



International Forum of Independent Audit Regulators

Annual Report and Accounts
2012

Contents

Our Role	4
How We Are Organised	5
Chairman's Report	7
IFIAR's Activities in 2012	8
Developments in IFIAR Member Jurisdictions	13
IFIAR Financial Statements	28
Annex	34

Our Role

The International Forum of Independent Audit Regulators (IFIAR) consists of independent audit regulators from 44 jurisdictions.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.

IFIAR also participates in international efforts to promote audit quality.

¹. A full list of IFIAR Members as of 31 December 2012 can be found in the Annex.

How We Are Organised

MEETINGS AND WORKSHOPS

IFIAR convenes bi-annually 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. Although IFIAR will move to annual plenary meetings in 2013, there also will be an annual interim meeting of the Officers, Advisory Council and the Chairs of the Working Groups to coordinate the work of the organisation.

OFFICE BEARERS

IFIAR is led by two Officers, a Chairman and a Vice-chairman. The Chairman in 2012 was Paul George, Executive Director of Conduct at the UK's Financial Reporting Council. The Vice-chairman up to February 2012 was Dan Goelzer, Board Member of the US Public Company Accounting Oversight Board (PCAOB); Dan was succeeded as Vice-chairman by Lewis Ferguson, also a Board Member of the US PCAOB.

The Chairman and Vice-Chairman are assisted and advised by an Advisory Council in pursuing their responsibilities as set out in the Charter. In 2012, the Advisory Council comprised IFIAR Members from Abu Dhabi, Canada, Germany, Japan, the Netherlands and Spain.

The Chairman and Vice-Chairman have two-year terms which expire in April 2013 when new Officers will be elected.



IFIAR WORKING GROUPS

IFIAR has established a number of Working Groups that address various work streams important to audit regulators. These Working Groups form the core of IFIAR's activities alongside its plenary meetings and workshop.

IFIAR currently has the following Working Groups; (the names of the Member jurisdictions and the Chairs of the Working Groups are listed in the Annex):

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 comprise 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. Activities include sharing inspection methodologies.

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.

Updates on the activities of each Working Group are included in the review of activities below.

Chairman's Report



2012 has been a year of further development for IFIAR. Our Membership numbers have increased to 44, we have strengthened our engagement with the global audit networks, investors, standard setters and other regulators and have issued the first global survey of inspection findings.

I remain convinced that we can make greater progress in improving audit quality collectively through IFIAR, than we can solely acting individually as National Regulators. The collective voice of IFIAR, when we combine our experience, knowledge and expertise, is more influential with the global audit networks and international standard setters and can accelerate improvements in audit quality.

Independent audit regulation is a relatively new activity in many jurisdictions, where newly established organisations need to develop their methodologies, systems and procedures quickly. The sharing of knowledge within IFIAR has speeded up this process and improved the quality and consistency of our work nationally.

During 2012 IFIAR discussed wide ranging topics relevant to enhancing audit quality with a range of stakeholders including common inspection findings, the future role of audit and the role of

the audit report, the role of the audit committee, increasing the use of off-shoring or cross-border outsourcing in audit and independence and potential conflicts of interest.

A key focus of IFIAR is its cooperation with the investor community. IFIAR increased its interaction with investors specifically to highlight their views of audit quality, auditor reporting and related corporate governance issues. We listened to the investor panellists on how the independent regulators of IFIAR can further support the enhancement of audit quality and we are developing plans to respond to their concerns.

The IFIAR membership have identified frequently recurring issues on inspections including; Professional scepticism, group audits, revenue recognition, engagement quality review and auditor independence. These have been the basis for discussions with the global CEO's from the six largest international audit networks. At the London plenary meeting, in October 2012, IFIAR challenged the Global CEO's to improve the consistency of execution of audit engagements, to demonstrate the progress made in addressing common inspection themes. IFIAR will continue to review the networks' progress in improving the consistency of audit work and to identify root causes where performance falls short.

IFIAR furthered its work with audit standard setters, meeting with the International Audit Assurance Standards Board to discuss the IAASB's ISA implementation monitoring project, auditor reporting, professional scepticism, the work of internal auditors and the IAASB's audit quality project. IFIAR Members will respond to the

IAASB on these issues and we will continue to foster this relationship.

A significant development for IFIAR in 2012 was the publication of its first global survey of inspection findings. This survey also enabled IFIAR to respond to a request from the Financial Stability Board for information on inspection findings at Global Systemically Important Financial Institutions (G-SIFI's) and Systemically Important Financial Institutions (SIFIs). IFIAR will conduct periodic surveys to measure the changes in these findings and identify what practices are most effective in reducing the audit deficiencies. These periodic surveys will help highlight the root causes of the inspection findings and help improve the consistency of individual audit engagements.

IFIAR saw its membership increase in 2012 to 44 Members, with the welcome addition of the independent audit regulators of Belgium, Gibraltar and Liechtenstein. We believe their experience will help strengthen IFIAR as we go forward.

In Conclusion

As my two year term as Chair comes to an end I would like to thank my Vice-chairs, Dan Goelzer and Lew Ferguson, the Officers' secretariat and the Membership for their support. It has been an honour to serve IFIAR during a period of significant development. I trust that, with proposals before the Membership for an even more ambitious work programme and revisions to the IFIAR Charter designed to enable IFIAR to take centre stage in global audit quality issues, I hand the leadership on of an organisation in fine fettle for the next stage of its development.

IFIAR's Activities in 2012

In 2012, IFIAR held two plenary meetings and an Inspection Workshop, and the IFIAR Working Groups continued to make progress both in support of the plenary meetings and through their own activities. In addition, in December 2012, IFIAR published its first ever global survey of audit inspection findings.

GLOBAL SURVEY OF INSPECTION FINDINGS

This was the first global survey of audit inspection findings summarizing issues identified by IFIAR Members located around the world. The survey was designed to identify the level of inspection activity and common inspection findings related to the audits of public companies. The survey also responded to a request from the Financial Stability Board to provide information regarding findings from the inspections of audits of major financial institutions.

In the last several years, Member updates at the IFIAR plenary meetings on the results of their inspections of audit firms have included a number of common inspection findings across different jurisdictions. Certain inspection findings also have been identified by Members repeatedly from year to year. Findings in four areas – professional scepticism, group audits, revenue recognition, and the role of the engagement quality control reviewer – have been the subject of detailed discussion between IFIAR and the six largest international audit firms. The results of this survey show that these four areas remain sources of concern.

The survey asked Members to report findings from their inspections of audit engagements for specific areas; it did not seek information regarding instances where auditors had met the required professional

standards. Therefore, this report is not a balanced scorecard.

The survey does, however, illustrate that more needs to be done to improve the consistency of performance by auditors. For example, the survey results confirm that Members are noting audit findings in numerous common areas (inspection themes) across the different jurisdictions. The survey results indicate that the largest number of inspection findings in audits of public companies occurred in the following areas:

- Fair value measurements;
- Internal control testing; and
- Engagement quality control reviews.

Inspections of the audits of major financial institutions revealed that the largest number of common inspection findings occurred in the following areas:

- Internal control testing;
- Valuation of investments and securities; and
- Audit of allowance for loan losses and loan impairments.

Many Members who responded to the survey also noted that a lack of auditors' professional scepticism on audit engagements was a significant performance issue, as well as a possible cause underlying many inspection findings.

With regard to Members' inspections of the audit firms' own firm-wide quality control systems, the survey results highlighted concerns with policies and procedures in place to provide the firms with reasonable assurance that:

- Audit engagements are performed in accordance with professional standards and legal requirements;

- The firms have sufficient personnel with the technical competence, capabilities, and commitment to ethical principles necessary to perform audits; and
- The firms and their personnel are in compliance with independence and ethical requirements.

Members also provided responses to five questions designed to solicit open-ended, unrestricted feedback. These questions related to: significant challenges and audit quality issues faced by audit firms; measures the firms have taken to address those challenges and audit quality issues; specific quality control measures the firms have taken in relation to audits of public companies, including financial institutions; changes Members consider most necessary to achieve the required improvements in audit quality; and measures that Members have adopted to achieve improvements in audit quality that they would recommend to others.

Although Members who responded to the survey noted that audit firms have taken remedial actions in response to the Members' inspection findings, the frequency of findings across jurisdictions in the various audit areas demonstrates that auditors still need to improve the consistency of their performance. That so many findings recur year after year suggests that audit firms should continue to improve their auditing techniques and their oversight policies and procedures. Audit firms also should take steps to develop a robust root cause analysis to gain a clearer understanding of the factors that underlie the inspection findings and take appropriate actions to remediate those findings.

The results of this survey will contribute to Members' ongoing work in promoting audit quality through their regulation and inspection of, and engagement with, auditors on both a national and international basis. It is also hoped that the survey results will be of use to other regulators and policy makers and to those setting standards for auditors. IFIAR will continue to interact with the International Auditing and Assurance Standards Board, the Financial Stability Board, and others, as appropriate, on issues raised through inspection findings.

IFIAR plans to conduct periodic surveys to measure changes in these findings with the goal of allowing Members to identify those areas that need improvement and to share experiences about what practices seem to be most effective in reducing audit deficiencies.

HIGHLIGHTS FROM THE IFIAR PLENARY MEETINGS

BUSAN, South Korea, 16-18 April, 2012

Meeting highlights

- IFIAR Members shared findings of recent audit inspections and discussed recent audit policy developments;
- IFIAR exchanged views with investor representatives from Asia about audit quality;
- IFIAR agreed to respond to a request from the Financial Stability Board to identify common findings from Members' inspections of the audits of major financial institutions; and
- IFIAR agreed on priorities for initiatives to improve IFIAR's internal and external communication activities.

LONDON, United Kingdom, 1-3 October, 2012

Meeting highlights

- IFIAR discussed the results of a survey of findings from Members' audit inspections and appointed a task force to prepare a summary of the results for publication;
- IFIAR Members heard from prominent representatives of the investor community on their views of audit quality, auditor reporting and related corporate governance issues. The investors also gave their views on what auditors can do to enhance audit quality and what audit regulators can do to support this;
- IFIAR heard from the Global CEOs of the six largest international audit networks on the audit risks associated with sovereign debt exposures and the auditor's reporting model, and challenged them to improve audit quality and their consistency of execution;
- Individual IFIAR Members shared their findings from recent audit inspections and discussed recent developments in audit policy and enforcement matters;
- IFIAR Members heard from, and provided feedback to, the IAASB on issues involving auditing standards and received a report on projects of the Auditing, Ethics and Education Standards boards of IFAC;
- IFIAR Members agreed to consider forming a working group for enforcement matters that would facilitate the sharing of information and methodologies; and
- The audit regulator from Liechtenstein was admitted as a Member of IFIAR during the meeting, bringing the number of Members to 44.

HIGHLIGHTS FROM THE IFIAR WORKING GROUPS

Investor Dialogue Working Group

In 2012, the Investor Working Group held sessions at the IFIAR Busan and London plenary meetings. In Busan, the investor session featured a panel with Sharmila Gopinath of the Asian Governance Association and David Gerald of the Securities Investors Association Singapore. This dialogue with IFIAR Members focused on the importance of promoting independent oversight in jurisdictions where independent regulatory bodies do not provide audit oversight.

During the October 2012 plenary in London, the Investor Working Group hosted two sessions: a session with the plenary and a joint session with the Global Public Policy Committee (GPPC) Working Group. In preparation for these investor sessions, the Investor Working Group recruited high level panelists to address the concerns and desires of investors with respect to improving audit quality and making the work of the auditor more useful to investors. The panel included Riens Abma, Executive Director of Eumedion; Elizabeth Corley, Chief Executive Officer of Allianz Global Investors Europe; David Denison, former President and CEO of the Canadian Pension Plan Investment Board; Sadakazu Osaki, Head of Research, Center of Knowledge Exchange and Creation, the Nomura Research Institute; Kurt Schacht, Managing Director of the Chartered Financial Analysts; Christian Strenger, Chairman of the Board of the New Germany Fund; and O. Peter Krohn Gjessing, Senior Analyst, Ownership Policy at Norwegian Bank Investment Management.

In London, the investors made recommendations to IFIAR Members on a variety of topics, all with the aim of conveying to Members what audit regulators could do to make the work of the auditor more useful to investors and improve audit quality. Among other topics, the investors discussed independence; professional skepticism; auditor rotation; the audit report; the auditor's role in identifying risk factors; integrated reporting; and the need for consistency of execution on the part of the global networks with respect to their overseas subsidiaries.

The joint-session with the leaders of the audit profession, the GPPC CEOs, concentrated on how auditors could improve audit quality and audit usefulness to investors. This session included a lively discussion with the GPPC firm leaders on topics such as: how to change the status quo regarding the

auditors' reporting model; how to improve the consistency of audit execution throughout the global networks; and whether there should be training for audit committee members.

Following the valuable dialogue in 2012 between investor representatives and the IFIAR membership, the Investor Working Group began identifying panelists for the 2013 Investor Working Group session at the next plenary.

The working group is chaired by the United States and includes: Brazil, Dubai, France, Germany, Japan, the Netherlands and the United Kingdom.

GPPC Working Group

IFIAR has an on-going dialogue with the international audit networks that are members of the GPPC to support our common objective of improving global audit quality.

During 2012, the GPPC Working Group met with GPPC representatives on two occasions to discuss a variety of topics, including audit quality measures; auditing entities with complex business structures in foreign jurisdictions; off-shoring; auditor independence; and the extent of progress made by the network firms in improving the application of professional scepticism, the performance of group audits, the effectiveness of engagement quality control reviews and audit of revenue recognition.

In addition, the Global CEO's from each of the international networks of BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers participated in the October 2012 IFIAR plenary meeting in London. During the plenary meeting, GPPC representatives discussed audit quality and related topics with a group of investors, provided IFIAR Members with an update on activities undertaken in relation to sovereign debt issues, and shared views on the audit reporting model.

The GPPC Working Group has developed a work plan for 2013 which reflects the following priorities:

- Developing a measurement framework to provide a consistent and reliable basis for identifying audit quality issues of most concern and assessing progress made by the networks in making improvements over time.
- Promoting the consistency with which high quality audits are executed by working with the networks to identify and address the root causes of quality issues

- Encouraging the networks to consider whether audit quality might be improved by changing network business processes, models and structures.

These matters will be discussed during meetings with GPPC representatives in February, June and October 2013.

IFIAR's dialogue with the GPPC is prepared and led by the GPPC Working Group. The group is Chaired by Brian Hunt, CEO of the Canadian Public Accountability Board (CPAB), and includes IFIAR members from Australia, France, Germany, Japan, Netherlands, Singapore, the UK and the USA.

Standards Coordination Working Group

The SCWG held six conference calls since the London plenary meeting in October 2012 and in addition to the full SCWG calls, task force conference calls to discuss the IESBA Exposure Draft on Illegal Acts and the IAASB ED ISA 720. Given the highly technical nature of the matters on the agenda of the SCWG, members also discussed proposals to facilitate greater debate at plenary meetings as well as more focused interaction of the SCWG between plenary meetings.

In light of the IFIAR's objectives to enhance coordination between the IFIAR working groups, it was agreed to facilitate a joint SCWG/IWG session with a panel of investors at the plenary meeting in Noordwijk, for which the SCWG prepared questions from a Standards perspective, based on current issues in which investors would have an interest. The chairman of the SCWG also attended the Inspections Workshop in Zurich in March 2013 to identify possible areas of coordination between the working groups.

Following the Busan Plenary Meeting, and again after the last Plenary meeting in London in October 2012, the SCWG was requested to continue considering a proposed process to submit IFIAR Comments on common points of interest and concerns which could strengthen comments submitted by IFIAR members on international exposure drafts. Further thought must be given to the development of a standardised process to submit IFIAR comments.

The chairman of the SCWG met with the chairman of the IESBA, Jorgen Holmquist, in Cape Town in November 2012 to invite the chairman to attend the plenary meeting in Noordwijk. During this session, SCWG members led discussions and questions on

specific IESBA projects, and provided the IESBA chairman with the opportunity to share with IFIAR his vision and strategy for the Board.

Inspection Workshop Working Group

A core activity of independent audit regulators is the ongoing inspections 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 inspection 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, and providing opportunities to discuss approaches to overseeing global audit firms in a coordinated manner.

In 2012, IFIAR held its 6th Inspection Workshop in Abu Dhabi. The workshop started with an induction workshop that addressed nine common inspection process elements, and a key note address by Dr. Clemens Boersig, former Chairman of the Supervisory Board of Deutsche Bank and IFRS Foundation Trustee.

The main inspection workshop included a total of four plenary sessions, two breakout sessions and fifteen elective sessions held over two and a half days. The second half of day one was dedicated to discussing current and emerging issues, including the European debt crisis, and their impact on financial statement audits and audit inspections. Day two started with two plenary sessions, the first being a presentation on major regulatory initiatives in the last year. The second plenary session was a presentation by the Chairman of the IFIAR GPPC working group, providing an update of the work of the group. This was followed by two break-out sessions on key topics being discussed by the GPPC (group audits and Engagement Quality Control Reviewer). The elective sessions started in the afternoon of day two and continued on day three and covered the following specific topics: Professional Scepticism, Revenue Recognition, Inspections of Bank Audits, Using the Work of Experts, Cross Border Regulation/Joint Inspections, International Cooperation Amongst Regulators, Electronic Systems Used by Regulators, Quality of Audit Evidence, Issues

Arising from the Adoption of Clarified ISAs, Inspection of the Firms' Monitoring System on Quality Control Policies and Procedures, Evaluation of Firms' Action Plans (incl. Root Cause Analyses of Inspection Findings), Selecting Files for Review and Identifying Risk Areas for Review, Joint Audits and their Implications for Inspections, Oil and Gas Industry, and Impact of Service Organizations.

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 the feedback from the workshop, is indicative of Members' broad interest in continuing to share information about their inspection programs.

The next workshop will be held in March 2013 in Zurich at the invitation of the Swiss Federal Audit Oversight Authority.

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

International Cooperation Working Group

The International Cooperation Working Group ("ICWG") considers and reports to the IFIAR membership on ways in which members can cooperate and share information relating to individual audit firm inspections and audit engagements so as to enhance the effectiveness and efficiency of audit oversight processes and contribute to audit quality. The ICWG identifies areas where IFIAR members can work more effectively in collaboration than in isolation.

During 2012, the main activities of the ICWG have been:

- Conducting a workshop for IFIAR members on international cooperation in October 2012;
- Developing papers for IFIAR members containing considerations to assist members in the areas such as:
 - sharing of audit working papers under bilateral arrangements between regulators;
 - the registration and deregistration of foreign audit firms that audit public interest entities formed in a foreign jurisdiction and foreign components (e.g. branches or controlled entities) of domestic public interest entities;

- cooperation between audit oversight regulators in exceptional circumstances where increased communication and exchange of information would serve the public interest consistent with those regulators' mandates, other than in response to a request for information from another audit regulator;

- Developing a survey questionnaire to assist IFIAR members in understanding the extent and effectiveness of information sharing between those regulators; and
- Exchanging information relating to developments on international cooperation in the jurisdictions and regions of working group members.

OTHER ACTIVITIES OF IFIAR

Monitoring Group Activities

IFIAR joined the Monitoring Group following the Bangkok Meeting in September 2011. It has actively participated in Monitoring Group meetings and activities during 2012, initially as an Observer then as a Member. One of the main initiatives of the Group during the year has been the preparation of a consultation by the Group on its governance arrangements.

In late 2012 and early 2013, the Monitoring Group (MG) followed up its 2010 review with a review of the structure and governance model to support the quality and accountability of the work of the standards-setting bodies (SSBs) of the International Federation of Accountants (IFAC). The MG issued its final Statement of Governance to the public on 28 March 2013. It was accompanied by a feedback statement summarizing the comments submitted on the MG's governance consultation paper – as well as the MG's conclusions on each of the items specified in the consultation paper. The MG's Statement of Governance paper made five operational recommendations on how the current governance structure could function more effectively. The Statement also indicated the MG's support for the existing three-tiered governance structure (Monitoring Group – Public Interest Oversight Board – Standards Setting Bodies) for the time being but also acknowledged that an independent standard-setting structure outside of the accounting profession would be ideal in the long term, although difficult to achieve in the immediate future.

Developments in IFIAR Member Jurisdictions

The following are brief summaries and highlights of IFIAR Members' activities and developments in audit regulation in their jurisdictions during 2012

ABU DHABI- Abu Dhabi Accountability Authority (ADAA)

ADAA continued to review the work of statutory auditors to assess the quality of audit work performed in order to enhance users' confidence in the accuracy and transparency of financial statements. Examinations are conducted in accordance with a comprehensive methodology that conforms with the pronouncements and methodologies of the International Federation of Accountants and requires the examination of documents, records and working papers of the statutory auditor and any other information, that the ADAA considers necessary.

ADAA examined 70 independent audit reports on financial statements' and the work of statutory auditors, appointed by Subject Entities, which resulted in a number of comments mainly addressing issues related to:

- Communication between the statutory auditors and those charged with governance;
- Procedures performed by statutory auditors to test and rely on the internal controls;
- Quality of audit evidence relied on;
- Engagement quality control reviews; and
- Accounting estimates and fair value judgements.

All comments arising from ADAA's examinations are classified into "Significant improvement required", "Needs improvement" and "Needs improvement- Specific exception noted" based on the nature and significance to the financial statements and the statutory auditor's audit process. Those comments are communicated to those charged with governance at Subject Entities and separately to statutory auditors for future improvements, implementation and follow up.

In addition, ADAA monitors the implementation of the Statutory Auditors Appointment Rules (SAAR), established by ADAA in 2010 to ensure that financial statements audits assignments are awarded in an objective manner to the statutory auditor who demonstrated the highest expertise and best quality.

Additionally, ADAA provided its comments to the concerned government authorities on the draft law regulating the audit profession in UAE, which is expected to be issued in the near future.

During 2012 ADAA hosted the 6th IFIAR Inspection Workshop in March 2012, and continued to chair the Abu Dhabi Technical Forum, which was established by ADAA in 2010, comprising of UAE based audit professionals of the international accounting firms with the aim of eliminating the local inconsistency in the interpretation and application of accounting standards. ADAA also issued a number of publications featuring recommendations to enhance the role of audit committees, as well as accounting and financial reporting topics.

AUSTRALIA- Australia Securities and Investment Commission (ASIC)

In December 2012, ASIC issued its public report covering inspections of audit firms completed in the 18 months to 30 June 2012. ASIC reviews showed an increase in instances where auditors did not perform all of the work necessary to obtain reasonable assurance that audited financial reports were not materially misstated (18% of key audit areas reviewed compared to 14% for the previous 18 month period).

ASIC identified three broad areas requiring improvement by audit firms:

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

The ASIC report includes a number of actions that audit firms should consider to improve and maintain audit quality. The report also outlines future areas of focus for audit firms and inspections. The largest 6 auditing firms in Australia are responding to ASIC requests to prepare action plans to improve audit quality.

From 1 July 2012, legislation allows ASIC to publicly report on audit deficiencies not addressed by a firm within 6 months, and also to communicate certain matters to company audit committees, directors or management.

During 2012, ASIC received Enforceable Undertakings from three individuals not to practice as auditors for varying periods. The undertakings followed surveillance activities relating to the audits of entities with materially misstated financial reports. Another auditor is before the courts in relation to an alleged breach of auditor independence requirements.

BELGIUM- Belgian Auditors Statutory Oversight Authority (KVI-CRME)

In 2012, the KVI-CRME concluded on 281 quality control inspections and started 291 new quality control inspections. Over half of the inspections concluded in 2012 were initiated in 2011 and 2012. However, some of the inspections have taken, three to four years before a final conclusion, approved by the KVI-CRME, was reached. The KVI-CRME will continue its efforts to reach a timely final conclusion of the inspections. The KVI-CRME is also exploring the possibility of improving its work processes in order to monitor corrective actions.

The KVI-CRME undertook an investigation on the legal requirement that auditors publish a transparency report. It found that approximately 90 % of the auditors who are compelled by law to publish a transparency report did so insufficiently; the Institute of Registered Auditors was requested to specifically draw its members' attention to this matter. The KVI-CRME will continue monitoring this issue in 2013.

Over 121 audit files were reviewed in 2012 in order to verify whether auditors committed disciplinary violations. In 23 cases, a file has been transmitted to the independent Disciplinary Commission for disciplinary sanction. The KVI-CRME believes in the importance of close monitoring of rules aimed to guarantee the independence of the Auditors.

BULGARIA- The Commission for Public Oversight of Statutory Auditors (CPOSA)

During 2012, the CPOSA continued to oversee statutory auditors and audit firms in order to protect the interest of investors and foster the public trust in regards to preparing precise, informative, and independent audit reports.

The CPOSA conducted inspections looking at the quality controls of statutory auditors. The CPOSA also acted upon the information received from other third parties.

In 2012, the risk-based approach for the selection of auditors and audit firms to be inspected was gradually introduced by the CPOSA. This approach was also used for the selection of samples of audit engagements for review.

CPOSA's issued new rules and procedures to improve the quality of inspections. It also improved the process of conducting examinations to obtain a qualification as a Certified Public Accountant.

In October 2012, a new Chairman of the CPOSA was elected by the the National Assembly, Mrs Vanya Doneva. Mr Todor Shopov was also appointed as a new Board Member.

In 2012, the CPOSA was selected to host the eighth meeting of the European Audit Inspection Group (EAIG).

CANADA- Canadian Public Accountability Board (CPAB)

CPAB developed a new strategic plan in 2012 that sets the organization's direction for the period 2013-2015. Over the next 3 years CPAB will further enhance audit quality in Canada by focusing on four priority areas: 1) thought leadership; 2) stakeholder engagement; 3) risk management; and 4) focused, effective inspections. CPAB undertook several initiatives in 2012 to support the new strategic plan, including:

- Launching the Enhancing Audit Quality initiative jointly with the Canadian Institute of Chartered Accountants to address priority areas including auditor independence, auditor reporting, and the role of audit committees;
- Hosting the second Audit Quality Symposium which brought together thought leaders and policy makers from Canada and around the world to discuss issues related to auditing; and
- Publishing a Special Report on Auditing in Foreign Jurisdictions.

During 2012, CPAB reviewed 236 audit files as part of the inspection of 61 Firms to assess the effectiveness and implementation of the audit firms' policies and procedures relative to accounting and auditing standards. Our 2012 inspection results indicate an overall 30% decline in the number of audit deficiencies identified in audit files inspected. CPAB defines an audit deficiency as the failure to obtain sufficient appropriate audit evidence for a material account balance or transaction stream.

DENMARK- The Danish Commerce and Companies Agency (DCCA)

In December 2012, the Danish Parliament adopted an amendment to the Danish Act on Approved Auditors and Audit Firms. The purpose of the amendment was to enhance the independence of the system of quality assurance. Consequently, the inspection of audit firms auditing PIEs will be conducted from 2013 by inspectors who are full time employees of the Danish Business Authority. The amendment aligns the Danish system of quality assurance with international standards on quality assurance.

In July 2012, the Auditors' Commission published a report with a proposal to modernise the educational qualifications of Danish auditors. The Commission's proposal is included in a proposal which was presented to the Danish Parliament in January 2013. According to the proposal, only state-authorized public accountants will be approved in the future and theoretical education at master level is required. The proposal also strengthens the requirements of auditors auditing financial institutions. The auditors must be certified by the Danish Financial Supervisory Authority, and the auditors are required to fulfill 180 hours of continuing education over a period of three years of which 60 hours must be in areas of specific interest to auditing financial institutions.

DUBAI- Dubai Financial Services Authority (DFSA)

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

During 2012, the DFSA's audit monitoring team conducted eight on-site assessments, assessed fifteen Audit Principals and reviewed twenty eight audit engagement files focusing on the substance of Auditor's work and assessing whether sufficient and appropriate evidence was obtained and documented to support the conclusions reached in relation to key audit judgements. The DFSA also carried out inspections focused on Auditor's Anti-Money Laundering obligations. In 2012, the Regulatory Law 2004 was amended to provide the DFSA regulatory oversight of Auditors of Public Listed Companies.

The DFSA will initiate inspections of these Auditors from 2013 onwards. The DFSA granted registration to two Auditors to provide assurance services to regulated financial services firms. The DFSA also sanctioned one Auditor over failure to comply with the requirements of accounting and auditing standards. The DFSA has initiated a full review of its legislative framework relating to Auditors in the DIFC. It is expected that this review will be completed in 2014.

EGYPT- Auditors Oversight Board, The Egyptian Financial Services Authority (AOB, EFSA)

In 2012, the AOB set a number of objectives to help achieve its overall goals. During 2012, the AOB accomplished the following:

- Updated the database of auditors and their teams to create a more comprehensive register of the profession;
- Assessed non-audit services such as consulting, tax planning advice provided by audit firms;
- Assessed any potential conflict of interest between auditors and their other related parties;
- Oversaw audit firms while implementing continuous professional education policies within their audit teams;
- Implemented an annual program of regular inspections that included more than 25 auditors;
- Encouraged auditors to apply the Corporate Governance rules and specifically its executive regulations; and
- Encouraged auditors to communicate to the audit committee and to disclose and clarify their professional judgments on financial statements.

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

The AB3C continued to approve auditors and audit firms and to administer auditor registration in Finland. In 2012, AB3C organised professional examinations and processed applications for the authorization of audit firms. At the end of 2012 there were about 760 KHT auditors (authorised by AB3C) and 640 HTM auditors (authorised by local Chambers of Commerce) and 40 KHT audit firms and 34 HTM audit firms in Finland.

The AB3C in its oversight operations, conducted investigations and inspections. By the end of 2012, the quality assurance team (independent full-time employees of AB3C) had performed quality inspections of 14 PIE sector audit firms. During the first three year inspection cycle the main focus was on the efficiency of audit firms' quality assurance systems. In 2012, the quality assurance team organized and monitored quality inspections of 126 auditors and the inspection fieldwork being performed by practitioners, in the non-PIE sector. Cooperation with the Financial Supervisory Authority, which oversees listed companies and credit institutions, continued and was further developed.

AB3C cooperated in international oversight as it participated at the EU level in EGAOB meetings as well as IFIAR plenary meetings and the IFIAR Inspection Workshop. AB3C met with Nordic colleagues in an informal Nordic meeting. AB3C concluded its negotiations on mutual oversight cooperation with the PCAOB (USA) and the agreement (Statement of Protocol) was signed in early 2013.

There is an ongoing process of developing the authorisation and oversight process. In November 2012, a working group established by the Ministry of Employment and the Economy issued a report with proposals on reforming the authorisation and oversight system of auditors and audit firms to create a more uniform, centralized and harmonised organisation, and uniform audit regulation.

FRANCE- High Council of Statutory Audit (H3C)

Throughout 2012, the H3C implemented its 2012 inspection schedule covering the inspections of 150 PIE audit firms and 1,150 non-PIE audit firms. For the PIE audit firms, 2012 was the starting year for the second 3-year inspection plan covering 2012 to 2014, whereas for non-PIE audit firms, it was the 5th year of a 6-year plan which began in 2008.

Inspections were carried out, based on a whole firm approach, and consisted of an evaluation of the efficiency of the procedures and the internal controls of the audit firm and the quality of the audit work on a sample of audit engagements. The H3C annual report provides the results of the inspection findings, as well as recommendations for expected improvement by the audit firms.

The H3C published a periodic inspections guide on July 12, 2012, presenting guidance about the implementation of inspections procedures in France. The H3C conducted a wide consultation of French stakeholders on the European audit reform proposals and created a working group, composed of representatives of the French audit profession, businesses, regulatory authorities, universities and Ministries. The working group aimed to gather the opinions of the different stakeholders and identify the potential effects of the proposed European measures on statutory audits. Following the consultation period, the H3C issued a report with its positions on the reform proposals, as well as a summary of conclusions by the working group.

Additionally, in 2012, the H3C issued opinions on referrals received from different interested parties, including statutory auditors, companies, public authorities, and the H3C inspection team, on matters relating to professional ethics, situations impairing independence, networks, familiarity threats, professional secrecy, and the practice of joint audit.

The H3C also contributed to the standards-setting process through joint comment letters with other European audit regulators under the European Audit Inspection Group which were sent to the international standards setters.

In its capacity as appellate body, the H3C has held five hearings on matters relating to discipline, audit fees and registration.

At the end of 2012, the H3C welcomed six new board members who have backgrounds in government agencies, academics, companies and the profession.

GERMANY- Auditor Oversight Commission (APAK/AOC)

During the past year, the AOC continued to focus strongly on the inspections of PIE auditors and audit firms as a vital means to improve audit quality.

The majority of auditors and audit firms acknowledged the results of the inspection findings and drew the necessary conclusions, in order to improve the quality of their work. However, the general nature of the inspection findings shows that there is further room for improvement. In general, the critical themes identified are identical with those addressed by IFIAR's GPPC working group and IFIAR's first report on inspection observations. The AOC is focusing on findings relating to a lack of professional scepticism, the supervision of the audit work (EQCR etc.) and the emphasis which is put on an in-depth root cause analysis by the audit firms. In addition, the AOC has begun to analyse how the relationship between both the auditor and the audit committee, and the regulator and the audit committee, can be enhanced in order for the latter to take a more active role with regard to the necessary improvements after an inspection. In 2012, the AOC also identified the audit firms' efficiency programs as a focus area and will review measures such as off/on-shoring of audit procedures to shared service centers in the 2013 inspections with regard to their potential impact on the performance of audits.

The AOC has entered into two cooperative agreements with foreign regulators and has engaged in joint inspections with the PCAOB (USA). It is committed to cross-border cooperation with the relevant authorities of third countries, and continues to take an active role within the European Group of Auditors' Oversight bodies (EGAOB) and the European Audit Inspection Group (EAIG). It has provided constant input to the relevant parties with regard to the audit proposals issued by the European Commission in November 2011 and follows the legislative process closely.

GIBRALTAR- Financial Services Commission (FSC)

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

During 2012, the FSC's remit with regards to auditing continued to comprise of the following:

- The registration, approval and removal of statutory auditors and audit firms;
- The registration, approval and removal of statutory auditors and audit firms from other European Economic Area (EEA) states;
- The monitoring of continuing professional education of statutory auditors;
- The upkeep of a public register of statutory auditors and audit firms;
- Ensuring that all statutory auditors and audit firms are subject to a system of quality assurance controls; and
- Public oversight of statutory auditors and audit firms.

The FSC continued to oversee the audit industry in Gibraltar, including the review of submitted Auditor Returns and through approval and removal of auditors, where necessary. The FSC continued to liaise with an Auditors Advisory Panel that consisted of representatives from the audit industry in Gibraltar and the Gibraltar Society of Accountants. This interaction enhances the relationship between the FSC and the audit industry in Gibraltar and allows for discussion on matters impacting audit quality.

During 2012, the FSC commenced the programme of quality assurance reviews, as required under the Financial Services (Auditors) Act, 2009. Initial assessment meetings were conducted with the audit industry and the Financial Services Commission began developing the programme for the first full reviews, which are to commence in 2013.

GREECE- Hellenic Accounting and Auditing Standards Oversight Board (ELTE)

In 2012, ELTE continued to be responsible for the regulation and oversight of the auditing profession, the statutory auditors and audit firms in Greece in accordance with the provisions of the 8th Council Directive (2007/43/EC).

During the year it provided considerable assistance to the Ministry of Finance in the implementation of a new procedure of tax audits to be carried out by statutory auditors and audit firms. It also provided input to the Ministry of Finance regarding Greece's responses to the proposals for amendments to the Auditing and Accounting Directives as well as the proposed EU Regulation for the statutory audits of public-interest companies. ELTE continues to advise enterprises on accounting matters, to oversee professional examinations for statutory auditors and the registration of statutory auditors and audit firms and to approve the removal of statutory auditors and audit firms.

During 2012, ELTE officially adopted the Greek translations of the Clarity ISAs as well as the Greek translation of ISAE 3000, which has particular application to tax audits, mentioned above. ELTE also continued its inspection program in cooperation with the Institute of Certified Public Accountants of Greece.

HUNGARY- Auditors' Public Oversight Committee (APOC)

In 2012, APOC continued the assessment of the public oversight system's regulation and its operation that began in 2011. The APOC summarised its experiences of the first five-year period of the public oversight system. (The APOC's annual report and the English extract from the report are available on the following website:

[http://www.kormany.hu/hu/nemzetgazdasagi-miniszterium/ado-es-penzugyekert-felelos-allamtitkarsag/hirek/2013-evvel-osszefuggo-adatok.\)](http://www.kormany.hu/hu/nemzetgazdasagi-miniszterium/ado-es-penzugyekert-felelos-allamtitkarsag/hirek/2013-evvel-osszefuggo-adatok.)

The APOC found that it would be reasonable and necessary to restructure the organizational-institutional framework of public oversight, to create a public oversight authority which is completely independent from professional organisations and having proper competencies. The APOC found it especially necessary for the independent functioning of the inspection system, introduced in 2011, and the creation of the official frameworks.

With passing some of the APOC's suggestions, the related Hungarian law was amended in the middle of December 2012. From 1 July 2013, a public oversight authority will be established that will control the activities of the auditors and audit firms of public interest entities on a continuous basis. The public oversight authority will adopt a resolution on the qualification of inspections and may impose as a sanction mandatory participation in further education, or a warning to cease infringement activity. Furthermore, if the result of the inspection is unsuitable, the public oversight authority can initiate disciplinary proceedings against the professional organization. The procedure of the public oversight authority will be funded by fees that will be paid by the professional organization from membership fees and contributions. The details will be set out in ministerial decrees.

IRELAND- Irish Auditing and Accounting Supervisory Authority (IAASA)

Part of the IAASA's mandate is to support and enhance public confidence in the auditing profession through the exercise of effective, independent oversight of six Recognised Accountancy Bodies ('RABs'). The RABs perform quality assurance, discipline and monitoring of their members under IAASA's supervision. To achieve this mission, the principal supervisory activities the IAASA undertook in 2012 included the:

- Monitoring of the RABs' regulatory responses in relation to their members' involvement in cases of a public interest, the processing of 29 complaints and completion of a statutory enquiry regarding a RAB's compliance with its approved investigation and disciplinary procedures;
- Approval of *"Agreed Principles Governing the Timing and Manner of Disclosure of Penalties and Sanctions"* against statutory auditors and audit firms;
- Issuing of final supervisory visit reports to three RABs and liaison with the RABs to address the issues identified through improvements to their overall systems and processes;
- Continued monitoring of the relevant RABs' compliance with conditions previously attached to their recognition and the attachment of a further five conditions;
- Development of an assessment system in respect of third country auditors and approval of the full registration of 16 third country audit firms;
- Oversight of the implementation of an Audit Firm Governance Code, which will apply to firms auditing public interest entities for financial years commencing on or after 1 January 2013; and
- Continued monitoring of the European Commission's proposals for a new Regulation and changes to the existing Statutory Audit Directive. This included the provision of advice to the Irish Department of Jobs, Enterprise and Innovation, including participation in the Department's working group and assisting with preparation for Ireland's presidency of the European Union in 2013.

ITALY- The Italian Companies and Stock Exchange Commission (CONSOB)

During 2012, the CONSOB amongst its other duties of supervision of the Italian securities markets, continued its oversight activity of auditors and audit firms that audit the financial statements of PIEs. The CONSOB undertakes activities in the following areas:

- Inspections of quality control reviews;
- Investigations and enforcement;
- Setting standards in collaboration with the auditing profession;
- The development of audit regulation at a national level in collaboration with ministries in charge; and
- The participation at the European and international level in discussions and developments of audit matters.

In 2012, the audit oversight activity focused on 19 audit firms, who undertake the audits of PIEs (approximately 2,700 engagements).

As regards quality control reviews, the CONSOB issued final reports to seven audit firms containing inspection findings and recommendations which, according to law, the firms have to implement within a period set by the CONSOB. In addition, the CONSOB performed ‘follow up’ activity at six audit firms in order to verify the actual implementation of recommendations relating to their internal quality control systems made in previous years. Finally, the CONSOB started three new quality control reviews during 2012. The overall results of the oversight activity in this area are made public in the CONSOB’s annual report published annually in May.

The CONSOB also undertook investigation and enforcement activities in order to check audit firms compliance with standards and the law. As a result, administrative sanctions were issued to five audit firms, whose audit engagements were deficient.

JAPAN- Financial Services Agency and the Certified Public Accountants and Auditing Oversight Board (FSA and the CPAAOB)

During 2012, the FSA and the CPAAOB took various measures to achieve higher investor confidence in capital markets.

The FSA has established a new auditing standard “Standard to Address Risks of Fraud in an Audit” so that auditors properly exercise professional scepticism, perform appropriate audit procedures and obtain sufficient appropriate audit evidence, especially when auditors face a suspicion of fraud during an audit. The standard is effective for the financial statements audits of listed companies for the fiscal year ending on or after March 31, 2014.

The CPAAOB has enhanced the risk based inspection further; it intensified its focus on risks of each audit firm and each audited entity and conducted thorough inspections on these risks, which resulted in more effective inspections.

The CPAAOB conducted an analysis of issues concerning group audits as they had noted some audit failures occurred in overseas subsidiaries of Japanese companies. The CPAAOB has communicated their analysis to stakeholders including the Japanese Institute of Certified Public Accountants (JICPA).

The CPAAOB focused on enhancing interactive communication between external auditors and audit committee members. The CPAAOB emphasized the importance of audit committee members fully understanding the inspection findings of the CPAAOB, in order to assess the effectiveness of external audits to the association of audit committee members and the JICPA.

The CPAAOB collaborated with relevant stakeholders focused on market integrity, including stock exchanges, the FSA, the association of audit committee members and the JICPA, by sharing and discussing issues concerning the audits of financial statements.

KOREA- Financial Services Commission and the Financial Supervisory Service (FSC and the FSS)

In Korea, as in other jurisdictions, protecting investors and other stakeholders and ensuring them access to accurate and reliable financial statements is one of the important mandates of the FSC and the FSS. To achieve this mandate, the FSC/FSS review financial statements (including auditor's reports) and inspect audit firms for the purpose of assessing their audit quality controls. The FSC has statutory authority to formulate accounting and audit-related rules and regulations, while the FSS principally carries out practical oversight activities.

The FSS selects approximately ten percent of all 1,700 publicly-held companies for review of their financial statements every year. Based on its 2012 review findings, the FSS imposed sanctions on 37 issuers and their external auditors for unsuitable accounting and audit. In an effort to ensure a successful transition to IFRS, the FSS reviewed financial information in the corporate disclosure filings of all publicly-held companies to help them better understand and comply with IFRS.

The focus of the FSS was the audit quality reviews. It conducted on-site inspections of ten audit firms, of the 32 major audit firms that are subject to the FSS's review. Two of those inspections were jointly carried out with the PCAOB (USA). For deficiencies and improprieties discovered during the review, audit firms were advised to take remedial actions within a year.

In 2012, Korea's auditing standards were significantly revised to be in line with the IFAC's Clarified ISAs, and the revised standards will take effect in 2014.

MALAYSIA- Audit Oversight Board (AOB)

The AOB continued to influence audit practices through its audit oversight activities primarily through its registration, inspection and enforcement functions. The AOB encourages audit firms to build capacity and continue to enhance their quality framework to improve audit quality.

As of December 2012, a total of 67 domestic audit firms and 293 individual auditors are registered with the AOB. The AOB also recognised 14 individuals from six foreign audit firms who audit the financial statements of eight foreign corporations listed on Bursa Malaysia, to undertake audits pursuant to powers under the Securities Commission Act 1993.

Nineteen audit firms involving 40 individual auditors were inspected. The inspections continued to focus on the sufficiency and appropriateness of audit evidence to support the audit opinion. In addition to regular risk-based inspections, the AOB also performed thematic reviews on the audits of financial institutions such as stockbroking companies and banks.

During 2012, the AOB sanctioned two registered auditors for their failures to comply with the relevant auditing and ethical standards in the performance of audits of public interest entities.

LITHUANIA- The Authority of Audit and Accounting (AAT)

The AAT carries out the public oversight of audit in Lithuania and performs the investigations of the audits and assumes the final responsibility for audit supervision. In 2012, of the approximately 390 auditors and 180 audit firms, 110 quality reviews (inspections) and 4 investigations were performed. These quality reviews and investigations identified weaknesses in the audits carried out by eighteen auditors and/or audit firms. Appropriate restrictive measures were applied in consideration of these inspection results to improve the quality of audits of financial statements in the areas of: audit evidence, documentation, auditor's report and the internal quality control system. At the end of 2012, the draft Law of the Republic of Lithuania on Audit was tabled. The draft Law provides the ability for the AAT to initiate the investigation of PIE audits, where there are concerns about their audit quality. This amendment would increase audit supervision effectiveness and ensure greater protection of the public interest.

MALTA- The Accountancy Board of Malta (AB)

Throughout 2012, the Quality Assurance Oversight Board undertook some key inspections in Malta. The main activities undertaken by the AB in 2012 include:

- Providing comments in respect to the Green Paper on Modernising the Professional Qualifications Directive;
- Proposing amendments for the legal regulatory framework;
- Review of transparency reports published by auditors of PIEs;
- Dealing with complaints and issuing sanctions against warrant holders;
- Reconstruction of the AB warrant holder portal;
- Attendance and participation at European Group of Auditors Oversight Board (EAOB), Accounting Regulatory Committee (ARC), Audit Regulatory Committee (AuRC) and the European Audit Inspections Group (EAIG) meetings held in Brussels;
- Attendance and participation at the IFIAR 2012 London plenary meeting;
- Providing an advisory role to the Government on issues relating to accounting and auditing;
- Participating in comment letters sent to the IAASB on a number of emerging issues pertinent to ISAs sent by the EAIG;
- Participating in surveys on findings arising from monitoring visits – both with IFIAR and the EAIG; and
- Responding to queries raised by regulators from other EU members states.

the NETHERLANDS- Authority for the Financial Markets (AFM)

In 2012, the AFM performed inspections at the four largest audit firms as well as at the nine other audit firms with a PIE license.

Following a major incident, the AFM conducted a specific incident investigation and a thematic inspection of the four largest audit firms, regarding the quality of audits of housing corporations. The AFM concluded that the four largest audit firms have paid increased attention to the quality of the audit of the financial statements of housing corporations. However, the level of attention differs from firm to firm. The same conclusion applies to the pace with which the firms implement measures for quality improvement.

In 2012, the AFM and the PCAOB (USA) performed the first joint inspections since they concluded an agreement in 2011 on cooperation and information related to the oversight of auditors.

In 2012, the AFM also performed inspections at the nine audit firms with a PIE license other than the four largest firms. The AFM published a generic report on the outcomes of these inspections in early 2013. The AFM concluded there were serious shortcomings in the statutory audits conducted by all nine firms. In the majority of the audits, the auditor's opinion on the financial statements was not supported by sufficient and appropriate audit evidence. All nine firms have taken action in order to address the main shortcomings and enhance audit quality, the implementation of which will be monitored by the AFM.

In 2012, the AFM published three reports of administrative fines, imposed on two of the four largest audit firms. Following inspections of incidents the AFM filed several disciplinary complaints, three of which were reviewed in 2012 by the Disciplinary Court for Auditors.

The Dutch Senate agreed on new legislation concerning the independence of audit firms with a license to audit PIEs. These new rules involve a ban on non-audit services to PIE audit clients as of 1 January 2013, and the introduction of mandatory audit firm rotation for PIE audits in January 2016. Furthermore, in 2012 the so called Chinese Walls between divisions of the AFM ceased to exist. As a result of this change in Dutch legislation, the restrictions to share information between various supervisory tasks within the AFM have been removed.

NORWAY- Financial Services Authority (FSA)

During 2012, Finanstilsynet (the Financial Supervisory Authority of Norway) continued its oversight of auditors, including licensing of individuals and firms, registration and supervision. Finanstilsynet checks that auditors maintain their independence, discharge their assignments in a satisfactory manner and comply with law and good auditing practice.

The inspection program includes recurring inspections of PIE auditors (currently 21 audit firms), annual thematic inspections, ad-hoc inspections/investigations, off-site supervision through auditor returns every other year, and supervision of the professional institute's recurring quality assurance review of non-PIE auditors. Additionally, Finanstilsynet holds bi-annual contact meetings with the Norwegian Institute of Public Accountants, as well as annual meetings with management of the five largest audit firms. Finanstilsynet also contributes by giving lectures for students, practitioners and others with an interest in auditing.

Nine PIE auditors were inspected in 2012, including two audit firms where inspections were performed jointly with the PCAOB (USA). Separately, the thematic inspection in 2012 focused on the "audit of revenues and business understanding", and covered 20 audit firms and 53 audit engagements. In several cases a lack of consistency in audit procedures performed across the different phases of the audit was highlighted as the auditor did not obtain sufficient appropriate audit evidence for revenues. The follow up of auditors and audit firms that failed to respond to the off-site supervision in 2011 was completed in 2012. All of Finanstilsynet's inspection reports are public. Thematic inspection reports, off-site supervision reports, as well as important individual audit firm inspection reports and ad-hoc inspection/investigation reports are published on Finanstilsynet's website.

POLAND- Audit Oversight Commission (AOC)

2012 marked the fourth year since the creation of the AOC. It also saw the end of the first three-year inspection cycle (2010-2012). It covered 100 audit firms which carried out audits of financial statements of PIE's. In 2012, one of the priorities of the AOC was to ensure that all inspections within the three-year inspection cycle were duly conducted in a timely manner. Inspections focused mainly on issues relating to compliance with the current legal requirements.

A priority for the AOC was the quality of audits of financial statements of credit institutions, especially of credit unions which in 2012 fell within the remit of the Polish Financial Supervision Authority (a financial regulator). Activities in this area included ad-hoc inspections of auditors of credit unions, including audit files relating to credit unions during regular inspections and referring cases to disciplinary proceedings, where necessary.

AOC's activities for 2012 included a conference addressed to audit committee members (aiming to increase the reliability of financial statements and strengthening the effectiveness of corporate supervision). The AOC in cooperation with the World Bank, organised a one-day conference, on the 10 January 2013, focused on "The Audit Committee: A key link in the financial reporting and audit process". The conference, which was hosted by the Warsaw Stock Exchange, brought together around 140 participants, including the members of audit committees listed on the Warsaw Stock Exchange.

The Polish audit regulatory bodies are focused on the implementation of relevant international standards. As of 1 January 2012 the IFAC's Code of Ethics for Professional Accountants came into force and is binding on all statutory auditors in Poland. Currently, full implementation of the ISA's within the Polish legal system is at the final stage.

SINGAPORE- Accounting and Corporate Regulatory Authority (ACRA)

In 2012, a key focus of the ACRA was talent attraction and retention and its relationship with drivers of audit quality, such as the time and quality of supervision of audit staff by the audit engagement partners.

These issues were discussed at ACRA's annual Public Accountants Conference (PAC), which brings Singapore's public accountants and stakeholders together to discuss how to progress Singapore's auditing and financial reporting environment. The PAC includes reports on ACRA's regulatory and monitoring activities.

The conference included observations from a survey of over 1200 audit staff on "Talent Attraction and Retention in Larger Accounting Firms", commissioned by ACRA and conducted by the Association of Chartered Certified Accountants (ACCA). The survey asked audit staff what gave them job satisfaction and what factors would make them leave or stay in the audit profession. The results included insights into audit quality and the value of audit. The results highlighted high career satisfaction, however auditors were dissatisfied by a poor work-life balance. Interestingly, staff linked their dissatisfaction to the wider issue of whether companies sufficiently value high quality financial reporting and audit. For example, the audit staff cited clients' unsatisfactory financial reports as a significant factor affecting their high workload and ability to provide high quality audits. This highlighted the need to look at the financial reporting system as an eco-system that requires support from all stakeholders.

In addition to the survey, ACRA released its annual Practice Monitoring Programme Public Report (audit inspections) at the conference. The report identified a need for audit engagement partners to increase the time and quality of their supervision so that audit engagement teams may focus their efforts on significant audit risk areas earlier in the audit process.

The survey, inspections report and other conference material can be found here: http://www.acra.gov.sg/News_and_Events/Public+Accountants+Conference+2012.htm

SLOVAK REPUBLIC- the Slovak Auditing Oversight Authority (UDVA)

The UDVA in accordance with the Slovak Act on Auditors, Audit and Oversight of the Audit Performance (Act No. 540/2007 Coll.) performed 11 inspections in 2012, which included:

- Four inspections of auditors; and
- Seven inspections of audit firms.

All 11 inspections initiated in 2012 were completed by the end of 2012. One inspection, was performed based on a complaint. During 2012, the Committee for Audit Quality Assurance made four proposals for the initiation of a sanction procedure from which the two sanctions were imposed.

According to the Act No. 540/2007 Coll. the UDVA is responsible for organizing the auditors' examinations and the examinations of professional competence. 68 applicants attended the auditors' examinations in 2012, 26 applicants successfully passed the auditors' examinations and hold the certificate of competence to perform an audit in the Slovak Republic, issued by the UDVA. There were two applicants for the examination of professional competence, of which one successfully passed.

SPAIN- Accounting and Audit Institute (ICAC)

During 2012, the ICAC continued with its supervisory activity on auditors and audit firms that included the evaluation of the auditors' internal quality control system through the description, assessment and review of internal quality control procedures and their application to specific engagements. ICAC's focus included the areas of auditors' registration, inspection and investigations, disciplinary procedures and establishing standards. During the year, ICAC introduced some changes relating to the regulation of the theoretical training requirements to become an auditor, the continuing education for auditors and the relevant forms for third-countries auditors and audit entities applying for registration in Spain. ICAC enhanced its international cooperation, in 2012 by signing agreements on the exchange of information between members of the College of Regulators and by signing a Statement of Protocol and a Data Protection Agreement with the PCAOB (USA) to cooperate and exchange information regarding auditors under the jurisdiction of both supervisors. In the framework of the mentioned protocol, the ICAC began to conduct joint inspections with the PCAOB.

SWITZERLAND- Federal Audit Oversight Authority (FAOA)

Swiss audit oversight is currently executed by two regulators. The FAOA is responsible for the oversight of all audit firms providing financial audit services to public companies. The Financial Markets Supervisory Authority takes care of the oversight of audit firms conducting financial audits of financial institutions (not qualifying as public companies at the same time) and of audit firms carrying out regulatory audits of financial institutions. On 15 June 2012, the Swiss Government decided to concentrate these separate oversight functions exclusively at the FAOA. As a first step, the oversight of the financial audits of listed banks, insurance companies and collective investment companies was transferred to the FAOA in September 2012. The transfer of all other responsibilities will follow in a second step, as soon as Swiss Parliament enacts the necessary amendments of the laws concerned. The aim of this bundling of competences is to strengthen the system of financial markets oversight in Switzerland. The FAOA has the responsibility to decide on the licensing of individuals and audit firms offering audit services and to oversee audit firms auditing public companies. In 2012, alongside the three largest Swiss audit firms, which are inspected annually, an additional ten inspections were carried out at other state-regulated audit firms. In its inspections, the FAOA regularly identifies similar findings. During 2012, the FAOA found repeated breaches of independence. Given the importance of independence to the profession, the FAOA will pay particular attention to compliance with independence requirements in 2013. The FAOA also issued a recommendation that the auditor forward the relevant information in the FAOA inspection report to the Audit Committee of the audited entity. In 2012, the FAOA also entered into two new cooperative agreements with their Dutch and French counterparts and conducted two joint inspections with the PCAOB (USA) in Switzerland.

CHINESE TAIPEI- Financial Supervisory Commission (FSC)

During 2012, the FSC conducted audit firm inspections on six medium sized audit firms. At the end of 2012, the FSC had performed audit firm inspections of the big four audit firms and ten medium audit firms. The FSC published its 2011 inspection report on its website in March of 2012 with the findings of the deficiencies in some audit firms on confirmation procedures, related parties transaction and using the work of other auditors. Starting from the 1 January, listed companies and financial institutions supervised by the FSC are required to prepare financial statements in accordance with Taiwan-IFRS's standards. The FSC performed the IFRS-specific inspection on 37 small and medium audit firms, to ensure that the audit firm has the competence to undertake IFRS audits.

In 2012, the FSC also amended the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" with the new provisions on auditing IFRS financial statements. In addition, Taiwan's Statements of Auditing Standards No.48 to 53 (developed in the light of ISA315, ISA330, ISA520, ISA320, ISA450, and ISA500) were effective from 2012.

During 2012, the FSC held two audit firm roundtables to exchange views and to communicate with audit firms on supervisory matters. In the roundtables, the FSC summarized the major deficiencies discovered from the inspection so as to increase the efforts of auditors to focus on the improvement of audit quality.

As of December 31, 2012, the total number of registered audit firms is 1,750, of which the number of audit firms subject to inspection is 85.

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

The SLAASMB reviews both the financial reporting and the of PIEs in an integrated manner. The SLAASMB carried out reviews of 50 audits performed by 28 firms of Chartered Accountants during the year 2012. It also reviewed 302 sets of financial statements of PIEs for compliance with financial reporting standards. The audits reviewed included 24 audits performed by 6 firms, which are members of international networks. The SLAASMB has estimated that the corrective action it has undertaken in relation to financial reporting during the last 12 years would have affected prices of listed companies to the extent of 5% of the market capitalization of Sri Lanka's stock exchange.

THAILAND- Securities and Exchange Commission (SEC)

The SEC commenced its inspections of registered auditors and audit firms in October 2010. The first cycle covered the period from October 2010 to December 2012. In the first cycle, the SEC inspected all 26 audit firms and reviewed 273 engagements from 91 registered auditors. The outcome indicated that most of the firms attentively dedicated their resources to develop and improve their internal procedures. Each of them has put in place quality assurance systems in compliance with professional standards, although improvement may be needed in certain areas to measure up to the new standards. Moreover, it was found that better quality assurance systems render a better quality of audit work in general.

In addition, the SEC has endeavored to promote the importance of audit quality to capital market stakeholders and enhance professional practices by arranging several seminars as follows:

- Annual seminar on the topic of common deficiencies found from quality reviews for firm leaders and registered auditors;
- Panel discussion on the topic of how to tackle challenges in human resources in the auditing industry for firm leaders and registered auditors;
- A seminar on the topic of “How a quality auditor can support the performance of the audit committee?”, for the audit committees of listed companies and launched a guideline for audit committees to select high quality auditor; and
- The SEC co-operated with the World Bank to hold clarified ISAs training for SEC inspector and staff of the Office of the Auditor General of Thailand.

TURKEY- Capital Markets Board of Turkey (CMB)

The new Turkish Commercial Code (TCC) came into force on 1 July 2012, which brought major changes to the audit industry. The scope of companies subject to independent audit has been increased and the power to determine the companies subject to independent audits has been given to the Council of Ministers. Any financial statements and annual reports, which have not been audited although subject to audit, shall be deemed non-issued and void. Furthermore, with respect to auditor rotation, an amendment has been put into affect stipulating that, after ten years, an auditor (independent audit firm) for the same company, can not be reelected until a cooling off period of three years has passed. Other changes include the audit standards to be used and the independence of auditors.

The Public Oversight, Accounting and Auditing Standards Authority has been established, which will issue independent audit standards compliant with International Auditing Standards.

With the decision of the Council of Ministers in late January 2013, companies subject to regulation and supervision, who alone or together with their affiliates meet at least two of the following three criteria are subject to an independent audit:

- Asset size equal to or higher than 150,000 TL;
- Annual net sales revenue equal to or higher than 200,000 TL; and
- Number of employees equal to or higher than 500.

On 30 December 2012, the New Turkish Capital Markets Law was enacted. According to this law, the CMB is again responsible for regulating auditing profession in capital markets, including authorising auditing firms, performing oversight and quality control reviews, as well as inspections of auditing firms in capital markets. Correspondingly, the Banking Regulation and Supervisory Agency (BRSA) authorizes the institutions that shall perform the independent auditing of financial institutions. The current structure in Turkey gives CMB the sole and full responsibility and authority for the firms that audit PIEs in capital markets, BRSA on financial institutions and the Public Oversight, Accounting and Auditing Standards Authority, looks after firms performing independent audits of companies, other than those performed in the capital markets and financial institutions.

UNITED KINGDOM- Financial Reporting Council (FRC)

In 2012, following a report and consultation aimed at enhancing effective company stewardship in the UK, the FRC proposed significant changes relating to the regulation of audit in the UK. The proposals included amending the UK Corporate Governance Code, to:

- Require FTSE 350 companies to put the external audit contract out to tender at least every ten years;
- Encourage more meaningful reporting by audit committees;

and changes to UK auditing standards to:

- Enhance auditor communications by requiring the auditor to communicate to the audit committee information that the auditor believes the committee will need to understand the significant professional judgments made in the audit; and
- Extend auditor reporting by requiring the auditor to report, by exception, if the board’s statement of why the annual report is fair and balanced is inconsistent with the knowledge acquired by the auditor in the course of performing the audit, or if the matters disclosed in the report from the audit committee do not appropriately address matters communicated by the auditor to the committee.

Reform of the FRC’s powers in 2012 enhanced the FRC’s ability to directly require audit firms to address issues raised in FRC inspections.

UNITED STATES of AMERICA- Public Company Accounting Oversight Board (PCAOB)

During 2012, the PCAOB continued to oversee the audits of public companies, brokers, and dealers in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB performs its work through four program areas: registration, inspection, standards, and enforcement. At the beginning of the year, the PCAOB welcomed new PCAOB Board Member Jeanette Franzel. During 2012, the Board approved the registration applications of 110 public accounting firms. As of December 31, 2012, a total of 2,363 firms were registered with the Board. In 2012, the Board conducted 176 inspections of audit firms located in the U.S. and 77 located in non-U.S. jurisdictions. The Board also conducted 45 inspections of firms that audit brokers and dealers. During 2012, the Board issued information for audit committees about the PCAOB inspection process, a report about the Board’s observations from 2010 inspections relating to deficiencies in audits of internal control over financial reporting at certain audit firms, and a progress report on the Board’s interim program related to audits of brokers and dealers. Additionally, in 2012, the PCAOB adopted an auditing standard on communication with audit committees, issued a proposed standard on related parties, issued a staff audit practice alert on professional skepticism and held three roundtables on auditor independence. The Board also issued eight settled disciplinary orders and three adjudicated disciplinary orders, and its enforcement division, at the conclusion of 2012, had 44 informal and 24 formal pending investigations. The PCAOB also entered into two new cooperative agreements with foreign audit regulators and hosted its sixth annual International Auditor Regulatory Institute.

IFIAR Financial Statements

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

In addition to the joint funding of IFIAR's administrative expenses, IFIAR relies upon Members' voluntary contributions including the organization and hosting of plenary meetings and workshops, chairing working groups and hosting working group meetings and conference calls, maintaining Member Profiles and the IFIAR website, and reviewing new membership applications.

The following IFIAR Financial Statements were approved by the Officers and Membership at the IFIAR plenary meeting in Noordwijk on 17 April 2013.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE IFIAR VEREIN

We have audited the financial statements of the IFIAR Verein for the period ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. This report is on the following page.



Reg. Nr. 1.13162.914.00421.02

INDEPENDENT AUDITOR'S REPORT

to the General Meeting of the IFIAR Verein, Berne

Report on the Financial Statements

We have audited the accompanying financial statements of IFIAR Verein which comprise the statement of financial position as at December 31, 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Executive Committee's responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IFIAR Verein as at December 31, 2012, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).

Report on Regulatory Requirements

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

Berne, 19 March 2013

SWISS FEDERAL AUDIT OFFICE



Walter Risler
Licensed audit expert



Carole Balli
Licensed audit expert

Enclosure: IFIAR Verein Financial Statements 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR/PERIOD ENDED 31 DECEMBER

	Note	2012	2011
		€	€
Staff costs		284,884	266,927
Travel expenses		48,931	62,729
Meeting expenses		8,654	3,534
Audit expenses		2,713	5,902
Website development and other expenses		7,626	2,371
Operational expenditure	3	352,808	341,463
Interest income		0	0
Net operating expenditure		352,808	341,463
Revenue	4	378,250	377,500
Surplus		25,442	36,037

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

	Note	2012	2011
		€	€
Assets			
Current assets:			
Trade and other receivables	5	11,263	25,000
Cash and cash equivalents		254,242	322,717
Total assets		265,505	347,717
Liabilities			
Current liabilities:			
Accounts payable	6	0	98,973
Accruals	7	199,775	210,140
Deferred Income	8	1,684	0
Total liabilities		201,459	309,113
Net Assets		64,046	38,604
Equity			
Retained surplus		64,046	38,604

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR/PERIOD ENDED 31 DECEMBER

	Note	2012	2011
		€	€
As at 1 January		38,604	2,567
Surplus for the year		25,442	36,037
As at 31 December		64,046	38,604

CASH FLOW STATEMENT FOR THE YEAR/PERIOD ENDED 31 DECEMBER

	Note	2012	2011
			€
Surplus on ordinary activities		25,442	36,037
In- / Decrease in receivables		13,737	(15,000)
In- / Decrease in payables		(107,654)	115,612
Cash flows from operating activities		(68,475)	136,649
Interest received		0	0
Net increase in cash		(68,475)	136,649
Cash at beginning of period		322,717	186,068
Cash at the end of period		254,242	322,717

Notes to the financial statements

1 General information

The IFIAR Verein is a Swiss Verein which is established solely for the collection of membership fees and distribution of these amounts in recompense of the provision of administrative and organisational support of IFIAR, currently provided by staff from the organisations of the IFIAR Chair and Vice-Chair. It is a Swiss Verein pursuant to article 60 of the Swiss Civil Code. It is domiciled at the Offices of the FAOA, Switzerland. Its correspondence address is at the FRC.

These financial statements were authorised for issue by the IFIAR Verein Executive Committee on 19 March 2013.

2 Summary of significant accounting policies

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

2.1 Basis of presentation

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

2.2 Cash

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

2.3 Receivables

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

2.5 Revenue recognition

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

2.6 Foreign currencies

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

2.7 Assumptions/key sources of uncertainty

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

3 Operational expenditure

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

	FRC	PCAOB	Other	2012	Budget	Difference
	€	€	€	€	€	€
Staff costs	136,425	148,459		284,884	280,000	4,883
Travel expenses	19,643	29,288		48,931	50,000	(1,068)
Meeting expenses	8,654			8,654	10,000	(1,346)
Audit expenses			2,713	2,713	6,000	(3,287)
Website development and other expenses	5,731		1,895	7,626	10,000	(2,375)
Operational expenditure	170,453	177,747	4,608	352,808	356,000	(3,193)

Staff costs are slightly above budget but similar to 2011 reflecting secretariat work levels largely in line with expectations over the year. Other expense items were largely in accordance with budget and expectations in a similar fashion; the cost of the audit was €3,713 with a reduction of the audit accrual of €1,000 in the year reducing the cost as indicated.

4 Revenue

Revenue for the year/period to 31 December comprised:

	2012	2011
	€	€
40 Members paid €9,000 (2011: 36 Members paid €10,000)	360,000	360,000
1 Member was allowed a fee waiver and paid a reduced amount of €2,500 (2011: 1 Member)	2,500	2,500
3 Members joined during the year and paid fees reflecting their length of Membership (2011: 3 Members)	15,750	15,000
Total revenue	378,250	377,500

5 Receivables

€11,263 of receivables (2011: €25,000) were outstanding at 31 December 2012. Receivables comprised membership fees from IFIAR Members; all were received shortly following the year-end.

6 Accounts payable

There were no accounts payable at 31 December 2012. The accounts payable at December 2011 comprised operational expenses invoiced by FRC as follows:

	2012	2011
	€	€
Staff costs	-	86,600
Travel expenses	-	2,480
Meeting expenses	-	2,778
Audit expenses for 2010 audit	-	4,921
Website development and other expenses	-	2,194
Operational expenses	-	98,973

The invoice was paid in January 2012.

7 Accruals

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

	FRC	PCAOB	Other	2012	2011
	€	€	€	€	€
Staff costs	81,525	85,117		166,642	149,228
Travel expenses	8,319	12,685		21,004	55,157
Meeting expenses	8,055			8,055	756
Audit expenses for 2012			4,000	4,000	5,000
Other expenses	74			74	
Operational expenses	97,973	97,802	4,000	199,775	210,141

The amounts due to the FRC and the PCAOB were invoiced to IFIAR Verein in February 2013. The audit will be invoiced after its finalization.

8 Deferred income

Current liabilities include two payments totalling €1,684 of membership fees unintentionally paid over and above to the fee due. These payments will be treated as deferred income and will reduce the membership fee for 2013 for the two Members concerned.

9 Related-party transactions

The majority of the activity of IFIAR Verein is conducted with related parties, being the Members of IFIAR (who are also the members of the Verein). All revenues are obtained from Members, whilst the majority of operating expenses are paid to the organisations of the Chair and Vice-Chair of IFIAR. In 2012, the only third parties with which the Verein interacted were the auditors, the providers of indemnity insurance for the Executive Committee and the Verein's bank, Credit Suisse.

Approved on 19 March, 2013, by



Paul George
IFIAR Chair



Lewis Ferguson
IFIAR Vice-Chair

Annex

IFIAR MEMBERS

IFIAR Members are independent audit regulators that are:

- Independent from the audit profession⁴, 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 2012, IFIAR Members were the following:

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

ABU DHABI Abu Dhabi Accountability Authority (ADAA) www.adaa.abudhabi.ae	ALBANIA Albanian Public Oversight Board (IEKA) www.ieka.org/al/bord-i-mbikqyrjes-publike/perberja-e-bmp.aspx
AUSTRALIA Australian Securities & Investments Commission (ASIC) www.asic.gov.au/asic/asic.nsf	AUSTRIA Austrian Auditors Supervisory Authority (ASA) www.bmwfi.gv.at/qkb
BELGIUM Chambre de Renvoi et de Misen en Etat/Kamer van Verwijzing en Instaatstelling (CRME/KVI)	BRAZIL Comissao de Valores Mobiliarios Securities (CVM) www.cvm.gov.br
BULGARIA Commission for Public Oversight of Statutory Auditors (CPOSA) www.cposa.bg/en/	CANADA Canadian Public Accountability Board (CPAB) www.cpab-ccrc.ca

CROATIA Croatian Audit Public Oversight Committee www.javni-nadzor-revizije.hr/	DENMARK The Danish Commerce and Companies Agency (DCCA) www.eogs.dk
DUBAI INTERNATIONAL FINANCIAL CENTRE Dubai Financial Services Authority (DFSA) www.dfsa.ae	EGYPT Auditors Oversight Board (AOB) www.efsa.gov.eg
FINLAND The Auditing Board of the Central Chamber of Commerce of Finland (AB3C) www.ab3c.fi	FRANCE Haut Conseil du commissariat aux comptes (H3C) www.h3c.org
GERMANY Abschlussprüferaufsichtskommission - Auditor Oversight Commission (APAK-AOC) www.apak-aoc.de	GIBRALTAR Financial Services Commission www.fsc.gi
GREECE Accounting and Auditing Standards Oversight Board www.elte.org.gr	HUNGARY Auditors' Public Oversight Committee (APOC) www.kormany.hu/hu/nemzetgazdasagi-miniszterium/ado-es-penzugyekert-felelos-allamtitkarsag/hirek/knyvvizsgaloi-kozfelugyeleti-bizottsag/
IRELAND Irish Auditing & Accounting Supervisory Authority (IAASA) www.iaasa.ie / www.iaasa.eu	ITALY Commissione Nazionale per le Società e la Borsa (CONSOB) www.consob.it
JAPAN Certified Public Accountants & Auditing Oversight Board (CPAFOB) www.fsa.go.jp/cpaob	KOREA Financial Services Commission (FSC) www.fsc.go.kr
Financial Services Agency (FSA) www.fsa.go.jp	Financial Supervisory Service (FSS) www.fss.or.kr
LIECHTENSTEIN Finanzmarktaufsicht Liechtenstein/Financial Market Authority Liechtenstein (FMA) www.fma-li.li	LITHUANIA The Lithuanian Authority of Audit and Accounting (LAAA) www.aat.lt
LUXEMBOURG Commission de Surveillance du Secteur Financier (CSSF) www.cssf.lu	MALAYSIA Audit Oversight Board (AOB) www.sc.com.my
MALTA The Accountancy Board of Malta (ABM) www.accountancyboard.gov.mt	MAURITIUS Financial Reporting Council www.frc.mu

NETHERLANDS Autoriteit Financiële Markten (AFM) www.afm.nl	NORWAY Financial Supervisory Authority of Norway (FSA) www.finanstilsynet.no
POLAND Audit Oversight Commission (AOC) www.mf.gov.pl	PORTUGAL Portuguese Audit Oversight Board (Conselho Nacional de Supervisão de Auditoria – CNSA) www.cnsa.pt
SINGAPORE Accounting and Corporate Regulatory Authority (ACRA) www.acra.gov.sg	SLOVAK REPUBLIC Auditing Oversight Authority www.udva.sk
SOUTH AFRICA Independent Regulatory Board for Auditors (IRBA) www.irba.co.za	SPAIN Accounting and Auditing Institute (ICAC) www.icac.meh.es
SRI LANKA Accounting and Auditing Standards Monitoring Board (AASMB) www.slassmb.org	SWEDEN Supervisory Board of Public Accountants www.rn.se
SWITZERLAND Federal Audit Oversight Authority (FAOA) www.revisionsaufsichtsbehoerde.ch	CHINESE TAIPEI Financial Supervisory Commission www.fsc.gov.tw
THAILAND Securities and Exchange Commission www.sec.or.th	TURKEY Capital Markets Board of Turkey (CMB) www.cmb.gov.tr/index.aspx
UK Financial Reporting Council (FRC) www.frc.org.uk	USA Public Company Accounting Oversight Board (PCAOB) www.pcaobus.org

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 2012:

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 Carmen Suro-Bredie at the IFIAR Secretariat (IFIARSecretariat@pcaobus.org).

IFIAR WORKING GROUPS

Global Public Policy Committee (GPPC) Working Group Members

Chair	Brian Hunt	CPAB - Canada
Members	ASIC	Australia
	H3C	France
	AOC	Germany
	CPAAOB/FSA	Japan
	AFM	the Netherlands
	ACRA	Singapore
	FRC	United Kingdom
	PCAOB	United States

Inspection Workshop Working Group Members

Chair	Tim Volkmann	AOC - Germany
Members	ASIC	Australia
	CPAB	Canada
	H3C	France
	AOC	Germany
	CPAAOB/FSA	Japan
	FSA	Norway
	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
	FSC/FSS	Korea
	ACRA	Singapore
	SBPA	Sweden
	FAOA	Switzerland
	FRC	United Kingdom
	PCAOB	United States
	Observer	European Commission

Investor Working Group Members

Chair	Steven Harris	PCAOB – US
Members	CVM	Brazil
	H3C	France
	CPAAOB/FSA	Japan
	FSC/FSS	Korea
	AFM	the Netherlands
	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

IFIAR CORE PRINCIPLES

Core Principles for Independent Audit Regulators

Introduction

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

Consistent with the IFIAR Charter, the Core Principles (hereinafter, 'Principles') seek to promote effective independent audit oversight globally, thereby contributing to Members' overriding objective of serving the public interest and enhancing investor protection by improving audit quality.

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

The Principles are intended to:

- Assist Members in developing their own national arrangements through being able to draw on and hence benefit from the experience of other members;
- Advance widespread adoption of high quality audit oversight practice aimed at fostering high quality audits and promoting public trust in the financial reporting process; and
- Support cooperation between regulators and promote greater consistency of audit oversight.

The Principles may also assist audit regulators who are not already Members of IFIAR to develop effective independent audit oversight arrangements.

The Principles are presented in bold lettering followed

by an explanatory text that provides further explanation.

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

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

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

Part A. Structure

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

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

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

Principle 2: Audit regulators should be operationally independent.

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

Principle 3: Audit regulators should be transparent and accountable.

The audit regulator should have public accountability in the use of its powers and resources to ensure that the audit regulator maintains its integrity and credibility. Further, the decisions and actions of the audit regulator should be subject to appropriate scrutiny and review, including appeal to a higher authority. Transparency should include the publication

of annual work plans and activity reports, including the outcome of inspections either in the aggregate or on a firm by firm basis.

Part B. Operations

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

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

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

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

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

In order for audit regulators to be effective, it is a prerequisite that there is sufficient staff of appropriate competence. The persons carrying out the reviews of quality assurance systems of audit

firms should have appropriate professional training and relevant experience in auditing and financial reporting, and training in regulatory quality assurance reviews.

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

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

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

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

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

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

Part C. Principles for inspections

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

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

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

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

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

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

selected audit files in order both to determine the effectiveness of the firm's quality control system and to assess compliance with applicable laws, rules and professional standards.

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

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



International Forum of Independent Audit Regulators

Secretariat:

Financial Reporting Council (UK)
Aldwych House, 71-91 Aldwych, London
WC2B 4HN

Public Company Accounting Oversight
Board (USA)
1666 K Street, NW Washington, DC, 20006-
2803