INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

IFIAR Information Paper:

Facilitating Oversight of Global Audit Firm Networks

11 September 2020

Established in 2006, the International Forum of Independent Audit Regulators (IFIAR) comprises independent audit regulators from 55 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe. Dedicated to serving the public interest and enhancing investor protection, IFIAR provides a platform for dialogue and information-sharing regarding audit quality matters and regulatory practices around the world and promotes collaboration and consistency in regulatory activity.

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Introduction

IFIAR's[1] mission and commitment is to serve the public interest, including investors, by enhancing audit oversight globally. This paper explains how IFIAR executes on its mission in the context of the global aspects of audit and audit oversight and the roles of audit and audit oversight in the financial reporting ecosystem.

As companies increasingly operate internationally, the audit profession continues to become more global in nature. Accordingly, international coordination in audit regulation is important to the international financial ecosystem across the globe. IFIAR acts as a forum for international audit regulators to share experiences and to interact with the audit profession in an effort to serve the public interest.

This paper focuses on three specific areas.

First, it explains the role that reliable financial reporting, aided by audit and audit oversight, plays in the international financial ecosystem and how it is among the contributors to financial stability worldwide.

Second, the paper explains how **global audit firm networks** operate, how the **Global** entities interact with network **Member Firms** and how local audit regulators oversee the network Member Firms.

Third, the paper describes how IFIAR acts as a platform for Members to share knowledge and experiences and engage with global network firms to encourage unwavering attention to the ongoing pursuit of audit quality improvements.

1. Financial Reporting and Audit/Audit Oversight

The Contribution of Reliable Financial Reporting to Financial Stability

There are many contributors to financial stability. This paper addresses one aspect of financial stability, reliable financial reporting.

Reliable financial reporting – in the form of audited financial statements – is foundational to the efficient allocation of resources through the capital and financial markets. Audited financial statements are one of the core inputs used by investors, asset managers, and analysts as they evaluate investment alternatives. They also form an important data point for various regulatory, supervisory, and prudential determinations; for example, audited financial statements are the basis for calculation of regulatory capital and liquidity requirements for banks. Statutory and regulatory requirements for companies to publish audited financial statements reflect the value legislatures, regulators, and other policy makers place on reliable financial reporting. The collective confidence in the integrity of key players in the financial reporting system contributes to stability in financial markets and, by extension, economies.[2]

The financial reporting ecosystem involves many critical contributors, each of which must play their respective parts for the overall financial reporting system to function properly. While requirements and responsibilities vary among jurisdictions, the following discussion and accompanying graphic describe, at a high level and in general terms, certain common features of the financial reporting ecosystem.

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[1] See Glossary of Terms for defined terms, indicated in **bold** at first use.

[2] This paper focuses on the general role of financial reporting, and consequently audit and audit oversight, in the context of international capital and financial markets. In some jurisdictions, audited financial statements may be required for other purposes that also call for reliable financial reporting.

A company's management bears ultimate responsibility for financial reporting, including maintaining effective internal controls to ensure the integrity of financial disclosures. Independent auditors are responsible for maintaining their independence from the company and its management, conducting a quality audit in compliance with standards, and issuing an audit report on whether the financial statements are free of material misstatement. Depending upon the jurisdiction, independent auditors may communicate additional information through descriptions in the audit report of key or critical audit matters, or by making required disclosures to audit committees or shareholders. Audit committees or those charged with governance oversee management's financial reporting and disclosure process; and play a key role in selecting and monitoring the independent auditor. Standard setters promulgate standards for financial reporting and auditing, to provide consistency in and general understanding of the work required of management and the auditor, this includes evaluation of the auditor's independence. Finally, regulators operate in the public interest to provide an additional layer of independent oversight and accountability within the scope of their respective mandates.

The Role of Audit and Audit Oversight

The audit, and audit regulation, play a critical role in the financial reporting ecosystem. Although the audit does not extend to all aspects of financial reporting, independent audit promotes confidence in the reliability of a primary element of financial reporting, the audited financial statements. It provides an assessment, independent of management's, about whether the financial statements are free of material misstatement.[3] The ability to objectively evaluate audit quality is often limited by a lack of familiarity with the audit process and because historically little information has been publicly available to use in such an evaluation.[4] Audit regulators, who have expertise and access to the audit firms' work, are better able to evaluate audit quality and thereby provide additional transparency into the audit process.

Regulatory oversight provides important information for evaluating audit firms and audit quality that was previously unavailable or was much less readily available publicly. Thus, audit oversight offers additional insight into the performance of audit firms, as observed by independent regulatory experts serving in the public interest.[5]

[3] It is important to note that not every business or financial reporting failure is necessarily also an audit failure. For example, companies often fail due to poor execution of business strategies or changes in market conditions. The financial reporting of such a company may have faithfully represented its financial condition and performance as of the most recent audit, and the audit may have been conducted in accordance with auditing standards, yet the business may subsequently fail.

[4] The introduction of required disclosure of key audit matters or critical audit matters has improved this situation by providing additional insight into certain matters addressed in the course of an audit.

[5] The converse of footnote 3 also is true. Not every audit failure, and not all audit inspection findings published by audit oversight bodies, necessarily suggest there are issues with the underlying financial reporting. Instead, as discussed above, regulatory findings reflect the audit regulator's assessment of whether the audit firm obtained sufficient audit evidence to support its opinion in accordance with auditing standards.

While regulation of companies' financial reporting is not new, independent oversight of audit firms in most jurisdictions has emerged primarily over the past twenty years. Independent audit oversight, which requires independence from the regulated audit profession, focuses on whether audit firms have the systems and processes in place to conduct audits that fulfill the requirements of auditing and ethics standards. Audit regulators typically report publicly on at least some aspects of the outcomes of their oversight activities. This can take the form of reporting on inspection findings (for example, an individual report by audit firm inspected or through a collective report that summarizes themes arising from inspections) or through announcing enforcement measures taken.[6] The existence of independent auditor oversight, reinforced by information disclosed to the market about audit regulators' activities, enables a more informed evaluation of whether audit firms are effectively serving their role in the financial reporting system.

2. A Brief Summary of Global Networks and Local Audit Oversight

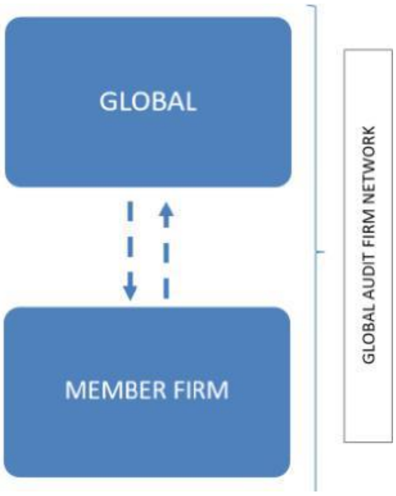
Overview of Global Networks and Multinational Audits

As the globalization of trade and industry has continued to increase, companies have increasingly operated internationally. Accordingly, audits have become increasingly global.[7] A global audit firm network is a collection of legally separate audit firms, united by a common brand as well as common policies, practices and technologies. Generally, an audit firm enters into an agreement with a separate legal entity, Global, to become a Member Firm in the network. The Member Firms collectively provide resources to help support Global's functions and support implementation of the network's common policies, practices, and technologies. From a legal standpoint, the Member Firms are autonomous, meaning that each preserves its own legal status (traditionally nationally based) depending on the specific jurisdiction in which the firm operates. These arrangements are generally driven by local jurisdictional legal requirements that audit firms be owned and/or controlled by licensed chartered accountants; they also protect or mitigate against the action of one Member Firm posing liability, financial, regulatory, political, or certain other risks on other Member Firms in the network.[8]

In aggregate, the Member Firms and their related entities comprise a global network, with Global serving as a coordinating entity and providing strategic, risk management, research and development, branding and marketing, and other functions across the network including at the regional and local level. The nature and extent of Global's activities, and the degree of standardization and integration across the Member Firms, varies among networks. However, Global does not provide audit or other services to companies and does not register as an accounting firm based on national professional licensing or regulatory requirements.[9]

[6] Enforcement investigations and disciplinary actions against audit firms provide an incentive for audit firms to have the systems and processes in place to conduct audits that fulfill the requirements of auditing and ethics standards.
[7] As described in the Annex to this paper, in the context of financial institutions, audit firm networks have not globalized in the same manner as multinational companies; the absence of a parent-subsidiary relationship between Global and the Member Firms creates a different relationship in terms of control.
[8] The descriptions below are generalizations used for illustrative purposes. They do not represent all scenarios and should not be understood to indicate IFIAR views on appropriate models. See the individual networks' websites for information about their respective structures.
[9] The Member Firms and/or their related entities which are part of a global network typically provide multidisciplinary professional services including audit. IFIAR's focus, and therefore the focus of this paper, is specifically on audit firms' and global networks' assurance (audit) functions, consistent with the common mandates of IFIAR's members as audit oversight authorities.

Global provides certain resources and functions to Member Firms to promote the consistent performance of audits across the network in compliance with applicable professional standards and regulatory and legislative requirements. A Member Firm may, and typically does, augment Global's resources and functions with its own supplemental policies, practices, and tools as it determines appropriate or as required for its own particular local environment and jurisdiction. Member Firms also provide resources to Global; this can take the form of seconded staff to assist in Global's functions, or the contribution to Global of audit tools developed by a Member Firm, so that such tools can be made more widely available throughout the network.



With respect to common resources, Global develops and either requires use by or makes available to Member Firms various resources, including "global" audit policies, methodologies and tools (e.g., practice aids, software, etc.). This is particularly relevant to multi-national audits.

Quality monitoring is a key function of Global and is of interest to regulators. Global monitors the delivery of audit services by Member Firms to determine whether its audit policies, methodologies, and tools are being applied consistently and supplemented appropriately by the Member Firm if necessary. An important element of Global's monitoring is ensuring Member Firms are periodically selecting a sample of issuer audits to gauge compliance with professional standards and other regulatory and Member Firm requirements. In some instances, these reviews involve individuals employed by Global or by staff of other Member Firms in the network. When instances of non-compliance are identified, Global may offer or monitor the Member Firms' use of network resources to identify root cause(s) and undertake appropriate actions. Though issues identified through quality or other risk monitoring processes typically are addressed through remediation efforts, network agreements generally provide for the expulsion of a Member Firm that ultimately fails to uphold its obligations to comply with the networks' requirements.

Local Audit Oversight

Like other aspects of regulation, audit oversight typically is established locally in alignment with national requirements. To effectuate audit oversight, local regulators assess firm's internal systems of quality control to determine whether those procedures and practices comply with relevant auditing standards and legislation and whether the firm's quality control system is effective. In addition, regulators typically review a selection of individual audit engagements. These reviews assess compliance at the engagement level. Insights from such reviews may also provide indications of the effectiveness of the firm's overall system of quality control. Regulators communicate to each firm deficiencies identified in the firm's system of quality control or in the execution of individual audit engagements. In some countries, these deficiencies are also communicated to the public. Local regulators take regulatory measures within the scope of their authority to address deficiencies identified during the inspection process. For example, a regulator may require the firms to take remedial actions. Further, local regulators may conduct investigations of possible violations of the standards related to the audits and quality control systems and issue sanctions to those firms and individuals who violate those standards.[10]

[10] Enforcement powers vary among countries. Sanctions for individuals and firms can include censure; practice limitations, including temporary or permanent bars from conducting audits; or undertakings such as special monitoring or continuing education. In addition, some local regulators have the authority to assess monetary penalties upon firms and individuals within their jurisdiction. For more information, *see* IFIAR's 2018 Enforcement Survey.

Through its oversight activities, the local regulator has direct contact with its regulated entities and can influence the audit quality of each firm it regulates. In addition, local regulatory activities provide objective insight to stakeholders – including the global networks – about individual Member Firms' performance. These collective activities of audit oversight authorities assist the public in evaluating auditors' performance.

3. Audit Oversight Coordination

Role of IFIAR

IFIAR is not a regulator. Nevertheless, IFIAR's role as an international forum of Member regulators provides a unique position to deliver insights that help its Members more effectively oversee audit firms within their respective jurisdictions. IFIAR does this principally through interaction among its members. In addition, insights gained through interaction with the networks are also important as the international nature of audit, including the structure of global audit firm networks, creates opportunities for coordination among audit regulators.

Risk to Financial Stability Relevant to IFIAR:

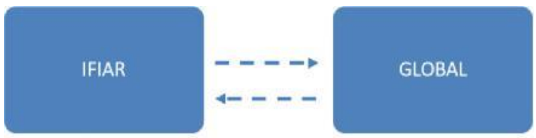
Auditors ineffectively assess and report on financial information. Audit regulators ineffectively oversee auditors.

IFIAR's Contribution:

- *Enhancing Audit Oversight Effectiveness*
- *Bringing Together Collective Voice*
- *Engaging with Stakeholders*

Interactions with Global Networks

IFIAR's regular interaction with the six largest global audit firm networks offers a forum for collective engagement between audit regulators and the audit profession on matters of common interest. The Member Firms of these six **Global Public Policy Committee** networks audit the vast majority of the global market capitalization of publicly traded entities. The overall objective of IFIAR's interactions with the **GPPC** networks is to maintain a dialogue about audit quality globally and to encourage the networks to foster audit quality across their Member Firms.



The **global CEOs** and senior global assurance function leaders from each of the GPPC networks attend IFIAR's annual plenary meetings and periodically meet with IFIAR leadership. The focus of those interactions is to maintain an understanding of the global networks' role in audit quality in general, as well as to reinforce the importance of audit quality to the GPPC firms' leaders. These interactions provide a window through which **IFIAR Members** gain greater understanding of the workings of the global networks and how those networks affect the functions of Member Firms under the jurisdiction of individual IFIAR Members.

IFIAR's **Global Audit Quality Working Group** maintains an ongoing dialogue with the GPPC networks. The **GAQWG** invites senior management of the individual networks to discuss initiatives such as how the Global entities assess the extent to which local network Member Firms comply with their network obligations, including adherence to common policies and standards, and the results of such assessments. The GAQWG discussions prompt the networks to drive continuous improvement in audit quality, as evidenced by fewer inspection findings at the Member Firm level.

Discussion topics with the networks have ranged from issues specific to a network's or its Member Firms' operations (for example, data analytics and communications with audit committees) and the network's internal inspection results, to broad market situations affecting financial reporting (for example, during the 2008 global credit crisis and the current COVID-19 pandemic). A current focus for IFIAR is engaging with the networks on their upcoming changes to firm-wide quality management systems, in response to anticipated changes to international standards.[11]

The collective voice of IFIAR Members prompts the global networks to improve audit quality around the world.

The information that IFIAR gains through its dialogue with the GPPC is made available to IFIAR Members through various interaction and knowledge sharing opportunities. IFIAR Members individually consider how they can best use such knowledge to more effectively regulate those Member Firms within their jurisdiction. The information and knowledge that IFIAR Members gain through such IFIAR activity is important not just at the national level but also in the case of group audits. As an example, a large, multinational bank will have financial reporting requirements for its many **components**, and the financial statements typically are audited by different Member Firms within a network. As IFIAR Member regulators inspect audits of the local Member Firms, their enhanced knowledge gained through IFIAR about the networks' policies and procedures – and about other IFIAR Members' approaches to inspecting audits of financial institutions – influence the quality of audit regulation; this should in turn ultimately improve the audits of the components and thereby of the **consolidated group**.

Interaction among Regulators

In addition to focusing on GPPC networks, IFIAR's working groups provide forums for Member regulators to discuss and assess various strategies, techniques, and experiences in specific areas of audit oversight regulation. For example, IFIAR conducts an annual three-day workshop for independent audit regulators to meet and discuss inspections practices. The aim of the workshop is to improve the effectiveness of member inspection regimes by increasing understanding of the varying regimes and the identification and development of inspection practices. A working group of IFIAR Members regularly collaborates to share views about international standards on auditing and ethics in light of inspections and enforcement experience, and develops, on behalf of IFIAR, comment letters to the **IAASB** and the **IESBA**. Another working group is focused on enforcement matters, facilitating exchange of knowledge on approaches to investigating and adjudicating alleged auditor misconduct, as well as emerging trends in enforcement. An IFIAR task force annually publishes data on the results of IFIAR Members' respective inspection programs to increase insight into global trends in inspection findings. One IFIAR working group focuses on investors and other stakeholders in audit quality, organizing opportunities to bring insights from these important stakeholder groups to IFIAR Members. Recognizing the value of focused dialogue on matters relevant to newer audit regulators, IFIAR hosts an Emerging Regulators Group for specialized knowledge-sharing. Each group shares relevant information with the wider IFIAR Membership such that all Members benefit from the dialogue.

[11] In February 2019, the IAASB issued Exposure Draft, International Standard on Audit Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ISQM1). The Exposure Draft includes a new proactive risk-based approach to an effective system of quality management that establishes the foundation for consistent engagement quality. A number of local regulators are instituting their own initiatives with reference to ISQM1. If finalized, the upcoming changes in standards are expected to affect the networks' common methodology, processes, and procedures with respect to quality management in most if not all IFIAR Member jurisdictions.

IFIAR Working Groups

Global Audit Quality Working Group: coordinates IFIAR's ongoing dialogue with the six biggest audit networks on improving audit quality.

Inspection Workshop Working Group: organizes an annual Inspection Workshop of IFIAR Member jurisdictions to discuss inspection practices.

Enforcement Working Group: provides a forum for Member's to exchange information on effective approaches for investigation and adjudicating alleged auditor misconduct and emerging trends in enforcement matters.

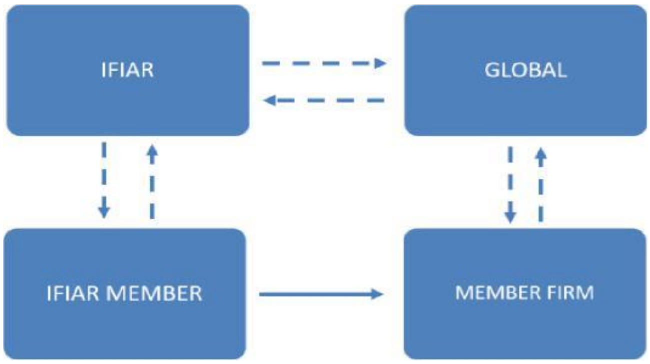
Standards Coordination Working Group: an ongoing forum for Members to share views and pronouncements from the IAASB and the IESBA.

Investor and Other Stakeholders Working Group: organizes IFIAR's ongoing dialogue with investor representatives and stakeholders such as audit committees.

For more information, see https://www.ifiar.org/activities/.

Overall Impact

IFIAR's interactions with the global networks and the activities of IFIAR's working groups provide unique insights to Member regulators in various ways. First, Members learn about the ways the Global entities develop and monitor the policies and procedures common to the Member Firms that are within the jurisdiction of individual IFIAR Members. Second, IFIAR Members learn from other Members how to facilitate more effective oversight of Member Firms that are subject to those global policies and procedures. Third, as noted above, the collective voice of IFIAR Members prompts the global networks to improve audit quality around the world, and similarly amplifies IFIAR Members' views in relation to matters of global importance such as providing input to international audit and standard setting boards. As is further illustrated in the Annex to this paper, comparisons can be drawn between the role IFIAR plays with respect to global audit firm networks and the **supervisory colleges** model for regulatory coordination related to financial institutions.



Glossary of Terms

BCBS: the Basel Committee on Banking Supervision is the primary global standard setter for the prudential regulation of banks and a forum for regular cooperation on banking supervisory matters. *See* https://www.bis.org/bcbs/.

CEAOB: The Committee of European Audit Oversight Bodies is a framework for co-operation between national audit oversight bodies at EU level with the role of strengthening EU-wide audit oversight. *See* CEAOB Homepage.

component: An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements.

consolidated group: a banking group in which the assets, liabilities, equity incomes expenses and cash flows of the financial institution holding company and its subsidiaries are presented in as a single economic entity.

Global: the legal entity (or entities) that centrally coordinate(s) the activities of a global audit firm network. Global does not provide audit services.

global audit firm network or **global network** or **network**: A collection of legally separate audit firms united by a common brand and common policies and practices.

Global Audit Quality Working Group or **GAQWG**: One of IFIAR's working groups, the GAQWG is responsible for coordinating IFIAR's engagement with the GPPC networks.

global CEOs: The Chief Executive Officers of either (1) each of the global networks or (2) the legal entity referred in this paper as Global.

Global Public Policy Committee or **GPPC**: A committee composed of the six largest global networks, represented by the following entities: BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited.

IAASB: the International Auditing and Assurance Standards Board is a standard-setting body that issues the International Standards on Auditing and international quality control standards, to support the international auditing of financial statements. *See* https://www.iaasb.org/.

IAIS: the International Association of Insurance Supervisors is a voluntary membership organization of insurance supervisors and regulators, and the international standard-setting body responsible for developing and assisting in the implementation of principles, standards, and other supporting material for the supervision of the insurance sector. *See* https://www.iaisweb.org/home.

IESBA: The International Ethics Standards Board for Accountants is a standard-setting body that issues ethics standards for professional accountants, including auditor independence requirements. *See* https://www.ethicsboard.org/.

IFIAR: The International Forum for Independent Audit Regulators is an international organization that provides a platform for dialogue and information-sharing regarding audit quality matters and regulatory practices around the world and promotes collaboration and consistency in regulatory activity.

IFIAR Member: One of the independent audit regulators that comprise IFIAR.

IOSCO: The International Organization of Securities Commissions is an association of organizations that regulate the world's securities and futures markets. See https://www.iosco.org/.

Member Firm: An autonomous audit firm that operates in alignment with the common policies and practices of a Global network.

supervisory college: A structure comprised of an entity's regulators from various jurisdictions designed to permit regulators to develop a better understanding of regulated entities' risk profiles and vulnerabilities and to provide a framework for addressing key issues related to the regulation of such entities.

Annex: Comparison of Global Audit Firm Networks to Financial Institutions

IFIAR serves an important role in coordinating international cooperation among audit regulators that is similar to the roles played by other international cooperative bodies addressing various areas of financial market oversight, such as the **BCBS**, **IAIS** and **IOSCO**. For all of these organizations, international collaboration and coordination among oversight authorities promote effective national supervision. The sharing of information, viewpoints and cross-pollination of practices builds capabilities among independent authorities, which in turn enhances their collective impact.

In addition to coordination on topics broadly applicable to national authorities, regulators and supervisors at times also coordinate with respect to a particular multinational organization or, in the case of audit, a particular global audit firm network. In these situations, approaches to coordination should appropriately reflect the legal nature of the entity and how it engages in regulated activities. To illustrate, this annex describes certain key similarities and differences between a global audit firm network and a multinational financial institution. As described in the "Implications for Cooperation" section below, despite similarities, certain key differences between a financial institution and a global audit firm network drive differing approaches to the common goal of collaboration and cooperation among pertinent regulators.

Each global network is structured differently, as are financial institutions. The descriptions below are generalizations used for illustrative purposes. They do not represent all scenarios and should not be understood to indicate IFIAR views on appropriate models.

Key similarities

The structures of both a multinational financial institution and a global audit firm network involve a large number of legal entities operating at a national or regional level, though the global reach of the GPPC networks is more extensive than most financial institutions. Within a multinational financial institution or global audit firm network, each operating entity generally is subject to registration and regulatory/supervisory oversight at a jurisdictional level.

The operating entities (e.g., the branches or subsidiaries in the case of a multinational financial institution, and Member Firms in the case of an audit firm network) follow common policies and procedures determined by the group or Global entity. In both cases, an operating entity may be subject to additional jurisdictional requirements imposed by local regulators / supervisors.

Key differences

Control:

- *Financial Institutions*: A financial institution has a parent company owned by shareholders, and the parent company has ownership and/or control of the various local operating entities beneath it in the organizational structure. The combination of these entities is the “group”. Management of the group can determine directly the policies and procedures that the operating entities must apply.[12]

- *Global Audit Firm Networks:* The Global entity can set common policies for the network’s Member Firms but does not own or control them. Each Member Firm is owned locally by its partners. In order to remain in the network, the governing body of the Member Firm agrees to follow certain common policies and procedures of the network.

Assets / Liabilities:

- *Financial Institutions*: The group’s parent company ultimately has ownership of the assets and responsibility for the liabilities of the operating entities.

- *Global Audit Firm Networks*: The Global entity holds limited assets, generally related to intellectual property. For example, the global audit methodology and other software used throughout the network may in some cases be owned by the Global entity and made available to the Member Firms. The design of the network’s legal structure is driven by jurisdictional legal requirements restricting audit firm ownership and/or control (in many cases requiring majority or super-majority control by chartered accountants licensed in such jurisdiction); this structure also isolates the Global entity from liabilities arising from actions of its Member Firms and individual Member Firms from actions of any other Member Firm.

Registration Obligations:

- *Financial Institutions*: Because the group’s parent company has control of assets and liabilities that subject it to supervision, it must be registered in the jurisdiction of incorporation and is subject to oversight by that jurisdiction’s supervisor. In addition, the supervisor oversees the group from a consolidated perspective (for example, when assessing the group’s compliance with regulatory capital requirements) and has the power to direct the group to take certain actions.

- *Global Audit Firm Networks*: Because the Global entity does not provide audit services (the regulated activity) within any jurisdiction, it is not obligated to register with any national regulator and is not subject to direct regulatory oversight or direction.

In part to promote improved effectiveness or efficiency, for both financial institutions and global audit firm networks, layers are sometimes added between the jurisdictional and group/ global levels (for example on the basis of geographic regions), though the implications to regulation differ. In the case of a multinational financial institution, there may be management responsibility and accountability at a regional level, which in some cases may result in oversight by a supervisor in the region. In the case of a global audit firm network, a regional structure may be used to improve coordination of activities (for example, training functions) but does not necessarily involve a legal entity or create a control or ownership model. In general, like the Global entity, any entity formed to give an audit network a regional structure holds only limited assets, if any, and does not assume liabilities or provide audit services subject to direct regulation.

[12] Banking groups have varying degrees of centralization. Some are more decentralized through local entities (for example, as in the case of many retail banks), and others are more centralized, often managed on the basis of functional divisions rather than legal entities (for example, as is the case in many investment banks).

Implications for Cooperation of Regulators / Supervisors

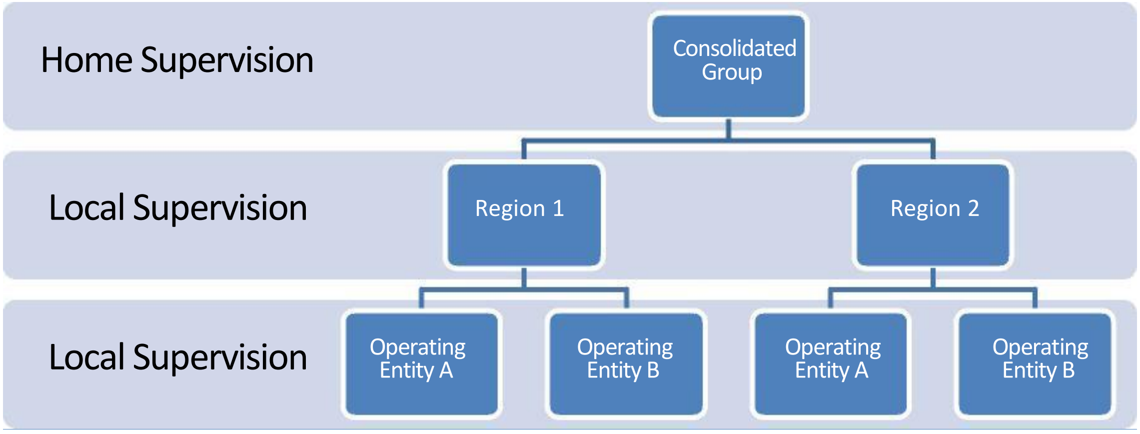
As noted earlier, financial institutions and audit firm networks often apply common policies and procedures across their operating entities. Developments in financial and auditing markets and operating environments also often affect many, possibly even the majority, of operating entities and therefore are of common interest to their supervisors. For these reasons, financial institution supervisors and audit regulators have strong incentives to coordinate with their peers globally.

In the regulated banking and insurance industries, in addition to collaboration through international standard setting bodies such as the BCBS and IAIS, supervisors may form colleges based on specific financial institutions. Generally, supervisory colleges are structures comprised of more than one supervisor where the topic of discussion is the regulatory oversight of a specific institution. Colleges provide a venue for multiple national regulators to address key regulatory concerns collectively and to discuss with the financial institution's management, for example, developments, changes, risks, and vulnerabilities that do or may directly affect the group and/or its operating entities. The supervisor in the consolidated group's home country remains the sole supervisor of the group, while the college's other supervisors remain the sole supervisors of the operating entities within their respective jurisdictions. The premise is that individual regulators' oversight of the entities within their respective jurisdictions is made more effective through increased contact and coordination with fellow regulators.[13]

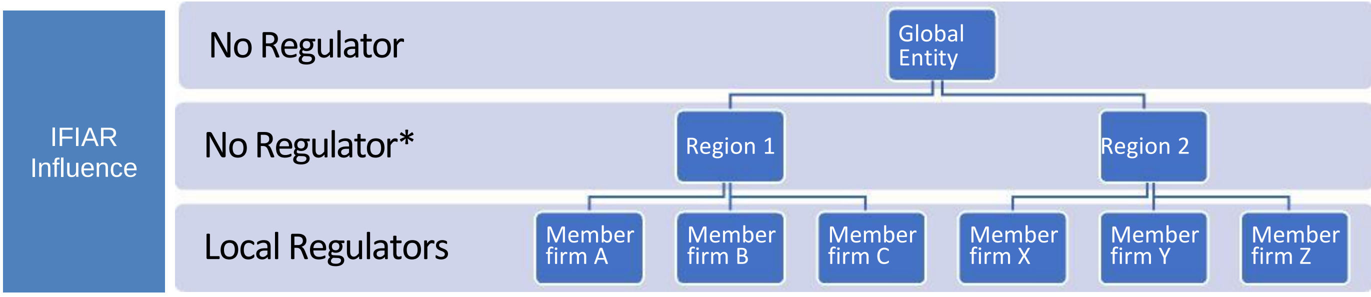
Some of the characteristics described in the "Key Differences" section above result in differing approaches between IFIAR and colleges organized around a financial institution. Importantly, a Global entity does not conduct audit services. Therefore, there is no supervisor with a mandate for the Global entity and that might form a college around a global audit firm network. Although IFIAR lacks authority to supervise the global networks, IFIAR achieves general knowledge sharing among its members and engagement with the global networks through the GAQWG. The GAQWG dialogue with assurance leadership of each network enables updates on developments and upcoming changes, discussion of risks and trends, and exchange of information that is directly relevant to each of the GAQWG's members' oversight of the Member Firms in their respective jurisdictions. This information, as mentioned, is made available to all other IFIAR members. In this way, IFIAR achieves the objectives of facilitating timely and relevant dialogue between global audit firm networks and regulators about issues that may affect the Member firms within a network as well as coordination among oversight bodies that regulate those Member Firms.

[13] The BCBS states that "colleges of supervisors should be permanent but flexible structures for collaboration, coordination and information-sharing among the authorities responsible for and involved in the supervision of cross-border banking groups." BCBS, Principles for Effective Supervisory Colleges, June 2014. The IAIS defines a supervisory college as "a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis and improving legal entity supervision of the entities within the insurance group."

Financial Institution Operating and Supervisory Structure



Global Audit Firm Network Operating and Regulatory Structure



*In some cases, groupings of regulators meet at a region level with member firms. *See* the description of colleges in the "European Example" box below.

European Example

European Commission directives and regulations provide opportunities for regional coordination. In the case of audit firms, within the EU, colleges of competent authorities have been established by the **CEAOB** in accordance with the EU Audit Regulation. The CEAOB has currently established four supervisory colleges: the Deloitte College, the EY College, the KPMG College, and the PwC College (collectively the "Colleges"). Meetings of the Colleges take place regularly with the network representatives exchanging information with between eight and twelve different local regulators. Despite the role of the CEAOB in the initial establishment of the colleges, they are not part of the CEAOB. The Colleges address topics similar to what IFIAR addresses with the global networks, but on a more detailed basis due to fewer confidentiality limitations among EU member state audit regulators.

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