



CORE PRINCIPLES FOR INDEPENDENT AUDIT REGULATORS

This document presents the Core Principles for Independent Audit Regulators. The Core Principles are intended to support IFIAR's mission to serve the public interest, including investors, by enhancing audit oversight globally. Audit regulators seek to improve audit quality in their jurisdictions through various activities, including through independent inspections of audits and/or audit firms and enforcement action against auditors and/or audit firms.

27 April 2022

Established in 2006, the International Forum of Independent Audit Regulators (IFIAR) comprises independent audit regulators from over 50 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 is the international organization of independent audit regulators (hereinafter, 'audit regulators'). IFIAR enhances audit oversight globally by providing its Members with a forum for them to collaborate, share knowledge and learn about independent audit regulatory practices, experiences, challenges and developments on audit quality matters around the world, thereby contributing to sustainable improvements in global audit quality.

Consistent with the IFIAR Charter and Mission, IFIAR's Core Principles for Independent Audit Regulators (hereinafter, 'Principles') seek to further outline and promote effective independent audit oversight globally, thereby contributing to IFIAR's objective of serving the public interest and enhancing investor protection by improving audit quality.

Jurisdictions determine the structure for audit oversight that works best in their regulatory ecosystems. IFIAR observes that audit oversight responsibilities differ significantly between jurisdictions; from responsibilities of inspection and enforcement of auditors of public-interest entities (PIEs) only, to broader audit oversight responsibilities which may include additional activities such as registration and education of auditors, oversight of non-PIE audits, standard setting, market monitoring, etc. These Principles focus on the structure of the audit regulator and the common core activities of audit regulators – inspections and enforcement.

The Principles are intended to:

- Assist IFIAR Members in developing and advancing their own national arrangements by drawing on and hence benefit from the experiences of other Members;
- Advance widespread adoption of high-quality audit oversight practices that are robust and aimed at fostering high quality audits and promoting public trust in the financial reporting process; and
- Promote cooperation and collaboration between regulators in part, to achieve greater consistency of audit oversight.

Finally, nothing in these Principles should be construed as superseding the requirements of the IFIAR Charter or excusing any IFIAR member from those requirements.

An audit regulator's membership in IFIAR is not dependent on its status in implementing the Principles. However, IFIAR Members are encouraged to work towards incorporating them in their own jurisdictions, taking account of the risk profiles, sizes and complexities of audit firms in their market. It is recognized that legislative changes or other measures by higher national authorities beyond the control of the audit regulator may be required to achieve adherence to the Principles. Furthermore, IFIAR recognizes that oversight regimes that deal with auditors of PIEs will often require different regulatory approaches in terms of scope and communication than those dealing with non-PIE audits.

The Principles may also assist emerging audit regulators both within and outside of IFIAR to develop effective independent audit oversight arrangements and advocate for the necessary legal framework and regulatory powers.

A system of audit oversight and audit regulation is most effective if it exists within an appropriate financial reporting environment. A key foundation of such an environment is the existence of a well-developed legal and corporate governance framework that provides necessary support for high-quality auditing. Elements of this framework should incorporate the following:

- Comprehensive and well-defined accounting and auditing principles and standards that are generally accepted;
- Legal requirements for the preparation and publication of audited financial statements according to those principles and standards;
- An enforcement system relating to the preparation of financial statements to reinforce 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 (including but not limited to requirements for independent audit committees with appropriate corporate reporting experience; approval of auditor engagements by audit committees or shareholders; and effective oversight over internal controls relating to the financial reporting process); and
- Effective and mandatory educational and training arrangements for accountants and auditors.

Regulators should also be aware that the relevance of non-financial reporting/sustainability reporting is increasing in many parts of the world. Auditors might have a role in providing assurance which may result in a role for many audit regulators as well.

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 address and strive to mitigate the effects of such shortcomings on the effectiveness of their oversight.

The IFIAR Core Principles for Audit Regulators are:

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

Principle 2: *Audit regulators should be independent.*

Principle 3: *Audit regulators should be transparent and accountable. They should have a good understanding of the needs of their stakeholders and the audit market in their jurisdiction.*

Principle 4: *Audit regulators should have comprehensive regulatory powers to promote high quality audits.*

Principle 5: *Audit regulators should have sufficient resources and staff with relevant competence and expertise who are independent of the profession.*

Principle 6: *Audit regulators should be objective, free from conflicts of interest, and maintain appropriate confidentiality arrangements.*

Principle 7: *Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other national authorities.*

Principle 8: *Audit regulators should at a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities.*

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

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

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

Principle 12: *Audit regulators should have independent investigatory powers vis-à-vis auditors and audit firms under their jurisdiction.*

Principle 13: *Audit regulators should have at their disposal a comprehensive and impactful range of disciplinary measures/sanctions against auditors and audit firms.*

Principle 14: *Audit regulators should have the authority to communicate disciplinary measures/sanctions to the public.*

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 clear regulatory mandate to work in the public interest, including that of investors, rather than the interests of the audit profession or audited entities by seeking to enhance audit quality. The responsibilities and powers of audit regulators should, at a minimum, require independent oversight of the audits of public interest entities, an area where self-regulation by the audit profession is no longer acceptable.

The legal framework for audit oversight should set forth clearly the audit regulator's mandate and responsibilities, thus avoiding uncertainty or debate on the role and scope of the regulator's authority. This is especially relevant where there is involvement of third parties (e.g. professional bodies, experts, secondees) within the oversight regime (e.g. where the audit regulator delegates certain tasks or uses work performed by such third parties). The overall framework should clearly set out the (ultimate) decision-making power of the audit regulator as well as meaningful means of control over all relevant regulatory determinations or decisions within the audit oversight system.

PRINCIPLE 2:

Audit regulators should be independent.

Independence means the ability to undertake regulatory activity and to take and enforce decisions without external interference, which includes not being controlled or unduly influenced in its governance and operations by persons or institutions who are not independent from the audit profession¹ or other stakeholders in the financial reporting ecosystem. If, in exceptional cases, non-independent individuals are involved in the governance arrangements of the regulator, they need to be in the minority for the regulator to be considered independent, and steps should be taken to ensure the independence of all regulatory decisions from the profession. The involvement of non-independent individuals as experts or consultants within any decision-making bodies or structures should also be limited to exceptional circumstances. The audit regulator must also be operationally independent from external political interference and from commercial or other sectoral interests, in the exercise of its functions and powers. The audit regulator should have a stable source of funding that is free from undue influence by auditors/audit firms, professional organisations, audited entities or other stakeholders in the financial ecosystem. Additionally, funding should be stable and sufficient to execute the regulator's powers and responsibilities.

¹ For the purpose of IFIAR membership assessments, an individual is considered independent of the profession even if he/she is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not a sole practitioner, employed by or affiliated with: (1) a registered audit firm; (2) a professional accountancy body (other than by membership); or (3) any bodies or entities associated with the audit profession.

PRINCIPLE 3:

Audit regulators should be transparent and accountable. They should have a good understanding of the needs of their stakeholders and the audit market in their jurisdiction.

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 competent higher authority and/or a court of law. 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.

Audit regulators are part of the larger financial reporting ecosystem in their jurisdiction. To be effective in their role within that ecosystem, audit regulators need to have the ability and resources to keep abreast of the audit market and its developments. Regulators are expected to be aware of investor perspectives, the market structure for audit and the financial reporting chain. The regulator should engage in a dialogue with relevant stakeholders, including investors and audit committees, to understand their needs and concerns and to foster a dialogue between them and the regulator.

PRINCIPLE 4:

Audit regulators should have comprehensive regulatory powers to promote high quality audits.

It is imperative that audit regulators possess meaningful and efficient legal instruments of regulatory oversight.

The legal framework for audit oversight should provide the regulator with adequate powers and authority that enable the regulator to impactfully perform its audit oversight duties, including the ability to impose and implement recommendations, follow-up measures and actions. This should include powers to address - through inspection and enforcement - compliance with applicable auditing, professional and independence standards and should also include compliance with the requirements for the authorization/registration of auditors/audit firms.

Audit regulators should have adequate and appropriate mechanisms for enabling information to be brought to their attention by third parties and to then deal with such information, such as through complaints procedures or through whistle-blowing arrangements that include safeguards to protect the identity and privacy of the whistleblower. These mechanisms should act in a timely and effective manner and their results followed up through an appropriate system of investigations and disciplinary measures/sanctions in relation to cases of inadequate or non-compliant execution of an audit.

The regulator should implement and operationalize its legal authority through the development of clear and transparent rules and regulations.

Part B. Operations

PRINCIPLE 5:

Audit regulators should have sufficient resources and staff with relevant competence and expertise who are independent of the profession.

Audit regulators should have arrangements in place to ensure that their staff members are independent of the profession. These arrangements will, at a minimum, ensure that staff members are not employed by or affiliated with a registered audit firm, a professional accountancy body² (including representing or appointed by such a body), or any bodies or entities associated with the audit profession.

In order for audit regulators to be effective, it is a prerequisite that there is sufficient staff with appropriate skills and competence in order to collectively bring high level expertise to any matters subject to audit regulation, including in the use of technology. The persons carrying out the reviews of quality assurance systems and audit engagement file reviews of auditors/audit firms should have a broad range of skillsets and expertise through various specialist industries (such as IT and banking) effective professional training and relevant experience in auditing and financial reporting, and training in regulatory quality assurance reviews.

Sufficient staff enables the regulator to fulfill its legal mandate in a meaningful way. The impact of the regulator's work in part will be determined by the adequacy of its scope of oversight activities (e.g. by having resources to select an adequate number of audit engagements for inspections or review quality management systems in appropriate detail, or by being able to respond to emerging issues).

Adequate arrangements for consultation and discussion amongst the inspection and enforcement teams involved in the accomplishment of audit oversight should be in place. New inspectors and enforcement staff should be subject to proper supervision and rigorous 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 wrongful dissemination. At the same time, regulators will need to strike a balance between their obligation for confidentiality and the need to communicate the results of its work to the public in an appropriate manner.

² Affiliated in any way other than by membership to a professional accountancy body.

PRINCIPLE 7:

Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other national authorities.

Taking into account the global nature of the financial markets, cross-border cooperation and information sharing amongst audit regulators as well as other regulatory bodies, including financial market regulators, are vital to the effective oversight of national audit firms and achieving improvements to audit quality.

Audit regulators should strive to establish cooperation arrangements to provide timely assistance to each other within reasonable limits. Under those arrangements, audit regulators should consult, cooperate and share information to assist each other in fulfilling their respective oversight responsibilities. This could also take the shape of technical assistance and support in capacity building. IFIAR Members should become signatories to the IFIAR Multilateral Memorandum of Understanding (MMOU) or other relevant instruments in order to facilitate cooperation wherever possible.

Arrangements should be in place for the sharing of information between audit regulators and other national regulators (e.g. financial reporting regulators, banking regulators, law enforcement) or between different 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 at a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities.

An inspection is an oversight tool by which the regulator can assess the auditor's compliance with applicable professional standards, independence requirements and other laws, rules and regulations by reviewing individual audit files and the adequacy, appropriateness and effectiveness of the internal quality management system of the auditor/audit firm.

Audit regulators should establish a minimum cycle regarding the frequency of inspections, with the option of conducting ad-hoc inspections when the need arises.

Inspections should be conducted pursuant to a process comprising of:

- Selection of the audit firms to inspect,
- Appointment of inspection teams with appropriate independence, expertise and competence,
- Notification to the audit firm,
- Advance documentation request,
- Notification of selection of audit engagements for review,
- Meetings with audit firm management and other relevant audit personnel,
- Review of audit work papers and any other related documents and information, and
- Formal conclusion and production of an inspection report.

While the audit firm might receive some details about the intended inspection, the firm should be precluded from inappropriately altering its prior work in advance of the inspection on threat of appropriate disciplinary action if it does.

The inspection process should be subject to appropriate internal quality management 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/corporate environment and audit risks in individual regulated firms and their audit engagements. Audit regulators should have a process for taking their risk assessment into account in allocating their inspection resources and in the inspection approaches they adopt. However, such a risk-based approach should not prevent the regulator from introducing elements of unpredictability to avoid foreseeable anticipation or expectation regarding the approach to and scope of the inspection. This system should be mature enough that the regulator is able to defend the specific selection of audit files and the thematic focus. These processes should be commensurate with the size and complexity of the audit firms and their audit clients.

PRINCIPLE 10:

Audit regulators should ensure that inspections include effective procedures for both firm-wide and audit engagement file reviews.

The risk-based inspection approach should also be reflected in both firm-wide and audit file inspection procedures. The firm-wide inspection procedures should address the audit firm's quality management system as reflected in the firm's organization, policies and procedures. High quality standards for systems of quality management should be used as a benchmark in performing firm-wide inspection procedures. As reflected in applicable standards, the review of the quality management systems could include (but is not limited to) risk assessment, governance and leadership, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, engagement performance, resources and personnel management, information and communication, and the monitoring and remediation process.

The inspection process should also include full access to all audit work papers and other documents relevant to the audit files selected for inspection. In addition, inspections should include adequate testing of selected audit files in order both to determine the effectiveness of the firm's quality management 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 addressing remediation of findings with the audit firm.

Audit regulators should have a process ensuring that criticisms or potential defects in an audit firm's quality management 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 determining whether audit firms respond appropriately to inspection findings that were reported to the audit firm by the audit regulator. Such processes could include follow-up inspections or assessments, or regulatory instruments such as imposing sanctions if the audit firm neglects to react to the identified shortcomings in an appropriate manner within a specified time period.

Part D. Principles for enforcement

PRINCIPLE 12:	<i>Audit regulators should have independent investigatory powers vis-à-vis auditors and audit firms under their jurisdiction.</i>
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The enforcement of compliance with professional duties, laws and regulations is an important oversight instrument to uphold audit quality and the trust of investors and other stakeholders in the work of auditors and to deter auditor misconduct. Regulators should have access to sufficient legal competences and technical resources in order to act efficiently and in a timely manner where there are indications of breaches of professional or statutory duties. The regulator should have the legal authority to compel the production of documents, other information and testimony in connection with an investigation. In addition, the regulator should have access to sufficient staff/experts with a broad range of skillsets and expertise through various specialist industries (such as IT and banking) and from different backgrounds (such as legal and auditing). When assigning staff members to specific investigations, potential conflicts of interest must be prevented.

PRINCIPLE 13:	<i>Audit regulators should have at their disposal a comprehensive and impactful range of disciplinary measures/sanctions against auditors and audit firms.</i>
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Regulators should have a comprehensive and effective range of disciplinary measures/sanctions at their disposal to address any breaches of professional or statutory duties by an auditor or an audit firm in a proportionate manner. Regulators also should have effective and efficient measures in place to secure cooperation by auditors or audit firms. Disciplinary measures/sanctions should include reprimands and fines, as well as severe penalties such as temporary or permanent bans from providing some or all audit services, or removal from the profession. Any legal limits on the maximum amounts of fines should allow them to be effective instruments of deterrence, especially if imposed on audit firms.

PRINCIPLE 14:	<i>Audit regulators should have the authority to communicate disciplinary measures/sanctions to the public.</i>
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The ability of a regulator to publish disciplinary measures/sanctions, including the identity of the audit firm and/or individual(s) subject to those measures/sanctions, as well as a description of any violations and the disciplinary measures/sanctions imposed, contributes to the effectiveness of, and confidence in, the auditor oversight system. Transparency about disciplinary activities provides an incentive for auditors and audit firms to meet their professional obligations and sends an important signal to investors. It also deters auditor and audit firm misconduct.

In addition, consistent with their investor protection mandates, audit regulators should have the authority to announce the initiation of enforcement proceedings and release basic, factual and non-privileged information to the public about ongoing investigations, where public interest justifies doing so. It is important to be able to

share high-level updates, to the extent allowed under national laws, to contribute to providing confidence in the markets and demonstrate the effectiveness of the regulator.

While recognizing the importance of transparency, regulators should balance the need for transparency with the potential harm to relevant stakeholders or the financial markets in their decision regarding disclosure about each individual case.



International Forum of Independent Audit Regulators (IFIAR) | 監査監督機関国際フォーラム

✉ secretariat@ifiar.org | 🌐 www.ifiar.org

☎ +81-(0)3-4510-3495 | 📍 18F Otemachi Financial City Grand Cube, 1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004

📍 100-0004 東京都千代田区大手町 1-9-2 大手町フィナンシャルシティグランキューブ 18階