

**INTERNATIONAL FORUM OF
INDEPENDENT AUDIT
REGULATORS
(IFIAR)**

ACTIVITY REPORT 2010

www.ifiar.org

INTRODUCTION:

The International Forum of Independent Audit Regulators (IFIAR) was established on 15 September 2006 by independent audit regulators from 18 jurisdictions. Since its creation, IFIAR's membership has grown in light of the establishment of new independent audit regulators in different jurisdictions around the globe, bringing together independent audit regulators from a total of 37 jurisdictions by the end of 2010.¹

IFIAR focuses 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.

Since its creation, IFIAR has convened on a bi-annual basis for high-level plenary meetings and on an annual basis at an Inspection Workshop to exchange information and experiences relating to inspections of audit firms. IFIAR has established a number of Working Groups that address various work streams important to audit regulators and form the core of IFIAR's activities alongside its plenary meetings and workshop.

IFIAR is an Observer at meetings of the Monitoring Group, which oversees the implementation and effectiveness of the 2003 Reforms of the International Federation of Accountants (IFAC), monitors the activities of the Public Interest Oversight Board (PIOB), and convenes to discuss issues and share views relating to international audit quality and regulatory and market developments having an impact on auditing.²

IFIAR WORKING GROUPS:

IFIAR currently has the following Working Groups³:

- **Current Issues Task Force**
 - Responsible for coordinating plenary meeting discussions of major current events or issues that have the potential to disrupt or substantially impact the global financial markets and could have an impact on confidence in audit quality.

¹ A full list of IFIAR Members as of 31 December 2010 can be found in Annex 2.

² Members of the Monitoring Group are the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO) and the World Bank. The Monitoring Group is chaired by IOSCO. Further information about the Monitoring Group, including its Charter, is available at www.iosco.org/monitoring_group/.

³ The names of the Member jurisdictions and the Chairs of the Working Groups are listed in Annex 3.

- **Investor Working Group**
 - Responsible for organizing IFIAR’s dialogue with investor representatives.
- **Global Public Policy Committee (GPPC) Working Group**
 - Responsible for coordinating IFIAR’s ongoing dialogue with the member firms of the GPPC, which include the six largest international audit networks (BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers).
- **Standards Coordination Working Group**
 - 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.
- **Inspection Workshop Working Group**
 - Responsible for organizing the annual Inspection Workshop in coordination with an IFIAR Member serving as the Workshop host.
- **International Cooperation Working Group**
 - Responsible for considering the ways in which IFIAR Members can cooperate and share information relating to audit firm inspections and audit engagements and identifying areas where IFIAR Members can work more efficiently in collaboration.

IFIAR PLENARY MEETINGS:

In 2010, the IFIAR Members gathered on two separate occasions for three-day plenary meetings. The first plenary meeting, organized in March, was hosted by the Abu Dhabi Accountability Authority (ADAA) and the second plenary meeting, organized in September, was hosted by Spain’s Instituto de Contabilidad y Auditoría de Cuentas (ICAC). Greece, Malaysia and Thailand joined IFIAR in 2010, taking the IFIAR membership from 34 jurisdictions in 2009 to 37 jurisdictions in 2010.

Consistent with the Charter, representatives of the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the Public Interest Oversight Board, and the World Bank participated as Observers updated members on their work in relation to audit.

The meetings provided the opportunity for IFIAR Members to inform each other about recent national developments, including inspection findings. Some Members noted concerns that the global economic environment and the impact of the economic downturn may result in audit fee

pressure which may impact on audit quality. Some IFIAR Members presented their recently published reports, including the following examples of inspection findings:

At firm level, related to:

- Engagement Quality Control Reviews;
- The firms' internal inspection processes; and
- The firms' incentive structures.

At engagement level, related to:

- Concerns with the exercise of professional scepticism;
- The recognition and handling of fraud risk;
- The audit of fair value measurement and impairments;
- The role of the group auditor; and
- The provision of non-audit services and other threats to auditor independence.

IFIAR Members also discussed the effect of changes in the regional structure of some of the firms on the work of audit regulators.

Development of Core Principles for Independent Audit Regulators

In September, IFIAR Members discussed the introduction of a set of Core Principles for Independent Audit Regulators. Discussions covered the objectives, scope and status of the proposed Core Principles. The proposed Core Principles cover the following areas: (i) the structure of audit oversight, (ii) the operations of audit regulations and (iii) principles for inspection processes. They are intended to promote the common goal of IFIAR Members to serve the public interest and enhance investor protection by improving audit quality globally, including through independent inspections of auditors and/or audit firms.

Dialogue with Investors

At the IFIAR Plenary meeting in Basel, Switzerland,⁴ Members agreed to establish a dialogue with representatives of the investor community. In IFIAR's continuing dialogue with investors in 2010, the Investor Working Group coordinated with representatives of the investor community – including Gerben Everts of APG in the Netherlands; Mami Indo of the Daiwa Institute of Research in Japan; Guy Jubb of Standard Life Investments in the UK; and Jeff Mahoney of the Council of Institutional Investors in the United States. The investor representatives raised three topics for presentation at the Madrid meeting:

- Improving choice among auditing firms;

⁴ Held in April 2009, hosted by the Swiss Federal Audit Oversight Authority (FAOA).

- Improving the scope and focus of audit regulation; and
- Improving the Auditor's Report.

At this meeting, IFIAR also held a session in which both investor representatives and the global chief executive officers of the GPPC international networks participated.

It was agreed by IFIAR Members that it is important to continue the dialogue with investors and to consider further the issues raised.

Dialogue with the International Networks

IFIAR has an ongoing dialogue with the international audit networks that are members of the GPPC. Discussions have included meetings with the chief executives and senior representatives of individual firms and with representatives of the GPPC firms collectively. The focus has been on understanding the role of global networks in audit quality and the response to audit issues arising from the economic downturn. The plenary meetings have included sessions devoted to meeting with the international network firms.

In 2010, senior delegations from each of the international networks of BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers participated in IFIAR plenary meetings to discuss, at a general level, issues emerging from audit inspections, their possible root causes and the response taken by the individual networks to address them. The topics covered included:

- Group audits;
- The role of auditor scepticism, particularly in relation to auditing fair value measurement;
- Revenue recognition; and
- The role of the engagement quality control reviewer.

As part of the series of meetings held by IFIAR with individual networks, IFIAR separately discussed with Ernst & Young the implications of their evolving global structure for audit regulation and on audit quality.

Since the Abu Dhabi Plenary meeting, each of the networks have individually informed IFIAR of their plans to address the issues discussed, and it was agreed that the networks would update IFIAR on the implementation of these plans in 2011.

IFIAR Members also discussed the role of IFIAR in relation to audit firms that are not members of the GPPC. IFIAR agreed to include a discussion topic on the oversight of non-public interest entity audits at its next Inspection Workshop. It was also agreed that, given the substantial presence of the GPPC firms in most markets, the priority of IFIAR's interaction with the profession should, for now, remain at the GPPC level. Members agreed to consider further in the future the extent of interaction with non-GPPC firms.

Finally, at the September 2010 IFIAR meeting, the GPPC firms' global chief executive officers and the IFIAR Membership discussed two issues raised by investor representatives during a separate session at the meeting: improving the Auditor's Report and improving the governance and transparency of audit firms.

Discussions with the IAASB and IESBA

The Chairman of the International Auditing and Assurance Standards Board and the Chairman of the International Ethics Standards Board for Accountants were invited to IFIAR's September meeting to inform on their work carried out in their respective areas, and for IFIAR Members to provide input to the IAASB and IESBA standards.

Prof. Arnold Schilder (IAASB) provided IFIAR with a presentation on the work of the IAASB and on ISA Implementation Monitoring. In addition to discussions about how feedback from inspections into IAASB standard setting may be improved, IFIAR members provided comments on issues relating to the standards, "Forming An Opinion And Reporting On Financial Statements" (ISA 700); and "Using The Work Of Internal Auditors" (ISA 610); as well as the International Audit Practice Statement, "Special Considerations In Auditing Complex Financial Instruments" (IAPS 1000) and IAASB's work on Engagement Quality Control Review.

Ken Dakdduk (IESBA) informed IFIAR about the IESBA's current work, with particular focus on the status of the IESBA's revised Code of Ethics. The IFIAR Members discussed with Mr. Dakdduk the consistent application of the definition of the term "Network" and the application of the Code of Ethics in a group audit situation. Discussions were also held on the independence requirements for members of the engagement team, especially in relation to the proposed revision of the International Standard on Auditing, "Using The Work of Internal Auditors" (ISA 610).

International Cooperation

With regard to international cooperation, IFIAR Members agreed to the proposal that the International Cooperation Working Group study examples of ways in which Members might exchange information, including inspection reports, and how Members may cooperate in the oversight of global firms. These topics are currently being considered further by the International Cooperation Working Group.

IFIAR INSPECTION WORKSHOPS

A core activity of independent audit regulators is the ongoing inspection of audit firms. The development and organization of a robust and sustainable inspection workshop model is central to IFIAR's aim to enhance investor protection by improving audit quality. With member countries from all continents, IFIAR is in a unique position to provide a forum through the inspection workshops for independent audit regulators to meet and discuss inspections processes, learn and leverage from each other, and consider similarities and differences among their practices and methodologies. This information sharing is leading to a

better understanding of the Members' respective oversight regimes and the identification of better practices in inspecting audit firms. It is also promoting greater consistency across regulators.

Paris Inspection Workshop

In 2010, IFIAR held an inspection workshop in Paris. This workshop followed a similar format as the previous inspection workshop in Stockholm, but also introduced a half-day induction workshop aimed at new IFIAR Members and IFIAR Members that are in the process of developing an inspection program. For the first time at an IFIAR inspection workshop, an external presenter, Boris Cournède, Head of the Monetary Policy Unit in the Economics Department of the Organisation for Economic Cooperation and Development, gave the key note address updating participants on current market conditions.

The workshop considered eight common inspection process elements, the current global financial market conditions, issues relevant to performing inspections during the current crisis, and audit firms' quality control procedures. More specific topics, such as audit evidence and documentation, implementation of the International Standards on Auditing, and inspection reporting were discussed in break-out sessions.

The attendees of the inspection workshops are generally managers of inspections programs and their senior staff, representing almost all IFIAR Members reflecting the high-level interest and value of the inspection workshops. The level of participation, as well as feedback from each workshop, is indicative of Members' broad interest in continuing to share information about their inspection programs.

OTHER ACTIVITIES OF IFIAR

In 2010, the Members of IFIAR agreed to improve IFIAR's external communications through the production of a more extensive activity report, publication of membership profiles describing the roles and functions of each Member starting in 2011, and further consideration of the role of IFIAR in the Monitoring Group.

In 2010, IFIAR's Chairman and Vice-Chairman were invited to represent IFIAR at several international meetings and conferences, organized by other international bodies.

Monitoring Group Activities

IFIAR continues to attend the meetings of the Monitoring Group as an Observer. Following the launch of the Monitoring Group Consultation Paper⁵ in June 2010 regarding its assessment of the effectiveness of the reforms of the governance of the International Federation of Accountants,⁶ IFIAR Members were encouraged to provide their individual responses to the

⁵ The Monitoring Group, "Review of the IFAC Reforms – Consultation Paper" (10 June 2010).

⁶ IFAC is a global association of the accountancy profession. IFAC's members are professional bodies from 124 countries. For further information about IFAC, see www.ifac.org

Consultation Paper. Members of the Standards Coordination Working Group discussed the Consultation Paper, and six IFIAR members submitted individual comment letters to the Monitoring Group.

Workshop of ASEAN Regulators

The IFIAR Chairman, the Vice-Chairman and Juthika Ramanathan, Chief Executive of the Accounting and Corporate Regulatory Authority in Singapore, attended a workshop of audit regulators from certain member jurisdictions of the Association of South-East Asian Nations (ASEAN), namely Indonesia, Malaysia, Philippines, Singapore, and Thailand. Topics discussed included effective inspection reporting, risk-based inspection framework, and other challenges encountered in the establishment of independent audit regulatory regimes.

European Commission Green Paper on Audit Policy

IFIAR Members were encouraged to respond on an individual basis to the European Commission Green Paper consultation, “Audit Policy: Lessons from the Crisis,” published on 13 October 2010. The Green Paper sought views from stakeholders and the broader public on a range of issues related to the statutory audit.

Fifteen IFIAR Members submitted responses and attended the international conference hosted by the European Commission on 10 February 2011 in Brussels, which gave stakeholders an opportunity to discuss feedback on the Green Paper consultation and to explore policy options on the way forward.

IFAC Compliance Advisory Panel (CAP)

The IFIAR Officers were invited by the IFAC Compliance Advisory Panel (CAP) to attend the CAP meeting held in Amsterdam in October 2010. At this meeting, the IFIAR Chairman had a discussion with the CAP members on the respective roles of IFIAR and the CAP and items of mutual interest.

The CAP is revisiting the IFAC Statements of Membership Obligations relating to oversight arrangements, and will provide a presentation at the next IFIAR plenary meeting in April 2011.⁷

⁷ The previous Chairman of the CAP, Bob Mednick, gave a presentation at the IFIAR September 2008 Cape Town meeting.

Annex 1

OFFICE BEARERS:

The Chairman in 2010 was Steven Maijoor, Managing Director, the Netherlands Authority for Financial Markets.

The Vice-Chairman in 2010 was Paul George, Director of Audit at the UK's Financial Reporting Council.

The Chairman and Vice-Chairman are assisted and advised by an Advisory Council in pursuing their responsibilities as set out in the Charter. In 2010, the Advisory Council comprised IFIAR Members from France, Germany, Japan, Norway, Singapore and the United States of America.

The Chairman and Vice-Chairman two-year terms expire in early 2011 when new Officers will be elected.

IFIAR VEREIN AND FINANCIAL RESULTS:

In order to facilitate the collection and disbursement of membership fees to jointly fund IFIAR's organizational and administrative support, IFIAR formally established the IFIAR Verein, a legal entity under Swiss law, at the IFIAR plenary meeting in Abu Dhabi in March 2010. At the meeting, Frank Schneider (Chief Executive Officer, Swiss Federal Audit Oversight Authority) was elected as Treasurer for the IFIAR Verein for the years ending 31 December 2010 and 2011.

In addition to the joint funding of IFIAR's administrative expenses, IFIAR relies upon Members' voluntary sharing of resources to ensure the smooth operation of IFIAR activities. Member contributions include 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 Financial Statements of the IFIAR Verein can be found at www.ifiar.org.

Annex 2

IFIAR MEMBERS

IFIAR Members are independent audit regulators that are:

- Independent from the audit profession⁸, which means that a majority of the relevant governing body should be non-practitioners (with an appropriate cooling-off period for former auditors) and funding should be free of undue influence by the profession; and
- Engaged in audit regulatory functions in the public interest, in particular responsible for the system of recurring inspection of audit firms undertaking audits of public interest entities, and exercising that responsibility either directly or through oversight of inspections undertaken by professional bodies.

IFIAR continues to monitor the development of new audit oversight bodies around the world and responds to enquiries from potential members or parties interested in information about IFIAR.

In 2010, IFIAR Members were the following:

ABU DHABI

Abu Dhabi Accountability Authority (ADAA)
www.adaa.abudhabi.ae

AUSTRALIA

Australian Securities & Investments
Commission (ASIC)
www.asic.gov.au/asic/asic.nsf

AUSTRIA

Austrian Auditors Supervisory Authority
(ASA)
www.bmwfj.gv.at/qkb

BRAZIL

Comissao de Valores Mobiliarios Securities
(CVM)
www.cvm.gov.br

BULGARIA

Commission for Public Oversight of Statutory
Auditors (CPOSA)
cposa.bg/en/

CANADA

Canadian Public Accountability Board (CPAB)
www.cpab-ccrc.ca

DENMARK

The Danish Commerce and Companies
Agency (DCCA)

DUBAI INTERNATIONAL FINANCIAL CENTRE

Dubai Financial Services Authority (DFSA)

⁸ Profession includes, for example, audit firms, professional bodies and bodies or entities associated with the profession.

www.eogs.dk

EGYPT

Auditors Oversight Board (AOB)

www.efsa.gov.eg

FRANCE

Haut Conseil du commissariat aux comptes (H3C)

www.h3c.org

GREECE

Accounting and Auditing Standards Oversight Board

www.elte.org.gr

IRELAND

Irish Auditing & Accounting Supervisory Authority (IAASA)

www.iaasa.ie / www.iaasa.eu

JAPAN

Certified Public Accountants & Auditing Oversight Board (CPAAOB)

www.fsa.go.jp/cpaaob

Financial Services Agency (FSA)

www.fsa.go.jp

LITHUANIA

The Lithuanian Authority of Audit and Accounting (LAAA)

MALAYSIA

Audit Oversight Board (AOB)

www.dfsa.ae

FINLAND

The Auditing Board of the Central Chamber of Commerce of Finland (AB3C)

www.ab3c.fi

GERMANY

Abschlussprueferaufsichtskommission - Audit Oversight Commission (APAK-AOC)

www.apak-aoc.de

HUNGARY

Auditors' Public Oversight Committee (APOC)

www.kormany.hu/hu/nemzetgazdasagi-miniszterium/ado-es-penzugyekert-felelos-allamtitkarsag/hirek/knyvvizsgaloi-kozfelugyeleti-bizottsag/

ITALY

Commissione Nazionale per le Società e la Borsa (CONSOB)

www.consob.it

KOREA

Financial Services Commission (FSC)

www.fsc.go.kr

Financial Supervisory Service (FSS)

www.fss.or.kr

LUXEMBOURG

Commission de Surveillance du Secteur Financier (CSSF)

www.cssf.lu

MALTA

The Accountancy Board of Malta (ABM)

www.sc.com.my

MAURITIUS

Financial Reporting Council

www.frc.mu

NORWAY

Financial Supervisory Authority of Norway
(FSA)

www.finanstilsynet.no

SLOVAK REPUBLIC

Auditing Oversight Authority

www.udva.sk

SPAIN

Accounting and Auditing Institute (ICAC)

www.icac.meh.es

SWEDEN

Supervisory Board of Public Accountants

www.rn.se

CHINESE TAIPEI

Financial Supervisory Commission

www.fsc.gov.tw

TURKEY

Capital Markets Board of Turkey (CMB)

www.cmb.gov.tr/index.aspx

USA

Public Company Accounting Oversight Board
(PCAOB)

www.pcaobus.org

www.accountancyboard.gov.mt

NETHERLANDS

Autoriteit Financiële Markten (AFM)

www.afm.nl

SINGAPORE

Accounting and Corporate Regulatory
Authority (ACRA)

www.acra.gov.sg

SOUTH AFRICA

Independent Regulatory Board for Auditors
(IRBA)

www.irba.co.za

SRI LANKA

Accounting and Auditing Standards
Monitoring Board (AASMB)

www.slassmb.org

SWITZERLAND

Federal Audit Oversight Authority (FAOA)

www.revisionsaufsichtsbehoerde.ch

THAILAND

Securities and Exchange Commission

www.sec.or.th

UK

Financial Reporting Council (FRC)

www.frc.org.uk

OBSERVERS:

IFIAR may invite as Observers organizations that have demonstrated an interest in the integrity of the financial reporting system and the quality of the audits through their activities or mandate.

The following international organizations were Observers at IFIAR meetings in 2010:

Basel Committee on Banking Supervisors

European Commission

Financial Stability Board

International Association of Insurance Supervisors

International Organization of Securities Commission

Public Interest Oversight Board

World Bank

For further information, please contact Jon Hooper at the IFIAR Secretariat (j.hooper@frc.org.uk).

Annex 3

IFIAR WORKING GROUPS

○ **GLOBAL PUBLIC POLICY COMMITTEE (GPPC) WORKING GROUP MEMBERS**

- CHAIR** : Brian Hunt CPAB - Canada
- MEMBERS** : ASIC Australia
- H3C France
- CPAAOB/FSA Japan
- AFM the Netherlands
- FRC United Kingdom
- PCAOB United States

○ **INSPECTION WORKSHOP WORKING GROUP MEMBERS**

- CHAIR** : Brynjar Gilberg FSA - Norway
- MEMBERS** : ASIC Australia
- CPAB Canada
- H3C France
- AOC Germany
- CPAAOB/FSA Japan
- FRC United Kingdom
- PCAOB United States

○ **INTERNATIONAL COOPERATION WORKING GROUP MEMBERS**

- CHAIR** : Doug Niven ASIC – Australia
- MEMBERS** : CPAB Canada
- H3C France
- CONSOB Italy
- CPAAOB/FSA Japan
- SBPA Sweden
- FAOA Switzerland

FSC/FSS Korea
FRC United Kingdom

OBSERVER : European Commission

○ **INVESTOR DIALOGUE WORKING GROUP MEMBERS**

CHAIR : Steven Harris PCAOB – US
MEMBERS : DFSA Dubai
 CPAAOB/FSA Japan
 FRC United Kingdom

○ **STANDARDS COORDINATION WORKING GROUP MEMBERS**

CHAIR : Bernard Agulhas IRBA - South Africa
MEMBERS : CPAB Canada
 H3C France
 AOC Germany
 CONSOB Italy
 CPAAOB/FSA Japan
 ACRA Singapore
 FAOA Switzerland
 FRC United Kingdom
 PCAOB United States

○ **CURRENT ISSUES TASK FORCE MEMBERS**

CHAIR : Paul George FRC – United Kingdom
MEMBERS : AOC Germany
 CPAAOB/FSA Japan
 AFM the Netherlands
 PCAOB United States