENDENT AUDIT
REGULATORS (IFFIAR)
2013 ANNUAL REPORT & ACCOUNTS**

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IFIAR's Mission

As of December 31, 2013, the International Forum of Independent Audit Regulators' (IFIAR) membership included independent audit regulators from 46 jurisdictions representing Africa, Asia, Australia, Europe, North America and South America.

Throughout 2013, IFIAR continued to focus 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.

VISION FOR IFIAR IN THE FUTURE

During the 2013 IFIAR Plenary Meeting, the Officers identified the following six key areas as the Officers' vision for IFIAR in the future:

- To be recognized as a global authority on audit quality issues;
- To be a leading forum for cooperation and a global clearinghouse for the

exchange of information on auditing issues;

- To agree on and implement the most effective means possible to get audit firms to take meaningful actions in response to inspection findings that occur and recur consistently across the jurisdictions represented by IFIAR Members, and to develop a common taxonomy to improve communication among regulators in this regard;
- To broaden and deepen its contacts with non-IFIAR audit regulators;
- To increase its contacts and interactions with other international organizations, both private and public, that work on audit quality issues as well as with both national and international groups that represent investor interests, investors, and audit committees, all with a view to improving audit quality globally; and
- To design and implement an ever more effective public communications strategy in the near future, including more frequent contacts by IFIAR representatives with relevant media about the work of IFIAR.

Governance

MEETINGS AND WORKSHOPS

In 2013, IFIAR moved to one annual Plenary Meeting and one Interim Meeting. All Members were invited to attend IFIAR's annual Plenary Meeting which was held in Noordwijk, the Netherlands, in April 2013. IFIAR's first Interim Meeting was held in Paris, France, in late October and was attended by the Officers, Advisory Council and the Chairs of the Working Groups.

OFFICE BEARERS

In April 2013, Lewis Ferguson, Board Member of the United States Public Company Accounting Oversight Board (PCAOB) was elected Chair of IFIAR and Janine van Diggelen, Head of Audit & Reporting Quality Division, Netherlands Authority for the Financial Markets (AFM) was elected as Vice-Chair. Lew Ferguson succeeded Paul George, Executive Director of Conduct at the UK FRC, as IFIAR Chair. Lew Ferguson had previously served as Vice-Chair of the organization until April 2013. Both the Chair and Vice-Chair were elected to serve two year terms which will expire at the conclusion of the 2015 IFIAR Plenary Meeting.

The Officers are assisted and advised by a seven member Advisory Council. During the 2013 IFIAR Plenary Meeting, IFIAR Members from Germany (AOC), Japan (FSA/CPAAOB) and Spain (ICAC) concluded their terms as Advisory Council Members. The Netherlands (AFM) also rotated off the Advisory Council as Officers and Members of the Advisory Council are prohibited from being from the same jurisdictions. As of April 2013, the current Advisory Council Members are Abu Dhabi (ADAA), Australia (ASIC), Canada (CPAB), France (H3C),

Singapore (ACRA), Sri Lanka (SLAASMB) and the United Kingdom (FRC).

WORKING GROUPS

IFIAR currently has the 6 following Working Groups:

Enforcement Working Group

- Chair: Takashi Nagaoka, FSA, Japan
- Vice Chair: Claudius Modesti, PCAOB, USA
- Responsible for providing a forum for the Members' enforcement officials to exchange information on effective approaches for investigating and adjudicating alleged auditor misconduct, as well as emerging trends in such enforcement matters.

Global Public Policy Committee (GPPC) Working Group

- Chair: Brian Hunt, CPAB, Canada
- Responsible for coordinating IFIAR's ongoing dialogue with the member firms of the GPPC, which comprise the six largest international audit networks (BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers).

Inspection Workshop Working Group

- Chair: Tim Volkmann, APAK, Germany
- Responsible for organizing the annual Inspection Workshop in coordination with an IFIAR Member serving as the Workshop host.

International Cooperation Working Group

- Chair: Doug Niven, ASIC, Australia
- Responsible for considering the ways in which IFIAR Members can cooperate and share information relating to audit firm and audit engagement inspections and identifying areas where IFIAR Members can work more efficiently in collaboration.

Investor Working Group

- Chair: Steven Harris, PCAOB, US
- Responsible for organizing IFIAR's dialogue with investor representatives.

Standards Coordination Working Group

- Chair: Bernard Agulhas, IRBA, South Africa
- Responsible for establishing a forum for IFIAR Members to share views and concerns about pronouncements from the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), with a view to helping members consider and incorporate concerns from other members in their submissions to the IAASB or IESBA.
- The SCWG is also responsible for the preparation of IFIAR comment letters on these matters.

Chair's Report



Lew Ferguson
IFIAR Chair

In 2013, IFIAR has been focused on changes in the governance and operation of the organization that should enhance its ability to play a larger role in the quest to improve audit quality around the world. These changes began with a number of amendments to IFIAR's Charter and in its operations in order to streamline how the organization makes decisions and conducts its business. The organization continues to build on the activist tradition of its past leadership, especially of the previous Chair, Paul George, and to pursue new ways to increase cross border cooperation in audit oversight.

I became Chair of IFIAR at the April 2013 Plenary Meeting, and Janine van Diggelen, became IFIAR's Vice-Chair. IFIAR is grateful to the Autoriteit Financiële Markten (AFM) for their generosity in hosting that event in Noordwijk, the Netherlands. The plenary meeting was attended by 141 regulators from 42 jurisdictions, as well as six observers, and a number of distinguished speakers, members of the profession and investor representatives. At that meeting, we also welcomed five new Members on the Advisory Council: the Australian Securities & Investments Commission (ASIC, Australia), the Haut Conseil du commissariat aux comptes (H3C, France), the Accounting and Corporate Regulatory Authority (ACRA, Singapore), the Accounting and Auditing Standards Monitoring Board (SLAASMB, Sri Lanka), and the Financial Reporting Council (FRC, United Kingdom). They join existing Council Members the Canadian Public Accountability Board (CPAB, Canada) and the Abu Dhabi Accountability Authority (ADAA, Abu Dhabi).

The Advisory Council, together with the Officers and IFIAR's Treasurer, Frank Schneider of Switzerland's Federal Audit Oversight Authority (FAOA), comprise the day-to-day management structure of IFIAR. The contributions of the Advisory Council Members and Frank to IFIAR's success have been invaluable.

The significant achievements of IFIAR at the 2013 Plenary included: ratification of Charter changes primarily focused on enhancing IFIAR's ability to conduct meaningful work through revision of the organization's decision-making procedures; confirming that communications would be made pursuant to a written communications policy, and creation of an Enforcement Working Group. The Members also approved the 2013-2015 Officers' Work Plan. The Plan's

highlights include the addition of several new topics on which the Officers hope to focus IFIAR's Members for discussions and thought leadership; a focus on outreach to new members and developing audit regulators; and enhanced interaction with various constituents and standard setters.

In 2013, IFIAR relied heavily on its Working Groups and focused on enhancing the interaction with, and support for, the Working Groups. In March 2013, the Federal Audit Oversight Authority (FAOA) of Switzerland kindly hosted the annual IFIAR Inspection Workshop in Zurich, and welcomed 118 participants, representing 38 of IFIAR's then 44 Members. In October 2013, the Officers, Treasurer, Advisory Council and Working Group Chairs met at IFIAR's first Interim Meeting to engage in a high-level dialogue concerning the management of the organization. Approved by the Members at the Bangkok Plenary Meeting, the Interim Meeting is one of the many governance innovations implemented in 2013. IFIAR thanks the Haut Conseil du commissariat aux comptes (H3C) for hosting the first, very successful Interim Meeting as well as three in-person Working Group meetings immediately preceding the Interim Meeting. The Officers found that the Interim Meeting provided a forum for a meaningful discussion of issues important to IFIAR's management, and also served to enhance collaboration among the various Working Groups.

Another innovation in the area of governance was the creation of a Work Plan for each Working Group and a dashboard for use by the Officers and the Advisory Council. The dashboard shows the status of work being done by the Working Groups; the interaction among the Working Groups; as well as the progress toward the accomplishment of the goals identified by the Working Groups. These tools will be supplemented by effectiveness reviews of the Working Group Chairs and the Officers.

The 2013-15 Work Plan and governance changes made in 2013 were designed to encourage IFIAR to communicate more effectively with standard-setting bodies, international organizations and the general public. Taking advantage of a heightened focus in this area and a revised process for communication, IFIAR submitted its first-ever comment letter in 2013, responding to IAASB's proposed and revised standard on auditor reporting. In addition, IFIAR continued and expanded its engagement with other international bodies with a shared interest in audit quality. The Standards Coordination Working Group participated in its first face-to-face meetings with representatives of the international standard setters: the IAASB and IESBA.

In 2013, IFIAR conducted the second annual survey of its Members' inspection findings, building on the lessons learned in conducting the same survey in 2012. The results will be released in 2014. Based in part on these surveys, IFIAR intensified its dialogue with the Financial Stability Board (FSB) and its members in 2013 on IFIAR's efforts to encourage action by global audit firm networks to improve their audit performance. IFIAR's Officers attended four FSB meetings in 2013 on external audit relating to large financial institutions, and have committed to keeping the FSB apprised of IFIAR actions taken to improve audit quality, including continuing to brief the FSB on IFIAR's surveys of inspection findings. The Officers have also deepened IFIAR's dialogue with the International Organization of Securities Commissions (IOSCO), which takes an active interest in the integrity of audits of companies raising capital in the global markets. IFIAR maintained its active role as a member of the Monitoring Group, and participated in its meetings in 2013.

Increased focus on regular and transparent communication with the general public was another important priority for IFIAR in 2013. A major highlight of the next plenary meeting will be the presentation, and anticipated approval, of a new communications policy to be followed by a press plan to implement this new policy. In addition, the Officers addressed several important audiences, developed a set of general purpose slides on IFIAR for use by Members who wish to speak publicly about the organization and its accomplishments and made substantial improvements to the website. The Officers' Work Plan and summaries of the Working Group Work Plans were made public for the first time on IFIAR's website to support enhanced transparency of IFIAR's activities.

Immediately after the 2013 Plenary Meeting, an Outreach Team was created to facilitate IFIAR's efforts to interest and attract new members by establishing contacts with non-member regulators, providing them information about the benefits of IFIAR membership, and assisting them in their development as they aspire to set up their regulatory body in a way that qualifies for IFIAR membership. The Team is ably staffed by representatives from the AOC (Germany), the FRC (United Kingdom) and H3C (France). The Outreach Team furthered its efforts by meeting in person with a number of prospective members at the Public Company Accounting Oversight Board's International Institute in November 2013, and has been planning for a second in-person outreach event during the 2014 Inspection Workshop in Kuala Lumpur.

IFIAR continued to move ahead expeditiously in the four areas of thought leadership outlined in the 2013-15 Work Plan:

- an examination of whether the economic model of the auditing firm contributes to or detracts from audit quality;
- drivers and measurable indicators of audit quality;
- the future role of audit and role and function of the audit report; and
- the role of audit committees and communication between regulators and audit committees.

Work in the Investor and GPPC Working Groups was expanded to include discussion of the role of audit committees and how to facilitate and inspire communication between regulators and audit committees. A survey of the extent to which IFIAR Members have been sharing information was carried out by the International Cooperation Working Group. The results will be used to facilitate discussions initiated in that Working Group, as well as in the Enforcement Working Group, on a possible Multilateral Memorandum of Understanding on cooperation and the exchange of information between audit regulators. In 2013, the Officers began preparations for a survey that will review two of IFIAR's Core Principles, and that review will be conducted in 2014 to give the IFIAR Members and the public more knowledge about how risk-based inspections are conducted around the world and how findings are communicated to audit firms and remediated by them. The newly formed Enforcement Working Group carried out a Pilot Survey of enforcement regimes of the Members of the Working Group. It is expected that this pilot will develop into a full survey of the enforcement regimes of all IFIAR Members.

At the midpoint of our two-year term as IFIAR Officers, Janine and I believe that the organization made important strides in 2013 and is poised to make ever greater contributions to the world of audit oversight in 2014.

We have an ambitious agenda for the year ahead, but my experience with IFIAR gives me confidence that we will accomplish much. I look forward to working with you.

IFIAR'S Activities in 2013

During 2013, IFIAR held one Plenary Meeting, an Interim Meeting and an Inspection Workshop.

HIGHLIGHTS FROM THE IFIAR PLENARY MEETING

Noordwijk, the Netherlands
April 15-17, 2013

The Members elected Lewis Ferguson, Board Member of the US Public Company Accounting Oversight Board (PCAOB), as Chair and Janine van Diggelen, Head Audit & Reporting Quality Division at the Netherlands AFM, as Vice-Chair for two-year terms. Paul George, Executive Director of Conduct at the UK FRC, completed his term as IFIAR Chair and the Members expressed their appreciation of Paul's excellent leadership. Members from Australia, France, Singapore, Sri Lanka and United Kingdom were elected to the IFIAR Advisory Council.

- IFIAR Members updated the IFIAR Charter to improve IFIAR's governance and operations. The Charter changes will facilitate decision-making, the expression of membership views and outreach efforts.
- The Members agreed to the Officers' Work Plan for 2013 to 2015, which emphasizes increased public outreach through comments on proposed international auditing standards, interaction with other international organizations with an interest in audit matters, and increased contacts with the media. The Work Plan encourages IFIAR thought leadership in areas such as appropriate measures of audit quality, and how the governance structures and business models of

large auditing networks contribute to, or detract from, audit quality. The Work Plan also proposes the establishment of an Enforcement Working Group to facilitate cooperation and information sharing on enforcement issues.

- IFIAR Members heard from four prominent investor representatives. The Dutch Investors Association addressed recent auditor oversight developments in the Netherlands and the issue of going concern; the USS Investment Management Ltd. focused on auditor independence, audit quality and audit firm rotation; Hermes Equity Ownership Services discussed professional scepticism; and the founder and CEO of Monex Group Inc. addressed the readability of the audit report.
- IFIAR discussed important audit-related issues with the Global CEOs of the six largest international audit networks, such as how to measure progress in improving audit quality, achieve consistency of execution in audits and encourage an environment conducive to audit quality.
- IFIAR Members shared their findings from recent audit inspections, agreed to conduct a second survey of Members' inspection findings and discussed recent developments in audit policy.
- IFIAR Members heard from, and provided feedback to, the International Ethics Standards Board for Accountants (IESBA) on issues including IESBA's

governance, agenda and on-going projects.

- IFIAR also welcomed the admission of audit regulators from Indonesia and Slovenia, bringing the total number of IFIAR Members to 46.

HIGHLIGHTS FROM IFIAR'S WORKING GROUPS

Enforcement Working Group

The Enforcement Working Group ("EWG") was launched in July 2013 in response to the IFIAR Members' agreement to promote stronger coordination in the area of investigations and enforcement of regulatory standards and laws, in order to enhance investor protection and improve audit quality. The group provides a forum for enforcement officials to exchange information on effective approaches for investigating and adjudicating alleged auditor misconduct, as well as emerging trends in such enforcement matters.

Through monthly conference calls, the EWG has initially focused on conducting a Pilot Survey on the Enforcement Regimes ("Pilot Survey") of the EWG Members. The purpose of the Pilot Survey is to develop an understanding of the mandates, objectives, and legal authority of EWG Members' enforcement regimes, with the goal of sharing information and fostering discussion of current and emerging enforcement issues, methodology, and techniques. Aggregated results of the Pilot Survey will be shared at the next IFIAR Plenary Meeting in April 2014. A broader survey of all IFIAR Members concerning their enforcement regimes will be developed based on the experience gained through the Pilot Survey.

In December, the EWG began work on drafting a Multilateral Memorandum of Understanding ("MMoU") on enforcement cooperation, in close cooperation with the

International Cooperation Working Group. Intensive discussion at the EWG has identified that most of the difficult issues to be resolved are common across areas other than enforcement, which has led to a decision to wait for the time being for the result of the high-level policy discussion at the ICWG. The EWG may resume the project at an appropriate time in the future.

The EWG is chaired by Takashi Nagaoka from the Financial Services Agency of Japan. Claudius Modesti of the Public Company Accounting Oversight Board in the United States serves as Vice-Chair. The EWG also includes IFIAR Members from Australia, Finland, Germany, Netherlands, Portugal, Switzerland, Chinese Taipei, and the United Kingdom.

GPPC Working Group

Through IFIAR's Global Public Policy Committee (GPPC) Working Group, IFIAR carries out an ongoing dialogue with the six largest international audit networks with the objective of improving audit quality on a global basis.

During 2013, the GPPC Working Group met with representatives from each of the six GPPC networks on three different occasions (February, June and October) to discuss a variety of topics, including:

- Processes followed and findings arising from the networks' 2012 internal quality monitoring reviews;
- Challenges and potential solutions for developing a mutually acceptable framework for collating and analyzing the data obtained from engagement file reviews. The intended purpose of this framework is to provide a consistent and reliable basis for identifying audit quality issues and assessing the effectiveness of investments made by the networks to improve in these areas over time;

- Approaches to root cause analysis and conclusions reached;
- Actions taken by the networks to improve the effectiveness of engagement quality control reviews, the quality of group audits, the design and execution of substantive analytical procedures, tests of internal control, and audits of fair value measurements and revenue recognition.

In addition, at the April 2013 Plenary Meeting in Noordwijk, IFIAR Members and GPPC network representatives, including four Global CEOs, discussed the importance of consistently executing high quality audits, the sustainability of the profession, and how to measure reliably progress made in improving audit quality.

The GPPC Working Group is chaired by Brian Hunt, CEO of the Canadian Public Accountability Board (CPAB), and includes IFIAR Members from Australia, France, Germany, Japan, Netherlands, Singapore, the UK and the USA.

Inspection Workshop Working Group

A core activity of independent audit regulators is the ongoing inspections of audit firms. With Member countries from all continents, IFIAR is in a unique position to provide a forum through its annual Inspection Workshops for independent audit regulators to meet and discuss inspection processes, learn from each other, and consider similarities and differences among their inspection practices and methodologies. This information sharing leads to a better understanding of the Members' respective oversight regimes and the identification of better practices in inspecting audit firms. It also promotes greater consistency across regulators, and provides opportunities to discuss approaches to overseeing global audit firms in a coordinated manner.

IFIAR's 7th Inspection Workshop was held in March 2013 in Zurich. The two and half day Workshop started with a key note address by Philip Turner, Director of Policy in the Monetary and Economic Affairs Department of the Bank for International Settlements (BIS). After that, the IFIAR Chair and Richard Thorpe, FSB Advisor on Accounting and Auditing, provided an overview of the results of a survey conducted by IFIAR at the request of the FSB in relation to findings from IFIAR Members' inspections. This was followed by a panel discussion with senior leaders from various jurisdictions to explore their views on the results of the IFIAR survey, and how they might impact the individual inspection regimes.

Day two of the Workshop started with a presentation by the Chair of the IFIAR GPPC Working Group, providing an update of the work of the group. This was followed by two break-out sessions on key topics being discussed with the GPPC (professional scepticism, group audits, engagement quality control review (EQCR), and revenue recognition) and on GPPC network firms' efficiency programs, including activities like off-shoring.

The 13 elective sessions on day two and three of the events covered the following topics: inspections of bank audits, common elements of a risk-based inspection approach, evaluation of firms' action plans, inspection reporting, inspection findings relating to the audit of goodwill impairment, quality control procedures for audit inspections, recruitment of inspection staff, substantive analytical procedures, professional judgment, use of IT-experts in the review process, reviewing audits of groups headed by "letterbox companies", working effectively with corporate reporting review teams and the inspection of a firm's policies and procedures to ensure independence. In order to better meet the expectations of participants with different

levels of experience, some of these sessions were offered, for the first time, at different levels (basic/advanced).

The attendees of the Inspection Workshops are generally managers of inspections programs and their senior staff, representing almost all IFIAR Members. This broad attendance reflects the high-level interest and value of the Inspection Workshops.

The next Workshop will be held in March 2014 in Kuala Lumpur at the invitation of the Audit Oversight Board of the Securities Commission of Malaysia.

IFIAR's Inspection Workshops are prepared and led by the Inspection Workshop Working Group. The Group is chaired by Tim Volkmann of the German Auditor Oversight Commission, and includes IFIAR Members from Australia, Canada, France, Japan, Norway, UK and USA.

International Cooperation Working Group

The International Cooperation Working Group ("ICWG") considers and reports to the IFIAR membership on ways in which Members can cooperate and share information on Members' activities so as to enhance the effectiveness and efficiency of audit oversight processes and contribute to audit quality. In particular, the ICWG identifies areas where IFIAR Members can work more effectively in collaboration than in isolation, and then designs and implements work streams to facilitate such collaboration.

During 2013, the main activities of the ICWG have been:

- Developing a draft multilateral memorandum of understanding for the sharing of information between IFIAR Members in the context of areas such as investigations and

enforcement, inspections and registration of auditors;

- Conducting a survey of IFIAR Members to assist IFIAR Members in understanding the extent and effectiveness of information sharing currently taking place between those regulators;
- Finalizing a paper for IFIAR Members containing considerations to assist Members in relation to co-operation between audit oversight regulators in exceptional circumstances where increased communication and exchange of information would serve the public interest consistent with those regulators' mandates, other than in response to a request for information from another audit regulator;
- Developing pro forma requests for information under bilateral arrangements; and
- Exchanging information on developments on international cooperation in the jurisdictions and regions of Working Group Members.

The ICWG is chaired by Doug Niven from ASIC of Australia and includes IFIAR Members from Canada, France, Italy, Japan, Korea, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

Investor Working Group

During 2013, the Investor Working Group continued its efforts to enhance IFIAR's dialogue with investors by hosting IFIAR's sixth investor session and increasing the transparency of IFIAR's work with investors. The Investor Working Group began 2013 by issuing a background paper in preparation for IFIAR's 2013 Plenary Meeting in Noordwijk. The paper was prepared to provide invited investor panelists and the IFIAR membership with

background on potential topics for discussion, as well as the format for the investor session at Noordwijk. In addition, the Investor Working Group circulated in advance of the meeting written materials from the panelists as well as their bios to the membership.

The investor session for 2013 was divided into two parts: the first was a session with the plenary and the second was a joint-session with IFIAR's Standards Coordination Working Group (SCWG). The investor panelists for both were Elizabeth Fernando, Head of Equities, USS Investment Management Ltd. (USS); Paul Lee, Director, Hermes Equity Ownership Services; Oki Matsumoto, Chairman and Chief Executive Officer, Monex Group Inc.; and Jan Maarten Slagter, Managing Director, Dutch Investors' Association. The session with the plenary consisted of presentations by the panelists followed by questions and answers. The joint-session with the SCWG focused on the panelists' suggestions as to how the auditor might best improve audit quality and protect investors, particularly from a standards perspective. This joint-session with the SCWG marked the first IFIAR session where investor representatives and standard setters interacted at an IFIAR meeting.

Following the Noordwijk Plenary Meeting, the Investor Working Group created and posted on the IFIAR public website a library of investor presentations at previous IFIAR plenary meetings. This library includes a quotation from each of the presenters and either a copy of their presentation or an executive summary of their presentation. The Investor Working Group will continue to add to this library on an annual basis after each investor session in order to provide the public with access to the information discussed during all IFIAR investor sessions. The Investor Working Group views the creation of this public resource as an important contribution to

IFIAR's goal of increasing the organization's public profile.

The Investor Working Group also increased its membership in 2013 when Canada joined the group. In addition, in November 2013, Steve Harris, Working Group Chair, gave a presentation to the United States Public Company Accounting Oversight Board's (PCAOB) International Institute in Washington, DC, a meeting attended by nearly 100 representatives of auditor oversight bodies from 34 jurisdictions around the world. Mr. Harris provided an overview of the work of the Investor Working Group and encouraged the non-IFIAR member audit oversight bodies to join the organization. This presentation was part of IFIAR's external outreach to new Members.

By the end of 2013, the IWG had already recruited a number of high level panelists for the IWG's seventh investor session to be held during IFIAR's 2014 Plenary Meeting. This panel will include an investor, a GPPC CEO, and, for the first time, audit committee chairs, and will focus on communications between auditors and audit committees. Given the positive response to the background paper prepared by the IWG for the Noordwijk investor session, the IWG also was in the process of producing a background document for the 2014 investor session. The document will provide suggested topics for discussion and background information on initiatives and requirements in IFIAR Members' jurisdictions related to the role of, and auditor communications with, audit committees. The background paper will ask the panelists to focus on the following three topics: What do investors expect from audit committees? How can audit committees and auditors best meet the needs of investors? How can audit regulators assist audit committees in performing their jobs? In order to have a historical record of what has occurred at prior investor sessions, the

IWG also is preparing a document summarizing the content of all of these sessions, including the topics discussed and the recommendations made by previous panelists. The IWG concluded 2013 by considering a possible revision of its terms of reference by expanding the scope of the group's work to include interaction not only with investors but with other stakeholders as well (e.g. audit committees, economists, academics). These revised terms of reference will be presented to the full IFIAR membership in 2014.

The IWG is chaired by Steve Harris, Board Member of the United States' Public Company Accounting Oversight Board (PCAOB) and includes IFIAR Members from Canada, France, Japan, Korea, the Netherlands and the United Kingdom.

Standards Coordination Working Group

The SCWG consists of 13 Member organisations / countries, three of whom became Members in December 2013. The Working Group is chaired by the Independent Regulatory Board for Auditors from South Africa.

The SCWG held 13 conference calls during the 2013 calendar year. In addition to those full SCWG conference calls, six SCWG task force conference calls were held to discuss the International Auditing And Assurance Standards Board's (IAASB) proposed ISA 720 (Revised), the IAASB's proposed Consultation Paper, *A Framework for Audit Quality*, the IAASB's document issued: *Clarified International Standards on Auditing – Findings from the Post-implementation Review*, as well as the IAASB's proposed Strategy and Work Program for 2015-2019 and the IFIAR's comment letter to be submitted to the IAASB on their exposure draft: *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISA)*.

Members discussed the IAASB Exposure draft (Consultation Paper, *A Framework for Audit Quality*) with a view for Members to provide comments to the IAASB and to provide inputs to the SCWG Chairman who served as a member of the IAASB Task Force on Audit Quality. A separate conference call was also held on June 7, 2013 to consider the Consultation Paper.

Members discussed the IAASB Exposure drafts (Proposed ISA 720 (Revised) and *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISA)*) with a view for IFIAR to submit a comment letter to the IAASB. Separate conference calls to discuss proposed ISA 720 (Revised) and the development of an IFIAR comment letter thereon were held on January 14 and February 21, 2013. Discussions thereon were also held during various full SCWG conference calls. It was decided not to issue an IFIAR joint comment letter to the IAASB on proposed ISA 720 (Revised). A separate conference call to discuss IFIAR's comment letter to be submitted to the IAASB on their exposure draft issued: *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* was held on November 7, 2013. Discussions thereon were also held during two of the 13 full SCWG conference calls held on October 9, 2013 and November 15, 2013. IFIAR issued their first comment letter to the IAASB on *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* on December 12, 2013.

Given the highly technical nature of the matters on the agenda of the SCWG, Members discussed proposals to facilitate greater participation at plenary meetings as well as coordination between the various IFIAR Working Groups. The SCWG also discussed matters relating to the Working Group membership, the appointment of a

Vice-Chair, the SCWG three year work plan, and the SCWG Terms of Reference.

The Members of the SCWG were in favor of a proposal by the Chair of the Investor Working Group to facilitate a joint session with a panel of investors at the Plenary Meeting in Noordwijk. It was agreed that the SCWG would prepare questions from a standards perspective, based on current issues in which investors would have an interest. Several calls were held between the chairmen of the respective Working Groups in preparation for the Noordwijk meeting. The Chair of the SCWG also attended the Inspections Workshop in Zurich in March 2013 to identify possible areas of coordination between the Working Groups.

Following the Busan Plenary Meeting, and again after the Plenary meeting in London in October 2012, the SCWG was requested to continue considering a process to submit IFIAR comments in an attempt to raise the profile of IFIAR and to ascertain whether it would be possible to distil from the wider IFIAR membership common points of interest and concern which could strengthen comments submitted by IFIAR Members on international exposure drafts. The preparation of a comment letter on the Monitoring Group and Public Interest Oversight Board Consultation Papers in 2011 provided a good opportunity to test whether such an initiative could be successfully implemented. Feedback from the Monitoring Group, as well as at a meeting between the SCWG Chair and the PIOB in Cape Town, provided an indication that the joint comment letter had been received favourably. The SCWG has since developed a document on the process to submit IFIAR joint comment letters in consultation with the IFIAR Officers. This document will be presented to the IFIAR membership at the plenary meeting in Washington DC in April 2014 for approval. As noted above, IFIAR issued their first

joint comment letter to the IAASB on *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* on December 12, 2013.

The SCWG held their first "face to face" meeting. In Paris, France on October 29-30, 2013. The following topics were included in the agenda: SCWG governance coordination between SCWG and IFIAR plenary and IFIAR Working Groups, IAASB topics (IFIAR's process document for issuing joint comment letters, IFIAR's comment letter on the IAASB's exposure draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISA)*, IAASB's *Clarified International Standards on Auditing – Findings from the Post-implementation Review* as well as the IAASB's proposed Strategy and Work Program for 2015-2019, IAASB's proposed ISA 720 (Revised), IAASB's proposed Consultation Paper, *A Framework for Audit Quality* and the IFIAR survey on inspection findings), IESBA topics (IESBA future strategy and work plan, structure and enforceability of the Code, suspected illegal acts, rotation and non-audit services), liaison with standard setters and dialogue with the chairmen of both the IAASB and IESBA. The meeting provided the Members of the SCWG with an opportunity to interact with each other on a "face to face" basis. The meeting was well represented with only one organisation / country representative not being able to attend. The meeting was also attended by one Observer organisation / country, being the *Instituto de Contabilidad y Auditoria de Cuentas* from Spain who has since become a Member of the SCWG.

The chairmen of both the IAASB and the IESBA were invited to and attended a session at the SCWG Paris meeting. Both chairmen delivered a presentation and interacted with the SCWG on the following

topics: IAASB and IESBA – Overview of their current developments, IAASB – Outcome of their outreach activities, IAASB – 2015-2019 strategy, IAASB – Auditor reporting, IAASB – ISA implementation monitoring, IAASB – Proposed ISA 720 (Revised), IAASB – Audit quality, IESBA – 2015-2018 strategy and work plan, IESBA – Structure and enforceability of the Code, and IESBA – Responding to non-compliance with laws and regulations.

The SCWG is chaired by Bernard Agulhas, Chief Executive Officer at South Africa’s Independent Regulatory Board for Auditors (IRBA) and includes Members from Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Singapore, Spain, Switzerland, the United Kingdom and the United States.

Developments in IFIAR Member Jurisdictions

The following are brief summaries and highlights of IFIAR Members' activities and developments in audit regulation in their jurisdictions during 2013:

ABU DHABI - Abu Dhabi Accountability Authority (ADAA)

In execution of its role as an oversight body, ADAA continued to review the audit files of statutory auditors to assess the quality of audit procedures performed in accordance with international standards and prevailing laws and regulations. ADAA also monitored the compliance of subject entities with the Statutory Auditors Appointment Rules (SAAR) to ensure that financial statement audits were awarded in an objective manner to the statutory auditor that demonstrated the highest level of relevant expertise and quality.

During 2013, ADAA examined 73 financial statements and the work of statutory auditors appointed by subject entities. Findings noted are classified into "Significant improvement required", "Needs improvement" and "Needs improvement - Specific exception noted" based on their nature and significance. The findings are communicated to those charged with governance at subject entities and separately to statutory auditors for future improvement, implementation and follow up. A summary of findings was published in ADAA's annual report. Lack of auditors' professional skepticism and incomplete execution of engagement quality control review procedures were likely causes for many inspection findings.

In 2013, ADAA witnessed a number of significant events: in March, ADAA hosted the annual meeting of the International Public Sector Accounting Standards Board (IPSASB) in Abu Dhabi, as part of its efforts to help continue the development of high quality public sector accounting standards.

In June 2013, the European Commission adopted Decision 2013/288/EU to grant ADAA's audit oversight system 'equivalent status' with European Union (EU) member states. On the basis of this Decision, the European Union auditor regulators may conclude cooperative agreements with ADAA with a view to relying on each other's work on the supervision of auditors and audit firms.

In December 2013, ADAA received an Outstanding Contribution Award by the Institute of Chartered Accountants in England and Wales (ICAEW) for its contribution to the accountancy profession in the region.

AUSTRALIA- Australia Securities and Investment Commission (ASIC)

Following ASIC's December 2012 publication of the results of audit firm inspections for the 18 months to June 30, 2012, the largest 6 audit firms in Australia responded to ASIC's requests to prepare action plans to improve audit quality.

ASIC's reviews had shown an increase in instances where auditors did not perform all of the work necessary to obtain reasonable assurance that audited financial reports were not materially misstated (18% of key audit areas reviewed compared to 14% for the previous 18 month period).

ASIC asked the firms to focus their action plans on improving the consistency of the execution of audits and to address three broad areas identified by ASIC as requiring improvement:

- the sufficiency and appropriateness of audit evidence obtained by the auditor;
- the level of professional scepticism exercised by auditors; and
- the extent of reliance that can be placed on the work of other auditors and experts.

ASIC worked with the firms during the preparation of their action plans, encouraging the firms to particularly focus on: the culture of the firm; the experience and expertise of partners and staff; the use of experts; supervision and review; and accountability of partners for audit quality.

The firms implemented key aspects of the plans for audits for the year ending June 30, 2013. During 2013, ASIC continued its inspections of audit firms and focused on audits of public interest entities. ASIC's next public audit inspection report will be issued in June 2014, covering inspections completed in the 18 months to December 31, 2013.

ASIC obtained enforceable undertakings from two individuals to cease practicing as auditors for varying periods. ASIC also obtained a consent order from the Companies and Auditors Disciplinary Board suspending another auditor for 3 years.

Audit firm transparency reports were first required for the year ending June 30, 2013. ASIC issued guidance to assist with the preparation of the reports. ASIC also has suggested improvements to the international auditing and ethical standards, which are the basis for the standards used in Australia.

AUSTRIA - Austrian Auditors Supervisory Authority (ASA)

Effective supervision strengthens public confidence in statutory audits and also makes an important contribution to sustainable economic development in Austria. The activities of the ASA in 2013 brought further improvement of the quality assurance system and therefore contributed to an effective supervision that leads to improved audit quality.

As the second 3-year cycle of reviews of audit firms of public interest entities (PIE) was concluded, the ASA was able to determine whether the audit firms have properly complied with their professional duties. In this regard, administrative penalties and other measures were imposed.

The ASA approved 9 audit firms in 2013. A total of 506 audit firms and auditors (401 audit firms, 105 auditors) were registered with the ASA (as of December 31, 2013). The ASA determined 18 audit firms which carry out statutory audits of PIEs in 2013.

At the European level, the ASA followed the legislative process and the discussions on the audit proposals that were issued by the European Commission closely and provided expert opinions whenever needed.

Apart from that, 2013 was used to enhance cross-border cooperation by attending the meetings of the European Group of Auditors' Oversight Bodies (EGAOB) and the European Audit Inspection

Group (EAIG). As it is expected that cross-border cooperation will become even more important in the future, ASA took the first steps in fostering cross border cooperation with German-speaking auditor oversight bodies. ASA organized and hosted a meeting in Vienna dedicated to providing a basis for common future supervisory tasks.

BULGARIA - Commission for Public Oversight of Statutory (CPOSA)

In 2013, CPOSA continued to work to increase the efficiency of quality control activities of statutory auditors auditing the annual financial statements of public-interest entities.

During the year, 75 inspections were carried out of which 43 were sole practitioners and 24 were audit firms.

CPOSA conducted investigations in relation to the quality control activities of statutory auditors and audit firms which had audited 2011 annual financial statements of firms in the energy and health sectors.

Representatives of CPOSA continued to cooperate with relevant EU bodies and to protect the country's position in the discussions on the proposal for amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts. CPOSA also cooperated with the EU regarding the proposal for a regulation of the European Parliament and of the Council on specific requirements regarding the statutory audit of public-interest entities.

During 2013, CPOSA approved new rules and procedures for the organization and began holding examinations for registered auditor qualification.

In 2013, the risk-based approach found a wide application in determining the scope of the auditors to be inspected and the sample size of engagements that were reviewed and launched by the Commission.

The eighth meeting of the European Audit Inspection Group (EAIG) was hosted by CPOSA. The meeting was held March 19-20, 2013 in "Sheraton Sofia Hotel Balkan" under the chairmanship of the Financial Supervisory Authority of Norway.

CPOSA also took a decision to join and participate in a common database project to exchange findings from the inspections of audit firms among independent audit regulators from European countries initiated by EAIG.

CANADA - Canadian Public Accountability Board (CPAB)

CPAB implemented a new strategic plan in 2013 that sets the organization's direction for the period 2013-2015. In accordance with the plan, CPAB will further enhance audit quality in Canada by focusing on four priority areas: 1) thought leadership; 2) stakeholder engagement; 3) risk management; and 4) focused, effective inspections.

During 2013, CPAB reviewed 191 audit engagement files as part of the inspection of 49 firms to assess the effectiveness and implementation of the audit firms' policies and procedures relative to accounting and auditing standards.

In addition, CPAB consulted with key stakeholders including corporate directors, audit firms, and securities regulators to develop a draft Protocol for the communication of significant audit file inspection findings to Audit Committees. CPAB defines a significant inspection finding as a significant deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work in the current year to support the audit opinion and/or is required to make significant changes to its audit approach. The draft Protocol has been publicly released for comment and is expected to be effective for inspections of audit files commencing on or after March 31, 2014.

CROATIA - Audit Public Oversight Committee (APOC)

During 2013, the Audit Public Oversight Committee continued public oversight of the Chamber of Auditors, audit firms, independent auditors and certified auditors. The Audit Public Oversight Committee performed inspections of audit firms, independent auditors and certified auditors via the Chamber of Auditors and via certified experts of the competent state authorities.

Inspection activities of the Chamber of Auditors in 2013 were done according to the Plan for Quality Assurance Reviews 2012/2013, approved by the Audit Public Oversight Committee.

In 2013, the Chamber of Auditors conducted 72 inspections of audit firms of which 8 inspections were initiated by the Audit Public Oversight Committee and third parties (e.g. Croatian National Bank, Croatian Financial Supervisory Agency).

During 2013, the Audit Public Oversight Committee continued its activities regarding approval of documents and activities carried out by the Chamber of Auditors. Consequently, in April 2013, the Audit Public Oversight Committee approved amendments of the Chamber's Statute.

In September 2013, the Audit Public Oversight Committee initiated oversight of the Chamber's work. The following issues were inspected: education for auditor certification, quality assurance of the work of audit firms, independent auditors and certified auditors, and the Chamber's financial activities.

Throughout 2013, the Audit Public Oversight Committee, at the request of the Ministry of Finance, has contributed to audit reform at the EU level by giving suggestions and comments to the texts of the Audit Regulation and Directive.

Finally, two representatives of the Audit Public Oversight Committee became members of the Working group formed within the Ministry of Finance in order to draft a new Audit Act.

DENMARK - Danish Business Authority (DBA)

Commencing in 2013, the inspection of audit firms auditing PIEs has been conducted by inspectors who are full time employees of the Danish Business Authority (DBA) and as such are independent. Twenty-one audit firms audit PIEs of which DBA conducted 9 inspections in 2013 to be concluded during the first quarter of 2014.

In the ordinary course of business, every PIE audit firm will be inspected at least every third year and the inspection covers not only PIEs, but also SME (Small Medium Entities). The inspections are carried out on both the audit firm level and also include a sample of engagements (full scope reviews).

State Authorized Public Accountants auditing financial institutions shall after a period of implementation, fulfill additional mandatory requirements. The auditors must be certified by the Danish Financial Supervisory Authority (FSA) and the auditors are required to fulfill 180 hours of continuing education over a period of three years of which 60 hours must be in the areas of specific interest of auditing financial institutions.

DUBAI INTERNATIONAL FINANCIAL CENTRE - Dubai Financial Services Authority (DFSA)

The DFSA's audit monitoring program aims to promote high-quality external audits of financial reports issued in accordance with DFSA Rules. The purpose of our audit monitoring program is to assess whether Registered Auditors (auditors) in the Dubai International Financial Centre (DIFC) meet the appropriate international standards.

During 2013, of the seventeen auditors registered with the DFSA, its audit monitoring team conducted eight on-site assessments, assessed fourteen Audit Principals and reviewed twenty-four audit engagement files focusing on the substance of Auditor's work and assessing whether sufficient and appropriate evidence was obtained and documented to support the conclusions reached in relation to key audit judgments. The DFSA also completed its first assessment of the auditors of publically listed companies in 2013.

The DFSA published its first audit monitoring report covering five years of audit inspections conducted by the DFSA in the period of January 1, 2008 to December 31, 2012. The European Commission (Commission) announced its decision to grant the DFSA's audit monitoring system 'equivalent status' with the European Union (EU) Member States. Following a rigorous assessment of the supervisory regime for auditors in the DIFC, the Commission considered the DFSA's audit oversight system equivalent to that of EU Member States.

The DFSA granted registration to one auditor to provide assurance services to regulated financial services firms. The DFSA completed its review of the current audit regulatory regime. With over five years of active operational experience with the auditor regime, the review provided an opportunity to address common issues arising from audit inspections and supervision. The proposed rules have been published for consultation, with the consultation period ending on February 14, 2014.

EGYPT - Auditors Oversight Board (AOB)

In 2013, Egypt faced a series of rapid events on the political forefront that culminated around the month of June with another wave of Egyptians' uprising. Such events had a negative impact on the regulatory efforts of the Auditors Oversight Board (AOB). However, during 2013, the AOB has managed to implement the annual program of regular inspections that included more than twenty audit firms and the AOB consulted with these firms on means of increasing the quality of their work, when applicable.

The AOB also held several meetings with the auditors and relevant professional associations to conceptualize means of incorporating corporate governance in the auditors' work and agreed on preparing a separate report by the auditors concerning corporate governance. In addition, during a number of seminars, it has discussed with auditors, means of modifying the requirements for

registration at EFSA and developed a proposal for the requirements for allowing auditors to audit all types of companies that fall under the umbrella of the EFSA.

Moreover, the AOB investigated complaints filed against some audit firms accusing them of not fulfilling their duties, and worked with relevant professional associations to prepare draft standards for small and medium enterprises.

FINLAND - The Auditing Board of the Central Chamber of Commerce (AB3C)

The AB3C continued to approve auditors and audit firms and to administer auditor registration in Finland. The registration technology was renewed. In 2013, the AB3C organized professional examinations and processed applications for the authorization of audit firms. At the end of 2013, there were 771 KHT auditors (authorized by the AB3C), 627 HTM auditors (authorized by local Auditing Committees of the Chambers of Commerce), 39 KHT audit firms and 35 HTM audit firms in Finland.

The AB3C conducted investigations and inspections under its auditor oversight regime. In 2013, the independent quality assurance team of AB3C started the second three year inspection cycle relating to PIE sector audit firms. While the main focus was on the efficiency of the audit firm's quality assurance systems during the first three year inspection cycle, the focus will be transferred to the file reviews during the second three year inspection cycle. In 2013, the quality assurance team organized and monitored quality inspections of 203 auditors and the inspection fieldwork being performed by practitioners, in the non-PIE sector. Cooperation with the Financial Supervisory Authority, which oversees listed companies and credit institutions, continued.

The AB3C developed its international cooperation at the Nordic, European and global levels. The AB3C met with Nordic colleagues in an informal meeting. The AB3C participated in the EGAOB (European Group of Auditors' Oversight Bodies) meetings and was actively working with EAIG (European Audit Inspection Group) and the College of Regulators. Within IFIAR, the AB3C participated in the Noordwijk Plenary Meeting and AB3C's secretaries took part to the work of the IFIAR's Inspection and Enforcement Working Groups. Oversight cooperation with the PCAOB continued through the year.

FRANCE - Haut Conseil du commissariat aux comptes (H3C)

In 2013, the H3C inspection schedule covered 200 PIE and 1,160 non-PIE audit firms. Inspections of PIE audit firms under the current 3-year inspection plan covering the 2012-2014 period are being carried out according to a combined risk-based approach of "audit firm risks" and "entity risks". This approach gives rise to an annual inspection of the 6 largest audit firms in France. As far as the non-PIE audit firms are concerned, 2013 was the final year of the 6-year inspection cycle which began in 2008. The results of the inspections and the improvements required of the audit firms are set out in the H3C's 2013 annual report.

The H3C concluded three cooperation agreements with its Swiss, American and Canadian counterparts. As a result, two joint inspections were carried out in France by the H3C and its American counterpart.

From a standard-setting perspective, in December 2013, a new French auditing standard on services relating to social and environmental information prepared by the audited entity was endorsed. The standard allows the auditor, upon request from the audited entity, to perform certain services relating to non-financial information prepared by the entity as part of its environmental and social reporting.

The H3C also published opinions and responses to ethical questions. Further, in the wake of the European audit reform project and in light of the changes in the economic and regulatory environment, the H3C started a process of examining the scope of duties of statutory auditors as well as the rules on the provision of non-audit services.

The H3C co-signed several joint comment letters with its European and international counterparts in response to a consultation published by the IAASB and IESBA regarding international auditing standards and the international code of ethics.

In its capacity as an appellate body, the H3C ruled on a total of 16 decisions in 2013, on matters relating to discipline, audit fees and registration.

GERMANY- Auditor Oversight Commission (APAK/AOC)

As in the years before, the AOC continued in 2013 to focus on the inspections of PIE auditors and audit firms as a vital means to improve audit quality. In addition, it was involved in several work streams within IFIAR, the EGAOB and the EAIG.

Since 2012, the AOC is directly responsible for the planning and performance of inspections. In 2013, the AOC performed 28 inspections of auditors and audit firms which audit public interest entities. Included in the inspection regime are approximately 100 auditors/audit firms that perform 520 audits of consolidated annual accounts (IFRS) and 670 audits of annual accounts according to the German Commercial Code (HGB).

The AOC remains committed to cross-border cooperation with the relevant authorities of third countries, and continues to take an active role within the European Group of Auditors' Oversight bodies (EGAOB) and the European Audit Inspection Group (EAIG). One of the EAIG's core activities is a regular dialogue with international standard setters such as the International Auditing and Accounting Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). By providing a common platform for discussions, the EAIG facilitates the development of individual comment letters of its members to these standard setters as well as joint comment letters by audit regulators. The EAIG has recently launched a non-public database that will contain inspection findings in relation to the ten largest European networks of audit firms (PwC, KPMG, Deloitte, E&Y, BDO, Grant Thornton, Nexia, Baker Tilly, Mazars and Moore Stephens). The ultimate goal of the database is to reach a higher degree of comparability of inspection results and facilitate the exchange and cooperation between European auditor oversight bodies as called for in the European Audit Directive. The AOC hosts and administers the database in Berlin.

Furthermore, the AOC has issued a position paper expressing its view regarding a common practice in Germany which is the joint signature of the audit report. Following the AOC's prior discussion and clarification regarding the full disciplinary responsibility of the co-signatory, the AOC has issued its opinion regarding the compatibility of the role of the (co)signatory of an audit

report and the engagement quality control reviewer. The AOC is of the opinion that as a general rule, both roles cannot be held by the same individual.

The AOC has continued its internal discussions regarding the audit proposals issued by the European Commission and has engaged in a constructive dialogue with the parties involved and stakeholders. It has actively pushed towards a more active role of the auditor oversight bodies in Europe regarding their cooperation and coordination.

The AOC has entered into an additional cooperative agreement with the Canadian regulator CPAB in addition to the two cooperative agreements signed with foreign regulators before, one of which was extended in 2013. It has engaged in another joint inspection with the PCAOB (USA), bringing the total number of joint inspections performed to four.

GIBRALTAR - Gibraltar Financial Services Commission (FSC)

The legal framework in Gibraltar sets out the mandate and responsibilities of the FSC. It also provides the FSC with the adequate powers and authority to perform oversight duties, including inspection, enforcement, compliance with applicable auditing, professional and independence standards.

The FSC's remit with regards to auditing has continued to comprise the following:

- the registration, approval and removal of statutory auditors and audit firms;
- the registration, approval and removal of statutory auditors and audit firms from other EEA states;
- the monitoring of the continuing professional education of statutory auditors;
- the upkeep of a public register of statutory auditors and audit firms;
- ensuring that all statutory auditors and audit firms are subject to a system of quality assurance controls; and
- public oversight of statutory auditors and audit firms.

During 2013, the FSC continued to enhance the oversight of auditors, especially in relation to the development of the quality assurance reviews as required under Section 29(1) of the Financial Services (Auditors) Act, 2009. Specifically, the onsite work of the first set of quality assurance reviews was carried out. During the year, six auditors (either audit firms or sole practitioners) were reviewed. One of these was a focused visit looking at the arrangements for joint audits and arrangements for any 'back-to-back'/inter-office signing arrangements. All of the auditors accepted the findings from the visits and committed to a series of actions to address any issues raised. There were a couple of instances where specific conditions have been stipulated and therefore an assessment of the auditors progress will be required during 2014. One of the main areas identified for improvement during the reviews was the sufficiency and appropriateness of audit evidence and documentation.

The FSC continued to liaise with an Auditors Advisory Panel that consisted of representatives from the audit industry in Gibraltar and also with the Gibraltar Society of Accountants. This interaction enhances the relationship between the FSC and the audit industry in Gibraltar and allows for discussion on matters impacting audit quality. Areas that have been considered or implemented during the year were:

- the provision of non-audit services provided by auditors;
- amendments to the Auditors Annual Return to enhance regulation, including that of continued professional membership and continuous professional development; and
- the responsibility and submission of management letters.

In October 2013, the Financial Services (Information Gathering and Co-operation) Act was put into effect in Gibraltar. One of the objectives of the Act is to harmonise the existing supervisory powers of the FSC to gather information for its own regulatory purposes, as well as to be able to share this information with other authorities both locally and internationally.

The Financial Services Commission has continued to monitor the developments arising out of the current proposals to the European Statutory Audit Directive to ensure amendments are transposed to Gibraltar legislation as necessary, and will continue to do so during 2014.

GREECE - Accounting and Auditing Standards Oversight Board (ELTE)

In accordance with the provisions of the 8th Council Directive (2007/43/EC) as enacted into Greek legislation by Law 3693/2008 (as amended by Law 4130/2013), ELTE continued to be responsible for the regulation and oversight of the auditing profession in general and of the statutory auditors and audit firms in Greece. During the year, it provided considerable assistance to the Ministry of Finance in reforming the Income Tax Code and the Tax Procedures Code as part of Greece's tax reforms. It also provided input to the Ministry of Finance regarding Greece's responses to the proposals for amendments to the Auditing and Accounting Directives, as well as the proposed EU Regulation for the statutory audits of public-interest entities. In this context, the Deputy Chairman of ELTE was appointed by the government as Chairman of the relevant working party during the Greek Presidency of the European Council which began on January 1, 2014.

ELTE continues to advise the government on accounting standard setting issues, as well as oversee the professional examinations for statutory auditors and the registration of statutory auditors and audit firms. It also is responsible for approving the removal of statutory auditors or audit firms when required. During 2013, ELTE completed its three year inspection program of all the auditing firms which audit public interest entities and also began its next cycle of audits for the audit firms who do not audit public interest entities. The inspection programs are carried out in cooperation with the Institute of Certified Public Accountants of Greece.

HUNGARY - Auditors' Public Oversight Authority (APOA)

With certain amendments to the Hungarian Act on Audit, the Auditors' Public Oversight Authority (APOA) was set up on July 1, 2013 as the successor of the Auditors' Public Oversight Committee. APOA is completely independent from professional organizations and has proper competencies to complete its tasks. APOA has, among others, two main responsibilities: to exercise legal control over the Chamber of Hungarian Auditors (Chamber) and to carry out quality control reviews of auditors of public interest entities.

APOA is responsible for public oversight and thus monitors and evaluates the various components of the system of public oversight of statutory auditors and audit firms, such as:

- the procedures for granting authorization to carry out statutory audits, the records and registers of the Chamber;

- the drafting and approval of Hungarian national accounting standards, the Chamber's code of ethics, and the national standards relating to quality control;
- the functioning of the continuing professional training program and the quality assurance system; and
- disciplinary proceedings.

APOA, using its own inspection methodology, conducted 44 engagement reviews of 38 auditors and 19 firm wide control reviews during 2013. Auditors and audit firms were informed about the findings in their inspection reports. Weaknesses in general are summarized in publications and presentations to the auditors so they can improve the audit quality.

IRELAND - Irish Auditing and Accounting Supervisory Authority (IAASA)

IAASA's mandate includes the delivery of effective, independent oversight of the regulatory activities of the six Recognised Accountancy Bodies ('RABs') that are authorised to licence their members and member firms as auditors in Ireland. Under IAASA's supervision, the RABs monitor and enforce compliance with standards (such as those relating to continuing education and professional ethics), perform quality assurance, investigate and discipline their members. In this context, the principal supervisory activities undertaken by IAASA in 2013 included:

- monitoring the RABs' regulatory responses in relation to their members' involvement in cases which have a public impact, the processing of 18 complaints from members of the public and conducting two statutory enquiries regarding a RAB's compliance with its approved investigation and disciplinary procedures;
- conducting on-site supervisory visits to three RABs and the issuing of two final supervisory visit reports;
- ongoing liaison with the RABs to address the issues identified during the course of our supervisory visits through improvements to their regulatory systems and processes;
- continued monitoring of the relevant RABs' compliance with conditions previously attached to their recognition to licence members as auditors, including the attachment of three new conditions and the removal of one condition;
- renewal of the full registration of 14 third-country audit firms, approval of the full registration of four additional third-country audit firms and the transitional registration of three third-country audit firms;
- participation in the European Audit Inspection Group's responses to three consultations by the International Auditing and Assurance Standards Board; and
- continued monitoring of the European Commission's proposals for a new Regulation and changes to the existing Statutory Audit Directive. In particular, IAASA staff supported the Irish Department of Jobs, Enterprise and Innovation's chairing of the audit reform working group during Ireland's presidency of the European Union in the first half of the year.

ITALY - Commissione Nazionale per le Società e la Borsa (CONSOB)

During 2013, the CONSOB, amongst its other duties of supervision of the Italian securities markets, continued its oversight activity of auditors and audit firms that audit the financial statements of public interest entities (listed companies, banks, insurance companies, financial intermediaries and others). The CONSOB undertakes activities in the following areas: inspections of quality control reviews; investigations and enforcement; setting standards in collaboration with the auditing profession; the development of audit regulation at the national level in collaboration

with ministries in charge; and participation in discussions and developments on audit matters at the European and international level.

In 2013, the CONSOB's audit oversight activity focused on 17 audit firms who undertake the audits of PIEs (about 1,500 engagements). In the exercise of supervision, the CONSOB has issued 47 requests for information, including hearings, requests of data and working papers.

In regards to quality control reviews, the CONSOB issued 1 final report to an audit firm containing inspection findings and recommendations that, according to law, the firm had to implement within a period set by CONSOB. The "follow-up" activity, in order to monitor the actual implementation of the recommendations by the same audit firm, was performed as well.

The CONSOB also started 3 new quality control reviews during 2013 and completed 3 other inspections that had already started in 2012.

In regards to enforcement activity, 4 disciplinary proceedings against 3 audit firms were initiated, because of suspected irregularities in the performance of the audit activities on the financial statements of 3 listed companies and 1 bank. In addition, 1 administrative sanction was issued to 1 audit firm in relation to deficiencies found in the performance of the audit work on a specific engagement.

CONSOB attends the meetings of the European Group of Auditors' Oversight Bodies (EGAOB) and the European Audit Inspection Group (EAIG) and participates in the EAIG database project on inspection findings.

JAPAN - Certified Public Accountants & Auditing Oversight (CPAAOB)

During 2013, from the perspective of ensuring the integrity of capital markets, the FSA and the CPAAOB continuously took various measures to achieve higher investor confidence.

Japan was a member of IFIAR's Advisory Council until April 2013, and as a member of IFIAR's 6 Working Groups contributes to its projects. For example, Japan recommended Mr. Oki Matsumoto as a presenter for the Investor Working Group session at the IFIAR Plenary in Noordwijk. During this session, Mr. Matsumoto addressed the readability of the audit report. In addition, Japan serves as Chair of the Enforcement Working Group, a role it has held since its foundation.

The FSA and the CPAAOB have worked with foreign audit oversight regulators to arrange mutual reliance and information sharing, as well as to assess their equivalency. The FSA and the CPAAOB exchanged letters on information sharing with Luxembourg and the Netherlands, and also completed the equivalency assessment of them.

The FSA has introduced a new auditing standard "Standard to Address Risks of Fraud in an Audit." This new standard enables auditors to exercise professional skepticism in a proper way, implement their work in line with audit procedures, and obtain sufficient appropriate audit evidence. It also provides guidance on cases where auditors face a suspicion of fraud in the process of audit. The standard is effective for the audits of financial statements of listed companies for the fiscal year ending on or after March 31, 2014.

The standard also emphasizes the importance of communication between auditors and those charged with governance. The CPAAOB exchanged views with the Japanese Institute of Certified Public Accountants (JICPA) and the Japanese Audit and Supervisory Board Members Association

(JASBA), and encouraged them to build a closer relationship with each other. To that end, the JICPA and the JASBA published in November 2013, a joint study report, which provides requirements (or best practices) on effective communication.

The CPAAOB has enhanced risk based inspections in order to conduct efficient inspections focusing on the risks of audit engagements such as audits of financial institutions including small regional financial institutions (*Shinkin* banks and credit cooperatives) and brokers and dealers, audits of funds, as well as risks of taking over an engagement.

The CPAAOB has enhanced root cause analysis of deficiencies identified by inspections in order to contribute to appropriate and effective remedial actions taken by an audit firm.

Regarding the group audit, especially the issues related to the adequacy and sufficiency of communication between the group auditor and the foreign component auditor, the CPAAOB has performed reviews of the audit instructions issued by the group auditor, as well as the information submitted by the foreign component auditor.

The CPAAOB has enhanced communications with senior management and internal quality monitoring reviewers, etc. of the global network firms including GPPC firms. Through this communication, the CPAAOB has reviewed the effectiveness of their oversight on the quality control systems at the Japanese member firms.

The CPAAOB has continuously strengthened cooperation with relevant stakeholders including the FSA (inspection bureau and supervisory bureau, etc.), stock exchanges, the JICPA, the JASBA, and Japanese Securities Dealers Association in order to share common understanding over the issues related to audit.

KOREA - Financial Services Commission (FSC)/Financial Supervisory Service (FSS)

The oversight of the audits of publicly-traded companies and accounting firms continued in 2013 in order to ensure effective investor protection and reliable financial reporting.

The FSC/FSS reviewed and investigated financial statements and the auditors' reports of approximately ten percent of more than 1,700 publicly-traded companies in Korea in 2013. The FSC/FSS imposed sanctions ranging from civil money penalties to suspension of audit services on eight companies, nine accounting firms and sixteen individuals for failure to comply with accounting and auditing standards or with the related laws and regulations. The FSC/FSS also ordered the non-complying companies to restate their financial statements and made available on its websites information pertaining to significant violations and sanctions.

In addition, the FSC/FSS conducted a simplified review process for financial information of all publicly-traded companies provided in the periodic regulatory filings and ordered corrections on the identified errors.

On-site audit quality inspections, including a joint inspection with the PCAOB, were carried out on ten of the 36 major audit firms under FSC/FSS oversight. Accounting firms demonstrating audit deficiencies and improprieties were ordered to take remedial actions within a year.

For enhanced investor access to information, the FSC/FSS also improved its electronic database so that investors can easily search the results of financial statements review and published analyses of wide-ranging accounting and auditing issues. The FSC/FSS audit supervisors also continued to engage in the audit industry by holding seminars and working-level meetings with auditors and CFOs. Under an effective partnership with the audit industry, the FSC/FSS also took steps to fine-tune the audit regime in line with the IFRS and the clarified ISAs.

LIECHTENSTEIN - Financial Market Authority (FMA)

In accordance with its legislative mandate, the Financial Market Authority (FMA) Liechtenstein ensures the stability of the Liechtenstein financial market, the protection of clients, the prevention of abuses, and the implementation of and compliance with recognized international standards. The FMA's responsibilities encompass the four supervision divisions: Banking, Securities, Insurance & Pension Fund, as well as, Designated Non-Financial Business or Professions. The latter covers inter alia auditors and audit firms. In this regard, the FMA performs its work through five program areas: compliance with due diligence obligations according to the Money Laundering Act ("Due Diligence Act"), registration, inspections, prevention of abuses and finally enforcement (including disciplinary enquiries).

In contrast to the other supervision areas, the inspection and disciplinary sectors are young disciplines at the FMA. With the enactment of the EU-Auditors Directive (Directive 2006/43/EC of the European Parliament and of the Council of May 17, 2006 on Statutory Audits of Annual Accounts and Consolidated Accounts) into national law in 2011, the FMA brought into focus the development of internal and external, as well as national and international structures and procedures considering functional interfaces, to the other supervision divisions. With the implementation of the Ordinance on Inspections of the Liechtenstein Government (entered into force October 1, 2013) and the end of a legal transition period, the FMA conducted its first inspections in 2013.

In 2013, the FMA supervised 48 audit firms and 82 auditors. As a regional distinction, around half of these audit firms and auditors are domiciled in Switzerland and provide audit services in Liechtenstein with the freedom to provide non-financial services, as provided in the EU-Service Directive (Directive 2006/123/EC of the European Parliament and the Council of December 12, 2006 on Services in the Internal Market). Against this background, and in view of ensuring an effective and consistent supervision, the Swiss Federal Auditors Oversight Authority (FAOA) and the FMA agreed on a Memorandum of Understanding in March 2013.

LITHUANIA - the Authority of Audit and Accounting (AAA)

The main task of AAA, according to the Law of the Republic of Lithuania on Audit, is to carry out public oversight of audit, which includes:

1. Implementing quality assurance of the audit, responsibility to carry out investigations of the audit of financial statements, enforcing sanctions after the results of recurring inspection or investigations; and
2. Overseeing the performance of the Lithuanian Chamber of Auditors and supervising the continuing professional education of auditors.

To ensure quality assurance of the audit, the AAA approved an annual plan of recurring inspections for 2013, which included inspections of 64 auditors and 34 audit firms to be conducted by auditors-controllers. According to that plan, the auditors-controllers in 2013 have conducted 75 recurring inspections. The results of inspections, in which more significant audit quality deficiencies have been identified, should be put for the AAA approval in the first half of 2014. In 2013, the AAA conducted 6 investigations of audit quality. A major part of these investigations were initiated after receiving complaints from the Lithuanian financial market supervisory authority regarding the role of auditors/audit firms in recent disturbances in the local credit institutions market.

Overseeing the performance of the Lithuanian Chamber of Auditors, the AAA constantly supervises the process of granting, suspension and withdrawal of the auditors' licenses, organizing the auditors' exams etc. Furthermore, the AAA continues to monitor how the auditors fulfil the requirements of continuing professional education.

In 2013, the amendment of the Law of the Republic of Lithuania on Audit was adopted, which provides authority for the AAA beginning January 1, 2014, to initiate investigations of PIE auditors or audit firms where there are suspicions regarding audit quality.

LUXEMBOURG - Commission de Surveillance du Secteur Financier (CSSF)

The CSSF has under its supervision 69 audit firms out of which 15 are auditing PIEs. The market is highly concentrated into the hands of the Big Four so that they are controlled every year.

During 2013, the CSSF continued its public oversight activity of auditors and audit firms that audit the financial statements of both PIEs and non-PIEs. The inspection schedule covered 19 audit firms, 6 of which audit PIEs and 11 are members of an international network. 211 mandates have been controlled including 53 PIEs.

Group audits remains a hot topic in Luxembourg and 3 audit firms are subject to a specific follow-up on this matter.

Supervisory measures have also been taken in order to increase the quality of the audit through the request of training plans for individual partners, internal reviews of files by another partner before issuing an opinion and/or a double signature of audit reports.

In 2013, the CSSF concluded two cooperation agreements with its Swiss and Japanese regulators and is looking to conclude soon an agreement with the PCAOB.

MALAYSIA - Audit Oversight Board (AOB)

The AOB was established in 2010. In 2013, the AOB continued to play an important function to oversee auditors of public interest entities with the mission to foster high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public interest entities in Malaysia. The AOB continued to encourage audit firms to build capacity, identify root causes to audit deficiencies with the right focus on remediation plans to enhance their quality framework to improve audit quality.

As of December 2013, a total of 53 domestic audit firms and 302 individual auditors were registered with the AOB. AOB also recognized 16 individuals from 7 foreign audit firms who audit the financial statements of 6 foreign corporations listed on Bursa Malaysia audit, pursuant to powers under the Securities Commission Act 1993.

In 2013, the AOB conducted the inspection of 12 audit firms, involving 39 individual auditors and 1 special inspection. The inspection continued to focus on sufficiency and appropriateness of audit evidence to support the audit opinion. In addition to regular risk-based inspections, the AOB also performed thematic reviews on the audit of group arrangements and insurance companies.

During 2013, the AOB sanctioned 6 registered auditors for their failures to comply with the relevant requirements of the auditing and ethical standards in the audit of public interest entities.

On the regional front, the AOB also is becoming more actively involved in the ASEAN Audit Regulators Group (AARG) meetings and inspection workshops to enhance consistency, effectiveness and efficiency in inspection approach that responds to current emerging issues and the changes in the market landscape.

In 2013, the AOB hosted the 2nd ASEAN Audit Regulators Group (“AARG”) Inspection Workshop and continued to engage with the regional leadership of the ASEAN Big 4 audit firms in discussions on internal/network review results, AARG’s inspection findings, root causes analysis and remediation efforts. In addition, the AOB conducted a joint survey with the Association of Chartered Certified Accountants (ACCA) and launched a report entitled “Optimising Talent in Accounting Firms” to support initiatives on capacity building.

In the same year, the European Commission (“EC”) had issued a decision recognizing the Malaysian public oversight, quality assurance, investigation and penalty systems for auditors and audit entities as equivalent to those of Member states of the European Union.

MALTA - The Accountancy Board of Malta (AB)

Throughout 2013, the AB continued to promulgate oversight within the audit and accountancy profession in Malta, primarily through its registration, inspection and enforcement functions. It worked closely with other regulators, standard setters and other stakeholders on a number of emerging issues impacting the audit and accountancy profession.

Throughout 2013, the AB, through the Quality Assurance Unit (QAU), which reports to the Quality Assurance Oversight Committee (QAOC), carried out part of its second cycle of monitoring of visits including nineteen inspections, three of which were of auditors of Public Interest Entities. Fifteen reports were concluded and submitted to the respective firms.

The AB continued to develop its portal, which apart from providing a public register of statutory auditors and firms, also generated a powerful database. This database is being used by the QAU to extract key indicators from annual returns submitted by audit practitioners to assist it in highlighting those entities with possible QA difficulties – thereby assisting it in adopting a risk based approach in its visit selection process.

In 2013, the AB also fulfilled its advisory role to the government on a number of accounting and auditing issues, with a number of legislative changes being proposed, including considered disciplinary cases referred to it by the QAOC.

MAURITIUS - Financial Reporting Council (FRC)

During 2013, the FRC performed 28 audit practice reviews. Additionally, 28 licensed auditors were selected for engagement file assessment and 41 engagement files for these auditors were reviewed, which included 15 Public Interest Entities of which two were listed on the official market for Mauritius.

The FRC referred 7 auditors to the Enforcement Panel and warnings were issued to 5 auditors for not performing audits as per the requirements of auditing standards.

The FRC also approved 5 new firm's names and 13 new auditors in 2013. In total, as of December 31, 2013, FRC had 95 audit firms and 199 licensed auditors registered with the Council.

The FRC reviewed the annual reports of 171 PIEs, comprising 54 listed entities in 2013. Mauritius adopted International Financial Reporting Standards issued by IASB and International Auditing Standards. FRC has issued guidelines on:

1. Guidelines on reporting on "Compliance with the National Code of Corporate Governance" by the PIE
2. Guidelines on "Reporting on Compliance with the Code of Corporate Governance by Auditor"
3. Guidelines on "Sanctions" for Auditors

FRC proposed to the government in 2013 that it review the definition of Public Interest Entities so as to include some major State Owned Enterprises in the list of PIEs. This proposal was accepted and the definition was reviewed.

In 2013, the Financial Services Commission, the Stock Exchange of Mauritius and the Mauritius Institute of Directors signed a Memorandum of Understanding with the FRC for the sharing of information.

FRC installed the PAWS system which will be used in 2014 to undertake audit practice reviews.

NETHERLANDS - Autoriteit Financiële Markten (AFM)

At the beginning of 2013, the Netherlands Authority for the Financial Markets (AFM) published the findings of its regular inspections performed at nine other audit firms with a PIE licence. At the same time, the AFM concluded its three-year cycle which started in 2010 with inspections of the quality of the audits performed by the four largest audit firms.

The inspections showed more or less the same result: that the quality of the audits fell short too often. Taking into account the considerable amount of coverage in the media and the public debate on the subject, the AFM came to the conclusion that it has achieved its objective to provide the market proper insight into the quality of the statutory audits. The AFM has started a constructive dialogue with interested parties in the industry, including the Dutch professional body *Nederlandse Beroepsorganisatie van Accountants* (NBA), the reviewers and advisers. In the meantime, the market seems convinced of the need for quality improvement throughout the industry, and has been actively looking for adequate measures to reach this improvement.

In 2013, the AFM performed regular inspections starting with the four largest audit firms. These inspections were partially performed in cooperation with the supervisory authority in the USA, the PCAOB.

By performing these inspections and taking other supervisory measures, it is the AFM's purpose to contribute to the improvement of the quality of audits performed by auditors. In 2013, various developments could be identified which showed the impact of the efforts taken by the AFM.

Seven of the audit firms with a PIE licence, which had been inspected, publicly demonstrated the willingness to change their behaviour. In a special press release or in their transparency report, they reported the AFM's inspection and agreed with the conclusions following from it. Since the second half of 2013, the AFM has been in consultation with these PIE audit firms to discuss the progress of their improvement plans and the changes in their organisations.

The AFM wants national and international legislation to stimulate the quality of audits: regulations should become more effective, be more enforceable and become more consistent. In 2013, therefore, we actively contributed to joint comment letters and other reactions to consultations from various international supervisory authorities (e.g. EAIG, IOSCO, ESMA and IFIAR) providing input to international standard setters such as IAASB and IESBA. A representative of the AFM was elected Vice-Chair of IFIAR in 2013. Furthermore, the AFM publicly reacted to consultations of the NBA, among others with regard to the rules concerning professional conduct and practice, and the independence requirements. As a result, the NBA has adjusted these rules, in particular with regard to their clearness and enforceability.

As of January 1, 2013, when a prohibition was introduced for audit firms with a PIE licence on the provision of other services in addition to audit services to PIE audit clients, the AFM received signals that the parties involved did not deal adequately with the transitional provision. The transitional provision prescribed that other services which had been agreed upon before January 1, 2013 should be completed by the end of 2014 at the latest.

At the beginning of 2013, the AFM inspected whether the four largest audit firms had dealt adequately with the transitional provision and had not provided other services for which there had not been concluded a contract. Initially, various audit firms did not react positively to the public report of the AFM. However, they subsequently publicly withdrew from some contracts in order to comply with the prohibition.

NORWAY - Financial Supervisory Authority of Norway (FSA)

During 2013, Finanstilsynet (the Financial Supervisory Authority of Norway) continued its oversight of auditors, including the licensing of individuals and firms, registration and supervision. Finanstilsynet ensures that auditors maintain their independence, discharge their assignments in a satisfactory manner and comply with the law and good auditing practices. The inspection program includes recurring inspections of PIE auditors (currently 19 audit firms), annual thematic inspections, ad-hoc inspections/investigations, off-site supervision through auditor returns every other year, and supervision of the professional institute's recurring quality assurance review of non-PIE auditors. Additionally, Finanstilsynet holds bi-annual contact meetings with the Norwegian Institute of Public Accountants, as well as annual meetings with the management of the five largest audit firms. Finanstilsynet also contributes by giving lectures for students, practitioners and others with an interest in auditing.

Nine PIE auditors were inspected in 2013. This year, no inspections were performed jointly with the PCAOB. The thematic inspection in 2013 focused on "audit of entities that handle cash on behalf of clients, particularly real estate agents ", and covered 30 audit firms, 50 engagement partners and 60 engagements involving real estate agents. In several cases, it showed insufficient understanding of special requirements in laws and regulations and a lack of control of authorizations relating to client accounts, with the result that the auditor did not obtain sufficient appropriate audit evidence of the client's assets. All of Finanstilsynet's inspection reports are public. Thematic inspection reports, off-site supervision reports, as well as important individual audit firm inspection reports and ad-hoc inspection/investigation reports are published on the Finanstilsynet's website.

POLAND - Audit Oversight Commission (AOC/KNA)

In the middle of 2013, the Audit Oversight Commission commenced its second 4-year tenure with 4 new members out of the 9 members.

The KNA performs public oversight of statutory auditors (7125 individuals), audit firms (1669 entities) and the professional organization - the National Chamber of Statutory Auditors. Although some tasks related to the functioning of the system of oversight have been delegated to the professional organization, the ultimate responsibility for the system falls upon the KNA.

The professional organization is, among others, tasked with inspections of audit firms. The inspections are carried out in PIE audit firms at least every 3 years (Big 4 audit firms started to be inspected annually) and in non-PIE audit firms, at least every 6 years.

The KNA within its duties to oversee the process of inspections of PIE audit firms: approves the annual inspection plan; approves inspection staff for each inspection; may delegate its observers to participate in inspections; may issue recommendations and instructions regarding the way inspections are carried out; approves each inspection report, with a prior right to access inspection documentation, request explanations and make amendments; and is provided with an annual report on the execution of the inspection plan.

In 2013, the first year in a second 3-year inspection cycle, 86 inspections of PIE audit firms out of 159 PIE audit firms in Poland were conducted.

In 2013, as a result of the inspections of PIE audit firms, 1 audit firm was sanctioned with a financial penalty and public announcement of detected irregularities as an additional sanction. Against 16 others, motions were filed to impose a financial penalty, including in one case the public announcement of detected irregularities.

Throughout 2013, the KNA actively took part in the process of the adaptation of the International Standards on Auditing (ISAs). The ISAs are planned to be effective as of January 1, 2015.

SINGAPORE - Accounting and Corporate Regulatory Authority (ACRA)

In Singapore, a key focus for 2013 was the importance of the collective responsibility of all stakeholders in the financial reporting ecosystem to safeguard the quality of financial information in Singapore, which involved looking beyond auditors to the preparer's role in particular.

This was the theme of ACRA's annual Public Accountants Conference (PAC), which focuses on issues of strategic importance to Singapore's auditing and financial reporting environment, and includes reporting on important issues arising from ACRA's regulatory and monitoring activities.

The 2013 conference included a report on a survey of preparers' mind-sets and challenges regarding financial reporting and auditing, which ACRA jointly undertook with ACCA (the Association of Chartered Certified Accountants). The report, titled "Strengthening the Financial Reporting Value Chain in Singapore" (available at <http://www.acra.gov.sg/NR/rdonlyres/7C9C62DF-9F25-4B54-81F6-B4C5B653D03D/0/SurveyofPreparersACCAACRAprintedfinal.pdf>) found that about half of the 400 preparers surveyed from large listed to small companies appeared to believe that the primary responsibility over financial preparation fell on the auditors. The survey identified a need for companies to firmly take ownership of financial reporting and to put greater emphasis on developing the resources needed for effective financial reporting, to deal with the increasing complexity of financial reporting.

In support of strengthening the financial reporting value chain, ACRA, in its capacity as the regulator of Singapore's companies and their financial reports, is considering how to strengthen the accounting and financial reporting regulatory framework. Key initiatives include the expansion of ACRA's surveillance of companies' compliance with financial reporting standards, and a review of whether to introduce specific legal duties relating to financial reporting for company management, in addition to the current legal responsibility on company directors.

In addition to the focus on preparers, at the conference ACRA released its annual Practice Monitoring Programme (audit inspections) Public Report (available at http://www.acra.gov.sg/NR/rdonlyres/C4DF9560-3124-49BC-8BDD-2DEB5D98E9F8/0/2013_07_30_PMPReport2013Clean.pdf). The report noted the progress made by some audit firms in the public interest entity (PIE)¹ segment in establishing strong quality controls even in the midst of an increasingly challenging environment. The report highlighted audit areas that ACRA would like the audit firms in the PIE segment to focus on, such as audits of cash flow forecasts and inventories. The report also highlighted how the workload of some firms in the non-PIE segment poses a major threat to audit quality and recommends that firms focus on delivering quality audits and charge fees that commensurate with the value of their work.

In May 2013, Singapore hosted the Global Public Policy Committee's Regulatory Working Group (GPPC RWG), including a joint meeting with the regional leaders of the GPPC firms and members of the ASEAN Audit Regulators Group from Singapore, Malaysia and Thailand. The participants discussed two issues that are shared across the ASEAN region: the need to retain and develop talent in the audit profession and the need to raise the appreciation of high quality financial reporting amongst ASEAN companies. Separately, the AARG also met with the regional leaders of the Big-Four Audit Firms to discuss how to address common issues identified through the regulators' respective audit inspection findings and the audit firms' own internal quality procedures.

¹ The current definition of PIEs include companies listed on the Singapore Exchange or that are in the process of issuing debt or equity instruments for trading on the Singapore Exchange, entities in regulated financial industries (such as banks, insurance companies, funds, fund managers and securities/brokers/dealers), and other entities which raise funds from the public (such as charities, Institutions of a Public Character and religious organisations).

SLOVAK REPUBLIC- Slovak Auditing Oversight Authority (UDVA)

The UDVA, in accordance with the approved plan of inspections for 2013 and in accordance with the Slovak Act on Auditors, Audit and Oversight of the Audit Performance (Act No. 540/2007 Coll.) performed the following 13 inspections:

- 4 inspections of auditors,
- 8 inspections of audit firms,
- 1 inspection of the Chamber of Auditors.

From the 13 inspections initiated in 2013, there were 12 inspections also completed in 2013. Two inspections, from the inspections performed in 2013, were performed on the basis of complaints received.

During 2013, the Committee for Audit Quality Assurance made 2 proposals for the initiation of a sanction procedure. In 2013, the two sanctions from the proposals of the previous year were imposed.

According to the Act No. 540/2007 Coll., the UDVA is responsible for organizing the auditor's examinations, examinations of professional competence and tests. Sixty six applicants participated in the auditor's examinations in 2013, 24 applicants successfully passed the auditor's examinations and hold the certificate of competence to perform an audit (Certificate) issued by the UDVA.

SLOVENIA – Agency for Public Oversight of Auditors (APOA)

The APOA continued its key supervisory activities during 2013 in the public oversight of the quality of work of audit firms, certified auditors, and professional bodies with respect to the public authorizations the professional body holds.

The APOA focused its audit oversight activities within a regular three and six year inspection cycle on 13 audit firms and 25 certified auditors. The APOA reviewed transparency reports published by 29 audit firms, as well as annual reports submitted to the APOA by 56 audit firms. The APOA conducted a thematic review of the ISQC- policies and procedures of 52 non- Big 4 audit firms. In 2013, the APOA imposed administrative sanctions to three certified auditors and three audit firms for infringements of auditing rules and the Auditing Act.

In the standards area, the APOA gave its consent to the several auditing rules relating to the national legislative particularities.

In 2013, the APOA assessed the regularity of licensing and registration of certified auditors and audit firms performed by the professional body. The APOA issued few recommendations based on identified shortcomings notwithstanding the provisions of the Auditing Act.

The APOA concluded bilateral agreements with the Slovenian financial sector regulators (Securities Market Agency, Bank of Slovenia and Insurance Supervision Agency). During 2013, cooperation resulted in the exchange of supervisory information that the APOA used for its supervisory activities in 2013 and planned activities for 2014.

At the international level, the APOA continued to monitor and participate in the debate on critical issues of the European Commission's proposals for a new regulation and changes to the existing Statutory Audit Directive. The APOA participated also in the joint comment letters sent to the IAASB by the EAIG.

SPAIN - Accounting and Auditing Institute (ICAC)

During 2013, the ICAC continued its supervisory activity of auditors and audit firms that included the evaluation of the auditors' internal quality control systems through the description, assessment and review of internal quality control procedures and their application to specific engagements and investigations. ICAC's activity included the areas of auditor registration, inspection and investigations, disciplinary procedures and standard-setting. In October 2013, the Spanish adaptation of ISA (NIA-ES) was adopted to be effective for audits of financial statements for periods beginning on or after January 1, 2014. In December 2013, a modification of our audit national standard ongoing concern (to anticipate ISA 570 for auditor's reports to be issued from January 1, 2013) and a modification of the Spanish adaptation of International Standard on Quality Control (ISQC) were approved, both to be effective for audits of annual accounts or financial statements beginning on or after January 1, 2014. Moreover, in October 2013, ICAC launched two public information periods for two national standards, one regarding relationships between auditors, and the other regarding audits of single financial statements (adaptation of ISA 805); both standards are expected to be approved in the first quarter of 2014.

Related to international cooperation, in July 2013, ICAC signed an Addendum to the Statement of Protocol and during the year, continued performing joint inspections with one third country audit oversight authority. Additionally, ICAC adhered to the EAIG Data base on inspection findings.

SRI LANKA - Accounting and Auditing Standards Monitoring Board (SLAASMB)

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) reviewed 50 audits carried out by 39 firms during the year 2013. Audits reviewed included 12 audits carried out by 6 firms which are members of international networks and 30 audits carried out by 28 firms which carried out audits of less than 10 Specified Business Enterprises (SBEs). Based on the risk associated with the SBE which were audited, 8 audits were subject to a comprehensive review. Deficiencies were identified in 43 audits conducted by 37 firms.

The identified departures from Sri Lanka Auditing Standards detected were communicated to the respective firms.

SWEDEN - The Swedish Supervisory Board of Public Accountants (RN)

The Supervisory Board of Public Accountants (Revisorsnämnden - RN) is a governmental authority under the Ministry of Justice. RN handles matters relating to authorized public accountants and authorized public accounting firms. Thus, RN arranges exams, issues authorization of auditors and of audit firms.

RN also supervises authorized public accountants and authorized public accounting firms, investigates and decides on disciplinary and other measures against auditors and audit firms, and ensures that professional ethics for accountants and generally accepted auditing standards are developed in an appropriate way.

RN's supervisory activities (approximately 85 % of the total activities)

The most essential task is the supervision of auditors and audit firms. This supervision is initiated and carried out in various ways. RN's mandate covers all auditors and registered audit firms and all categories of assurance engagements.

The tools available for RN's oversight are recurring quality control inspections as well as risk based inspections, disciplinary investigations, and the power to impose disciplinary sanctions. On the regulatory side of the supervisory function, RN can issue binding advance rulings in independence matters and issue formal regulations in areas delegated by the Government.

Quality control inspections

RN has the sole responsibility for the system for inspections of audit firms and auditors. When it comes to public interest companies (PIEs), RN carries out inspections on the largest seven audit firms, by which all PIEs are audited, every third year. To cover also a significant number of individual auditors in a three year cycle, the big four audit firms are subject to inspection activities almost continuously.

When it comes to inspections of auditors and audit firms that do not audit PIEs, RN relies on the inspections carried out by the professional organization FAR. The activities of FAR are monitored by RN. Under an agreement between RN and FAR, the organization has a duty to report to RN material breaches of auditing standards or professional ethics.

Examinations

In order to be authorized as public accountant, the candidates have to pass an examination of professional competence. Beginning in 2013 there is only one category of auditors, authorized public accountants. Instead of having to pass two exams there is now only one. That is the main explanation for the decrease in the number of examinees.

International cooperation

RN participates in EAIG-meetings at the European level as well as IFIAR plenary meetings and the IFIAR Inspection Workshop at the international level. On EU level RN participates in the activities of the EGAOB and its preparatory group. An informal meeting was held at the Nordic level. During 2013 RN continued its discussions on mutual oversight cooperation with PCAOB and an agreement is likely to be signed in 2014.

SWITZERLAND - Federal Audit Oversight Authority (FAOA)

The FAOA has the responsibility to decide on the licensing of individuals and audit firms offering statutory audit services and to oversee audit firms auditing public companies. As of 31 December 2013, 8,340 individuals and 3,498 audit firms hold a FAOA license. The FAOA currently oversees 22 state-regulated audit firms that are allowed to audit public companies.

Within the scope of its regular inspections, the FAOA set the focus for the 2013 inspections on the compliance with independence requirements in connection with additional services, the auditor's responsibilities with respect to fraud (ISA 240), the audit of accounting estimates, including estimated fair values and their disclosure in the notes to the financial statements (ISA 540), the special considerations relating to group audits, including the work of the component auditor (ISA 600), the audit of risk areas, for which substantive testing alone cannot provide sufficient appropriate audit evidence (e.g. bulk transactions at banks and insurance companies; ISA 315.30), the assessment of the work of the engagement quality control reviewer (ISQC 1/EQCR) and the assessment of professional scepticism.

In addition to routine inspections, the FAOA also conducts event-driven preliminary fact-finding and proceedings at state-regulated audit firms. In so doing, the FAOA considers, in particular, plausible information from third parties (e.g. media, whistle-blowers). In 2013, the FAOA received four notifications from third parties that related to state-regulated audit firms. Since the inspection activities of the FAOA began in 2008, 22 proceedings have been conducted as part of the oversight of state-regulated audit firms.

In 2013, the FAOA also entered into three new cooperative agreements with their counterparts from France, Liechtenstein and Luxemburg. The US Public Company Accounting Oversight Board (PCAOB) conducted two joint inspections in Switzerland. Based on the agreed reciprocity the FAOA also reviewed the audit working papers of a US audit firm relating to a subsidiary of a Swiss group.

CHINESE TAIPEI - Financial Supervisory Commission (FSC)

During 2013, the FSC undertook inspections of three audit firms. Among them, two audit firms were inspected jointly by the FSC and PCAOB (USA). The FSC discovered some deficiencies on its 2013 inspections. On the aspect of the selected audit engagements, some cases failed to provide sufficient evidence on related party transactions and consolidated procedures of group audits. On the aspect of the firms' systems of quality control, the FSC found that some firms lacked efficient policies on "engagement quality control reviews" and "human resources" or failed to effectively implement them.

In June 2013, the FSC's auditor oversight system was recognized as equivalent to the European Union's by the European Commission. This Decision has paved the way for the FSC to enhance international cooperation with EU auditor regulators, which would reduce the unnecessary duplication of oversight work by regulators as well as minimize the regulatory burden on our audit firms. In addition, the FSC has become a Member of IFIAR's Enforcement Working Group, so as to exchange information and to cooperate with Members on auditors' enforcement programs.

The Taiwan's Statements of Auditing Standards No. 54 "Special Considerations-Audits of Group Financial Statements" and No. 55 "Subsequent Events" were issued in 2013. They were developed on the basis of ISA 600 and AICPA (USA) AU-C section 600, and ISA 560 respectively.

In August 2013, the FSC held the audit firm roundtable to enhance the communication with auditors. The main issues included assisting public companies to smoothly transfer to IFRSs, improving education-to-employment systems in audit industry, facilitating the development of small and mid-sized audit firms, opening the auditor's market, and standards of audit fee setting, etc.

As of December 31, 2013, the total number of registered audit firms was 1,841, of which, the number of audit firms subject to inspection was 82.

THAILAND - Securities and Exchange Commission (SEC)

In 2013, the SEC continued its effort on the improvement of audit quality and the efficiency of the audit by starting the second-cycle of independent audit inspections (January 1, 2013 - December 31, 2015). The implementation of more stringent supervision, in line with international standards and recent international recognition of the SEC's auditor supervision, have increased investors' confidence in financial reports and disclosures of Thai listed companies. This also facilitates their capital formation in foreign countries. Also, the confidence gained from this supervision enhances the competitiveness of the Thai capital market and serves the nation as a whole.

Overall, the SEC conducted inspections of 14 audit firms from the total of 27 audit firms. The SEC also inspected 84 audit engagements of 28 registered auditors, 9 of which were auditors who had just applied for SEC approval and the rest were those seeking for the renewal of their SEC-approved status. One auditor, out of 9 new applicants, was disapproved.

To uplift the audit profession and the Thai capital market to the international best practices, the SEC held many seminars for registered auditors and other capital market stakeholders as follows:

- The second CEO Forum on the topic, "IFRS and Financial Reporting for Investors," featuring a keynote address by Mr. Hans Hoogervorst, Chairman of the International Accounting Standards Board (IASB), during which representatives from internationally recognized organizations presented their views on the importance of the full IFRS adoption and its effects on financial reporting from the prospective of investors and auditors. In addition, local and international practitioners, auditors and regulators, including Mr. Hoogervorst himself, discussed practical issues on the application of international accounting standards in separate sessions.
- The seminar for Audit Committee on the topic of "Audit Committee's Role and Responsibility on Financial Reporting" to promote Audit Committee's awareness on their roles and responsibilities in investor protection and to ensure the fairness of the financial reporting. In addition, the SEC presented guidelines for audit committees on how to select an external auditor who could help ensure and maintain the high quality financial reporting.
- The seminar on the topic of "Talent Attraction and Retention in Thai Audit Practices" to present the survey results, coordinated with the Association of Chartered Certified Accountants (ACCA), regarding key attraction and retention factors for audit staff to raise awareness of the importance of talent in the audit profession to improve the quality of audit. In addition, SEC held a panel discussion on the topics of the auditing of "Group Audit", "Fair Value Accounting Estimates", and "Going Concern" participated in by experts from the Big 4 auditing firms.
- The seminar on the topic of "Audit Quality Inspection and Expectation for Future Improvement" to present the result of the SEC audit inspection and common deficiencies found in quality reviews during 2013 to the registered auditors to elevate high standards of audit quality and financial statements in the Thai capital market.
- The seminar for local audit firms on the topic of "Updated Practical Issues related to Audit Quality and Financial Reporting" to present practical issues on ISQC1 compliance and case studies on financial statements misstatements.

To promote better collaboration among regulators and to gain international recognition, the SEC participated in various international meetings such as ASEAN Audit Regulators meetings, International Forum of Independent Audit Regulators meetings and IOSCO's Committee 1 meetings.

Finally, as to global acceptance, The European Commission ("EC") announced its decision to recognize Thailand's auditor oversight system under the SEC supervision as equivalent to those of the European Union ("EU") member states. As a consequence, the SEC-approved auditors will be exempted from registering with respective audit regulators of EU. Therefore, EU member states are able to rely on supervisory work of Thailand's oversight systems, and vice versa.

TURKEY- Capital Markets Board of Turkey (CMB)

Regulations

On December 2012, New Turkish Capital Markets Law was enacted. According to this law, the CMB is responsible for regulating auditing profession in capital markets, including authorizing auditing firms, performing oversight and quality control reviews as well as inspections of auditing firms that will operate in capital markets. In current structure regarding audit regulation and oversight; CMB has the sole and full responsibility and authority for the firms that will conduct independent audits under the scope of capital markets law (public companies (listed at the stock exchange and non-listed registered companies), intermediaries, investment funds, portfolio management companies, REITs and other companies). Banking Regulation and Supervisory Agency (BRSA) has its responsibility and authority for the firms that will conduct independent audit under the scope of banking law (banks, leasing firms, factoring firms, financing firms, asset management companies) and the Public Oversight, Accounting and Auditing Standards Authority has general responsibility for the audit firms and auditors.

Oversight and Inspections

UVAP System

The project called the Remote Data Transfer System (UVAP), which was created to improve the efficiency of oversight on auditing activities, was completed in 2010. Further improvements have been made on the system in 2013. Audit firms submit various types of information to the UVAP system that enables CMB to monitor firms on timely basis. Information submitted by the audit firms and monitored by the CMB include audit engagements signed with their clients, services provided to clients by the audit firms other than audit & assurance services, information regarding individuals (auditors at all levels) at the firm, auditor promotions, audit firm financial information etc. Via UVAP system 1327 files were monitored in 2013. UVAP system also enables CMB to generate reports electronically.

Regular Full Inspections and Thematic Inspections

In 2013, the CMB continued to oversee the audits of public companies as well as other companies under the scope of capital markets law in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

Overall, the CMB conducted 22 inspections (13 full inspections and 9 thematic inspections) of audit firms, including 2 "Big Four" audit firms.

During these inspections CMB reviewed 52 audit files. As of December 31, 2013; a total of 92 firms were registered with the CMB. However in 2012 and 2013; 70 of them had audit engagements with clients which are under the scope of capital markets law. (22 firms had no engagements). Thus CMB conducted inspections on 30 % of audit firms which have at least one or more engagements under the scope of capital markets law.

Of 22 firms inspected, CMB concluded there were serious shortcomings in statutory audits conducted by 11 firms. In the majority of audits, the auditor's opinion on the financial statements was not supported by sufficient and appropriate audit evidence. Other main deficiencies are related to lack of documentation, audit planning and risk assessment procedures, internal control testing, revenue recognition, accounting estimates, fair value measurements, related party transactions, use of experts and engagement quality control reviews.

As a result of the quality control inspections CMB imposed some sanctions; 2 audit firms' registration was revoked (unlisted) and banned from conducting audits, 4 individuals (audit partners) was suspended from associating with a CMB registered audit firm and banned from conducting independent auditing for 2 years. For 9 audit firms and 4 individuals (audit partners) civil monetary penalties were imposed.

CMB Inspection Findings Report

"CMB Quality Control Inspection Findings Annual Report" was published in the beginning of 2014. The annual report provides the results of the inspection findings as well as recommendations for expected improvements by the audit firms. The CMB report on 2013 quality control inspections is provided below. English translation of the report will be available soon.

<http://www.spk.gov.tr/displayfile.aspx?action=displayfile&pageid=987&submenuheader=9>

UNITED KINGDOM - Financial Reporting Council (FRC)

In 2013 the FRC issued individual public reports on the six largest firms together with its annual report covering its findings from more than 100 audit engagements. The first two thematic inspections of Materiality and Laws and Regulations were completed and the findings have now been published. In addition to its public reporting, the FRC now writes directly to the Audit Committee Chair, setting out its findings from each relevant individual audit engagement reviewed and how it had graded the work performed. The FRC also commenced its programme of inspections of Third Country Auditors.

During 2013, the FRC was given additional powers to impose sanctions as a result of inspection findings, amended its Disciplinary Scheme for Accountants and Auditors and issued sanctions guidance to Disciplinary Tribunals.

On the policy side, the FRC introduced a requirement for the largest 350 public companies to tender their audit at least every ten years or explain why they had not. The Corporate Governance Code was amended to require additional reporting by Audit Committee Chairs on how they had discharged their responsibilities for overseeing and assessing the effectiveness of their audit arrangements. Auditing standards were revised to enhance the reporting of Auditors to Audit Committees and to amend the Audit Report. Auditors are now required to include within

their report to shareholders a discussion on materiality and how they seek to address the significant audit risks.

Following the finalisation of the UK competition Commission investigation into the large company audit market, the FRC will inspect the audits of the largest 350 public companies on average every five years and it is recommended that Audit Committee's disclose in the Company's Annual Report whether their audit had been subject to an inspection by the FRC together with the key findings and grade.

The Sanctions Guidance for Tribunals has had an impact. A £14m fine (subject to Appeal) was awarded against Deloitte for a non-audit related matter and, in a different case, a settlement was agreed with EY for £750,000 in respect of an audit of a subsidiary company.

UNITED STATES - Public Company Accounting Oversight Board (PCAOB)

In 2013, the PCAOB continued to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

Overall, the PCAOB conducted 228 inspections of audit firms, including 175 in the United States and 53 in non-U.S. jurisdictions. The PCAOB also conducted 60 inspections of audit firms that audit brokers and dealers. Since it began inspecting audit firms in non-U.S. jurisdictions in 2005, the PCAOB has conducted inspections in 43 non-U.S. jurisdictions, including joint inspections with regulators in 14 non-U.S jurisdictions.

The PCAOB issued thirteen settled disciplinary orders and four adjudicated disciplinary orders in 2013. Fourteen firms and thirteen individuals were involved in these orders, and a total of \$2,100,500 in penalties was imposed. The PCAOB also approved the registration of 94 audit firms in 2013. A total of 2319 firms are now registered with the Board.

In the standards area, the PCAOB adopted an auditing standard on auditing supplemental information accompanying audited financial statements and two attestation standards for engagements related to broker and dealer compliance or exemption reports required by the U.S. Securities and Exchange Commission. The PCAOB issued for comment a proposed standard on the auditor's report and the auditor's responsibilities regarding other information, a proposed framework for reorganization of PCAOB auditing standards, a re-proposed standard on related parties, and a proposed standard on improving transparency of the audit through disclosure of the engagement partner and certain other participants in the audit. The PCAOB also issued a staff audit practice alert on considerations for audits of internal control over financial reporting.

Finally, on the international front, the PCAOB concluded 3 new bilateral cooperative arrangements with non-U.S. oversight bodies.

IFIAR Financial Statements

IFIAR's organizational and administrative support is jointly funded by its Members. Frank Schneider (Chief Executive Officer, Swiss Federal Audit Oversight Authority) serves as IFIAR Treasurer overseeing the process of collection and disbursement of the funds.

In addition to the joint funding of IFIAR's administrative expenses, IFIAR relies upon Members' voluntary contributions including the organization and hosting of plenary meetings and workshops, chairing Working Groups and hosting Working Group meetings and conference calls, maintaining Member Profiles and the IFIAR website, and reviewing new membership applications. The following IFIAR Financial Statements were approved by the Officers and membership at the IFIAR plenary meeting in Washington on April 7, 2014.

INDEPENDENT AUDITORS' REPORT

to the General Meeting of the /FIAR Verein, Berne

Report on the Financial Statements

We have audited the accompanying financial statements of IFIAR Verein which comprise the statement of financial position as at December 31, 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Executive Committee

The Executive Committee is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) and for such internal control as the Executive Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness on the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Executive Committee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IFIAR Verein as at December 31, 2013, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting

Standards for Small and Medium-sized Entities (IFRS for SMEs).

Report on regulatory requirements

Furthermore, we verified whether the disbursements were consistent with the IFIAR budget and the criteria for disbursement. We noted no exceptions.

Berne, 28 March 2014

SWISS FEDERAL AUDIT OFFICE



Walter Risler
Licensed audit expert



Carole Balli
Licensed audit expert

Enclosure: IFIAR Verein Financial Statements 2013

Statement of Comprehensive Income for the year/period ended 31 December

	Note	2013	2012
		€	€
Staff costs		302,089	284,884
Travel expenses		57,069	48,931
Meeting expenses		4,549	8,654
Audit expenses		1,577	2,713
Website development and other expenses		2,331	7,626
Operational expenditure	3	367,615	352,808
Interest income		0	0
Net operating expenditure		367,615	352,808
Revenue	4	409,500	378,250
Surplus		41,885	25,442

Statement of Financial Position at 31 December

	Note	2013	2012
		€	€
Assets			
Current assets:			
Trade and other receivables	5	33,770	11,263
Cash and cash equivalents		270,449	254,242
Total assets		304,219	265,505
Liabilities			
Current liabilities:			
Accruals	6	197,136	199,775
Deferred Income	7	1,152	1,684
Total liabilities		198,288	201,459
Net Assets		105,931	64,046
Equity			
Retained surplus		105,931	64,046

Statement of Changes in Equity for the year/period ended 31 December

	Note	2013	2012
		€	€
As at 1 January		64,046	38,604
Surplus for the year		41,885	25,442
As at 31 December		105,931	64,046

Cash Flow Statement for the year/period ended 31 December

	Note	2013	2012
		€	€
Surplus on ordinary activities		41,885	25,442
(In-) / Decrease in receivables		(22,507)	13,737
Decrease in payables		(3,171)	(107,654)
Cash flows from operating activities		16,207	(68,475)
Interest received		0	0
Net increase in cash		16,207	(68,475)
Cash at beginning of period		254,242	322,717
Cash at the end of period		270,449	254,242

Notes to the financial statements

1 General information

The IFIAR Verein is a Swiss Verein which is established solely for the collection of membership fees and distribution of these amounts in recompense of the provision of administrative and organisational support of IFIAR, currently provided by staff from the organisations of the IFIAR Chair and Vice-Chair. It is a Swiss Verein pursuant to article 60 of the Swiss Civil Code. It is domiciled at the Offices of the FAOA, Switzerland. Its correspondence address is at the PCAOB. These financial statements were authorised for issue by the IFIAR Verein Executive Committee on 26 March 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of presentation

The financial statements of the IFIAR Verein have been prepared in accordance with the 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs) issued by the International Accounting Standards Board. They have been prepared under the historical cost convention.

2.2 Cash

The measurement basis for cash amounts is the balance at the IFIAR Verein bank account.

2.3 Receivables

Receivables are recognised at the transaction price, with a provision if deemed necessary.

2.5 Revenue recognition

Revenue comprises the Membership fees of the Members of the IFIAR Verein. Revenues are recognized on an accruals basis.

2.6 Foreign currencies

The functional and presentation currency for the IFIAR Verein is the Euro. Exchange rates to foreign currencies are set at the date of the transaction, or as of balance sheet date.

2.7 Assumptions/key sources of uncertainty

There were no significant assumptions made or key sources of uncertainty in the preparation of these financial statements.

3 Operational expenditure

The operational expenditure is analysed by organisation and against budget below; it is analysed by category against the previous year on the face of the Statement of Comprehensive Income.

	FRC	PCAOB	AFM	Other	2013	Budget	Difference
	€	€	€	€	€	€	€
Staff costs	53,016	183,990	65,083	0	302,089	320,000	(17,911)
Travel expenses	4,966	38,762	13,341	0	57,069	60,000	(2,931)
Meeting expenses	4,341	208	0	0	4,549	5,000	(451)
Audit expenses	0	0	0	1,577	1,577	6,000	(4,423)
Website development and other expenses	265	191	0	1,875	2,331	5,000	(2,669)
Operational expenditure	62,588	223,151	78,424	3,452	367,615	396,000	(28,385)

Staff costs are slightly below budget but slightly increased compared to 2012 reflecting secretariat work levels largely in line with expectations over the year. Other expense items were largely in accordance with budget and expectations in a similar fashion; the cost of the audit was €2,577 with a reduction of the audit accrual of €1,000 in the year reducing the cost as indicated.

4 Revenue

Revenue for the year/period to 31 December comprised:

	2013	2012
	€	€
44 Members paid €9,000 (2012: 40 Members paid €9,000)	396,000	360,000
0 Members were allowed a fee waiver and paid a reduced amount of €2,500 (2012: 1 Member)	0	2,500
2 Members joined during the year and paid fees reflecting their length of Membership (2012: 3 Members)	13,500	15,750
Total revenue	409,500	378,250

5 Receivables

€33,770 of receivables (2012: €11,263) were outstanding at 31 December 2013. Receivables comprised membership fees from IFIAR Members. All late fees will be discussed with the Membership at the IFIAR Plenary, to the extent they have not been paid before the Plenary.

6 Accruals

The accruals at the end of the period comprised operational expenses incurred but not invoiced at the year-end by AFM and PCAOB as follows:

	PCAOB	AFM	Other	2013	2012
	€	€	€	€	€
Staff costs	94,427	65,083		159,510	166,642
Travel expenses	21,077	13,341		34,418	21,004
Meeting expenses	208			208	8,055
Audit expenses for 2013			3,000	3,000	4,000
Other expenses					74
Operational expenses	115,712	78,424	3,000	197,136	199,775

The amounts due to the AFM and the PCAOB were invoiced to IFIAR Verein in March 2014. The audit will be invoiced after its finalization.

7 Deferred Income

Other liabilities include a payment totalling €1,152 (2012: €1,684) of membership fees unintentionally paid over and above to the fee due. This payment will be treated as deferred income and will reduce the membership fee for 2014 for the Member concerned.

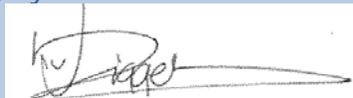
8 Related-party transactions

The majority of the activity of IFIAR Verein is conducted with related parties, being the Members of IFIAR (who are also the members of the Verein). All revenues are obtained from Members, whilst the majority of operating expenses are paid to the organisations of the Chair and Vice-Chair of IFIAR. In 2013, the only third parties with which the Verein interacted were the auditors, the providers of indemnity insurance for the Executive Committee and the Verein's bank, Credit Suisse.

Approved on 26 March, 2014, by



Lewis Ferguson
IFIAR Chair



Janine van Diggelen
IFIAR Vice-Chair

Annex – IFIAR Membership

IFIAR membership shall be open to regulators that are both:

- a) Independent of the audit profession. The audit profession includes, for example: audit firms, professional bodies and bodies or entities associated with the audit profession. Indicators of independence from the profession include:
 - A majority of the relevant governing body are non-practitioners (with an appropriate cooling off period for former auditors); and
 - Funding of the regulator is free of undue influence by the audit profession; and
- b) Engaged in audit regulatory functions in the public interest, and, in particular:
 - Ultimately responsible for the system of recurring inspection of audit firms undertaking audits of public interest entities; and Exercising that responsibility either directly or through independent oversight.

As of December 31, 2013, IFIAR membership included independent audit oversight authorities from the following 46 jurisdictions:

ABU DHABI

Abu Dhabi Accountability Authority (ADAA)

Level 9, Falcon Tower

Abu Dhabi, United Arab Emirates

PO Box 435

Tel: +971 2 6107 508

Fax: +971 2 6344 071

Website: www.adaa.abudhabi.ae

ALBANIA

Public Oversight Board of Albania

Rr. Elbasanit, Pallati Edil Al IT, Zyra nr.321,

Tirana Albania

Tel: 355 4 346 077

AUSTRALIA

Australian Securities & Investments Commission (ASIC)

Level 5, 100 Market Street, Sydney, New South Wales, 2000, Australia (street address)

GPO Box 9827, Sydney, New South Wales, 2001, Australia (postal address)

Tel: 02 9911 2000

Direct: 02 9911 2079

Fax: 02 9911 2403

Website: www.asic.gov.au

AUSTRIA

Austrian Auditors Supervisory Authority (ASA)
c/o Federal Ministry of Economy, Family and Youth
Section I/1a
A-1011 Vienna, Stubenring 1
Tel: 0043 (01) 71100 - 5800
Fax: 0043 (01) 71100 - 15800
Email: qkb@bmwfj.gv.at
Website: www.bmwfj.gv.at/qkb

BELGIUM

Chambre de renvoi et de mise en état/Kamer van verwijzing en instaatstelling (CRME/KVI)
Bd. E. Jacquain 135
1000 Brussels
Belgium
Tel: + 32 2 511 53 97
Fax: +32 2 203 45 70
Website: The CRME's website is currently under construction.

BRAZIL

Comissao de Valores Mobiliarios Securities (CVM)
Rua Sete de Setembro, 111
13°, 26° ao 34° Andares – Centro
CEP – 20050-901
Rio de Janeiro – RJ
Brasil
Tel: 00 55 21 3233 0200
Fax: 00 55 21 2221 6769
Website: www.cvm.gov.br

BULGARIA

Commission for Public Oversight of Statutory Auditors (CPOSA)
7th Floor, 22 Serdica Street
Sofia 1000
Bulgaria
Tel: +3592 9835539
Fax: +3592 9831385
Email: office@cposa.bg
Website: www.cposa.bg/en/

CANADA

Canadian Public Accountability Board (CPAB)
150 York Street
Suite 200
Toronto, Ontario M5H 3S5
Canada
Tel: 00 1 416 913 8261
Fax: 00 1 416 850 9235
Website: www.cpab-ccrc.ca

CROATIA

Croatian Audit Public Oversight Committee (APOC)
Katanciceva 5
10 000 Zagreb
Croatia
Tel: +385 1 45 91 171
Fax: +385 1 45 91 101
Email: info@javni-nadzor-revizije.hr
Website: www.javni-nadzor-revizije.hr/

DENMARK

Danish Business Authority (DBA)
Dahlerups Pakhus
Langelinie Alle 17
2100 Copenhagen
Denmark
TEL: +45 3529 1000
FAX: +45 3546 6001
E-mail: erst@erst.dk
Website: www.erst.dk

DUBAI INTERNATIONAL FINANCIAL CENTRE

Dubai Financial Services Authority (DFSA)
Level 13, The Gate
P. O. Box 75850
Dubai, UAE
Tel: +971 (0) 4 362 1508
Fax: +971 (0)4 362 0801
Website: www.dfsa.ae

EGYPT

Auditors Oversight Board (AOB)
Egyptian Financial Supervisory Authority
2nd Floor, 20 Emaad El Din Street
Down Town
Cairo
Egypt 11111
Tel: +202-257-97368 extension 106
Fax: +202-257-73693
Website: www.efsa.gov.eg

FINLAND

The Auditing Board of the Central Chamber of Commerce of Finland (AB3C)
P.O. Box 1000
Aleksanterinkatu 17
00101 Helsinki
Finland
Tel: +358 9 4242 6200
Fax: +358 9 4242 6251
Website: www.ab3c.fi

FRANCE

Haut Conseil du commissariat aux comptes (H3C)
10 rue Auber
75009 Paris
France
Tel: 00 33 1 4451 0936
Fax: 00 33 1 4451 0935
Website: www.h3c.org

GERMANY

Abschlussprueferaufsichtskommission (APAK)
Rauchstrasse 26
D-10787 Berlin
Germany
Tel: +49 30 5900 363 700
Fax: +49 30 5900 363 710
Website: www.apak-aoc.de

GIBRALTAR

Financial Services Commission
PO Box 940
Suite 3, Ground Floor
Atlantic Suites
Europort Avenue
Gibraltar
Tel: +350 200 40283
Fax: +350 200 40282
Email: auditors@fsc.gi
Website: www.fsc.gi

GREECE

Accounting and Auditing Standards Oversight Board
7, Voullis Street, 5th Floor
105 62, Athens
Greece
Tel: +30 210 324 2648
Fax: +30 210 323 4141
Email: info@elte.org.gr
Website: www.elte.org.gr

HUNGARY

Auditors' Public Oversight Authority (Ministry for National Economy)
József nádor tér 2-4
1051 Budapest
Hungary
Tel: +36 1 795 3543
Fax: +36 1 795 0294
Email: kozfelugyelet@ngm.gov.hu
Website: <http://www.kormany.hu/hu/nemzetgazdasagi-miniszterium/ado-es-penzugyekert-felelos-allamtitkarsag/hirek/konyvvizsgaloi-kozfelugyeleti-hatosag>

INDONESIA

The Accountant and Appraiser Supervisory Center (PPAJP)
Ministry of Finance in Indonesia
Jl. Dr.Wahidin No.1
Gedung Djuanda II
Lt 19-20
Jakarta Pusat
DKI Jakarta 10710
Indonesia
Tel: 021 384 3237
Fax: 021 345 3710
Website: www.ppajp.depkeu.go.id

IRELAND

Irish Auditing & Accounting Supervisory Authority
Willow House
Millennium Park
Naas
Co. Kildare
Ireland
Tel: +353 (0)45 983600
Fax: +353 (0)45 983601
Email: info@iaasa.ie
Website: www.iaasa.ie / www.iaasa.eu

ITALY

Commissione Nazionale per le Società e la Borsa (CONSOB)
3, Via G.B. Martini
00198 Rome
Italy
Tel: 00 39 068 4771
Fax: 00 39 068 477763
Website: www.consob.it

JAPAN

Certified Public Accountants & Auditing Oversight Board (CPAFOB)
3-2-1 Kasumigaseki
Chiyoda-ku
Tokyo 100-8905
Japan
Tel: 00 81 3 5251 7279
Fax: 00 81 3 5251 7288
Website: www.fsa.go.jp/cpaob

Financial Services Agency (FSA)
3-2-1 Kasumigaseki
Chiyoda-ku
Tokyo, 100-8967
Japan
Tel: 00 81 3 3506 6420
Website: www.fsa.go.jp

KOREA

Financial Services Commission (FSC)
27 Yoido-Dong
Youngdeungpo-Gu
Seoul 150-743
Korea
Tel: 00 82 2 3771 5000
Website: www.fsc.go.kr

Financial Supervisory Service (FSS)
27 Yoido-Dong
Youngdeungpo-Gu
Seoul 150-743
Korea
Tel: 00 82 2 3771 5114
Website: www.fss.or.kr

LIECHTENSTEIN

Financial Market Authority Liechtenstein (FMA)
Finanzmarktaufsicht Liechtenstein (FMA)
Landstrasse 109,
P.O. Box 279, 9490
Vaduz, Liechtenstein
Tel: +423 236 73 73
Email: info@fma-li.li
Website: www.fma-li.li

LITHUANIA

The Authority of Audit and Accounting
Ukmerges 222
LT-07157, Vilnius
Lithuania
Tel: +370 5 262 0198
Fax: +370 5 262 0782
Email: admin@aat.lt
Website: www.aat.lt

LUXEMBOURG

Commission de Surveillance du Secteur Financier (CSSF)
110, route d'Arlon
L-2991 Luxembourg
Tel: 352 26 25 1 351
Fax: 352 26 25 1 603
Email: direction@cssf.lu
Website: www.cssf.lu

MALAYSIA

Audit Oversight Board
Securities Commission Malaysia
Suite 8-6, Level 8
Wisma UOA Damansara II
No 6, Changkat Semantan
Damansara Heights
50490, Kuala Lumpur
Tel: +60320910666
Website: www.sc.com.my/

MALTA

The Accountancy Board of Malta
Small Enterprise Centre
Marsa Industrial Estate
Marsa MRS 3000 - Malta
Tel: (356) 21220084
Fax: (356) 21228671
Website: www.secure3.gov.mt/accountancyboard/Home.aspx

MAURITIUS

Financial Reporting Council
3rd Floor
Anglo Mauritius Building
Intendance Street
Port-Louis Mauritius
Email: snaiken@mail.gov.mu
Website: www.frc.mu

NETHERLANDS

Autoriteit Financiële Markten (AFM)
P.O. Box 11723
1000 GS
Amsterdam
Holland
Tel: 00 31 20 707 2000
Fax: 00 31 20 797 3800
Website: www.afm.nl

NORWAY

Finanstilsynet / The Financial Supervisory Authority of Norway
P.O. Box 1187 Sentrum
N-0107 Oslo
Norway
Tel: 00 47 2293 9901
Fax: 00 47 2293 9996
Website: www.finanstilsynet.no

POLAND

Audit Oversight Commission
12 Swietokrzyska Str, 00-916 Warsaw, Poland
Tel: +48 22 694 39 61
Fax: +48 22 694 32 60
Email: biuro.kna@mf.gov.pl

PORTUGAL

Conselho Nacional de Supervisão de Auditoria/ National Council of Auditing Supervision
Rua do Crucifixo, n.º 7 - 3.º
LISBON - PORTUGAL
Tel: +351213233411
Fax: + 351213432858
Email: cnsa@cnsa.pt
Website: www.cnsa.pt/

SINGAPORE

Accounting and Corporate Regulatory Authority (ACRA)
10 Anson Road
05-01/15
International Plaza
Singapore 079903
Tel: 00 65 6325 0206
Fax: 00 65 6225 1676
Website: www.acra.gov.sg

SLOVAK REPUBLIC

Auditing Oversight Authority
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TURKEY

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OBSERVERS

The following organizations are observers of IFIAR meetings:

- Basel Committee of Banking Supervisors
- European Commission (EC)
- Financial Stability Board (FSB)
- International Association of Insurance Supervisors (IAIS)
- International Organization of Securities Commission (IOSCO)
- Public Interest Oversight Board (PIOB)
- World Bank

IFIAR WORKING GROUPS' MEMBERSHIP

Enforcement Working Group

Chair: Takashi Nagaoka, FSA, Japan

Vice Chair: Claudius Modesti, PCAOB, USA

Members:

- ASIC Australia
- AB3C Finland
- AOC Germany
- AFM Netherlands
- CNSA Portugal
- FAOA Switzerland
- FSC Chinese Taipei
- FRC UK

Global Public Policy Committee (GPPC)

Chair: Brian Hunt, CPAB, Canada

Members:

- ASIC Australia
- H3C France
- AOC Germany
- FSA/CPAAB Japan
- AFM Netherlands
- ACRA Singapore
- FRC United Kingdom
- PCAOB United States

Inspection Workshops Working Group

Chair: Tim Volkmann, AOC, Germany

Members:

- ASIC Australia
- CPAB Canada
- H3C France
- AOC Germany
- CPAAAB/FSA Japan
- FSA Norway
- FRC United Kingdom
- PCAOB United States

International Co-operation Working Group

Chair: Doug Niven, ASIC, Australia

Members:

- ASIC Australia
- CPAB Canada
- H3C France
- CONSOB Italy
- CPAAAB/FSA Japan
- FSS Korea
- ACRA Singapore
- SBPA Sweden
- FAOA Switzerland
- FRC United Kingdom
- PCAOB United States

Observer:

- European Commission

Investor Working Group

Chair: Steve Harris, PCAOB, US

Members:

- CPAB Canada
- H3C France
- CPAAOB/FSA Japan
- FSS/FSC Korea
- AFM Netherlands
- ACRA Singapore
- FRC United Kingdom

Standards Coordination Working Group

Chair: Bernard Agulhas, IRBA, South Africa

Members:

- ASIC Australia
- CPAB Canada
- H3C France
- AOC Germany
- CONSOB Italy
- CPAAOB/FSA Japan
- AFM Netherlands
- ACRA Singapore
- ICAC Spain
- FAOA Switzerland
- FRC United Kingdom
- PCAOB United States

IFIAR CORE PRINCIPLES

Introduction

IFIAR is an organization of independent audit regulators (hereinafter, 'audit regulators'). The organization's primary aim is to enable its Members to share information regarding the audit market environment and practical experiences of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.

Consistent with the IFIAR Charter, the Core Principles (hereinafter, 'Principles') seek to promote effective independent audit

oversight globally, thereby contributing to Members' overriding objective of serving the public interest and enhancing investor protection by improving audit quality.

An audit regulator's membership in IFIAR is not dependent on its status in implementing the Principles. However, Members are encouraged to work towards implementing them where appropriate in their own jurisdictions, taking account of the risk profile, size and complexity of audit firms in their market. It is recognized that legislative change or other measures by national authorities not in control of the audit regulator may be required to achieve adherence to the Principles.

The Principles are intended to:

- Assist Members in developing their own national arrangements through being able to draw on and hence benefit from the experience of other members;
- Advance widespread adoption of high quality audit oversight practice aimed at fostering high quality audits and promoting public trust in the financial reporting process; and
- Support cooperation between regulators and promote greater consistency of audit oversight. The Principles may also assist audit regulators who are not already Members of IFIAR to develop effective independent audit oversight arrangements.

The Principles are presented in bold lettering followed by an explanatory text that provides further explanation.

A system of audit oversight and audit regulation can only be effective subject to certain preconditions; that is if it exists

within an appropriate external environment. Such preconditions, although often outside the control of the national audit oversight system, in practice have a direct impact on the effectiveness of that system. The main precondition is the existence of a well-developed legal and corporate governance framework as to provide necessary support for high quality auditing. Elements of this framework will cover the following:

- Comprehensive and well defined accounting and auditing principles and standards that are generally accepted;
- Legal requirements for the preparation and publication of financial statements according to those principles and standards;
- An enforcement system for preparers of financial statements to ensure compliance with accounting standards (e.g. fines, shareholder redress or penalties on responsible managers for non-compliance);
- Corporate governance arrangements and practices that support high-quality corporate reporting and auditing practice; and
- Effective educational and training arrangements for accountants and auditors.

Where shortcomings exist, audit regulators should make the government or other relevant decision makers aware of such matters and their potential impact on audit quality or the operation of an effective audit oversight system. Audit regulators should also act, as part of their normal activities, with the aim of mitigating the effects of such shortcomings on the effectiveness of their oversight, regulation and inspection.

Part A. Structure

Principle 1: The responsibilities and powers of audit regulators should serve the public interest and be clearly and objectively stated in legislation.

Audit regulators should have a mandate to work in the public interest and protect investors by seeking to improve audit quality. The responsibilities and powers of audit regulators should, at a minimum, require independent oversight of the audits of public interest entities.

The legal framework for audit oversight should set forth the audit regulator's mandate and responsibilities, and provide the regulator with adequate powers and authority that enable the regulator to perform its audit oversight duties, including powers to address, through inspection and enforcement, compliance with the requirements for the authorization/registration of auditors/audit firms and compliance with applicable auditing, professional and independence standards.

Principle 2: Audit regulators should be operationally independent.

Independence means the ability to undertake regulatory activity and to take and enforce decisions without external interference by those regulated. The audit regulator should be operationally independent from external political interference and from commercial, or other sectoral interests, in the exercise of its functions and powers, including not being controlled in its governance by audit practitioners. The audit regulator should have a stable source of funding, which is secure and free from influence by auditors

and audit firms and sufficient to execute its powers and responsibilities.

Principle 3: Audit regulators should be transparent and accountable.

The audit regulator should have public accountability in the use of its powers and resources to ensure that the audit regulator maintains its integrity and credibility. Further, the decisions and actions of the audit regulator should be subject to appropriate scrutiny and review, including appeal to a higher authority. Transparency should include the publication of annual work plans and activity reports, including the outcome of inspections either in the aggregate or on a firm by firm basis.

Part B. Operations

Principle 4: Audit regulators should have comprehensive enforcement powers which include the capability to ensure that their inspection findings or recommendations are appropriately addressed; these enforcement powers should include the ability to impose a range of sanctions including, for example, fines and the removal of an audit license and/or registration.

Audit regulators should at a minimum be responsible for the system and conduct of recurring inspection of audit firms undertaking audits of public interest entities. Audit regulators should have the authority and ability to enforce inspection findings and recommendations. The audit regulator should have comprehensive enforcement arrangements such as fines, suspensions and the removal of an auditor's or audit firm's license or registration.

Audit regulators should have adequate and appropriate mechanisms for enabling information to be brought to their attention

by third parties and for then dealing with such information, such as through complaints procedures or through whistle blowing arrangements. These mechanisms should act in a timely and effective manner and their results followed up through an appropriate system of investigations and penalties in relation to cases of inadequate or noncompliant execution of an audit.

Principle 5: Audit regulators should ensure that their staff is independent from the profession and should have sufficient staff of appropriate competence.

Audit regulators should have arrangements in place to ensure that inspection staff members are independent of the profession. These arrangements will, as a minimum, include ensuring that staff members should not be practicing auditors or employed by or affiliated with an audit firm, and that the arrangements are not controlled in any form by a professional body.

In order for audit regulators to be effective, it is a prerequisite that there is sufficient staff of appropriate competence. The persons carrying out the reviews of quality assurance systems of audit firms should have appropriate professional training and relevant experience in auditing and financial reporting, and training in regulatory quality assurance reviews.

This also means that adequate arrangements for consultation and discussion amongst inspectors are in place. New inspectors should be subject to proper supervision and appropriate training.

Principle 6: Audit regulators should be objective, free from conflicts of

interest, and maintain appropriate confidentiality arrangements.

Audit regulators should maintain the highest standards of ethical conduct to provide the public with confidence in the objectivity of their decisions. Audit regulators should have in place prohibitions against conflicts of interest by its governing body and staff and ensure that appropriate arrangements are in place to protect confidential information from public dissemination.

Principle 7: Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other third parties.

Taking into account the global nature of the financial markets, where necessary and relevant, cooperation and information sharing with other audit regulators and other third parties, including financial market regulators, is helpful to improve audit quality.

Audit regulators should provide timely assistance to each other within reasonable limits. Arrangements should be in place for sharing information between audit regulators and other regulators (or between parts of the audit oversight system if it involves more than one body), and for protecting the confidentiality of such information.

Part C. Principles for inspections

Principle 8: Audit regulators should as a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities in order to assess compliance with applicable professional standards, independence requirements and other laws, rules and regulations.

The recurring inspections should be conducted pursuant to a process comprising the selection of the audit firms to inspect, appointment of an inspection teams with appropriate expertise and competence, notification to the audit firm, advance documentation request, notification of selection of audit engagements for review, meetings with management, and on-site inspection arrangements. The inspection process should be subject to appropriate internal quality control within the audit regulator to ensure high quality and consistency.

Principle 9: Audit regulators should ensure that a risk-based inspections program is in place.

Audit regulators should have a process for assessing risks in the audit environment and audit risks in individual regulated firms and their audit engagements. Audit regulators should have a process for taking into account their risk assessment in allocating their inspection resources and in the inspection approaches they adopt. These processes should be commensurate with the size and complexity of the audit firms and their clients. Audit regulators should have an established minimum cycle regarding the frequency of inspections.

Principle 10: Audit regulators should ensure that inspections include effective procedures for both firm wide and file reviews.

The risk-based inspection approach should also be reflected in both firm wide and audit file inspection procedures. The firm wide procedures should address the audit firm's quality control system as reflected in the firm's organization, policies and procedures. ISQC 1 or similar standards should be used as a benchmark in

performing firm wide procedures. The inspection process should also include adequate testing of selected audit files in order both to determine the effectiveness of the firm's quality control system and to assess compliance with applicable laws, rules and professional standards.

Principle 11: Audit regulators should have a mechanism for reporting inspections findings to the audit firm and ensuring remediation of findings with the audit firm.

Audit regulators should have a process that ensures that criticisms or potential defects in an audit firm's quality control systems and issues related to an audit firm's performance of audits that are identified during an inspection are reported to the audit firm. Audit regulators' reporting processes should include the preparation and issuance of a draft inspection report, a process for the audit firm to respond, and the preparation and issuance of a final inspection report. In addition, audit regulators should have a process for ensuring that audit firms satisfactorily address inspection findings that were reported to the audit firm by the audit regulator.