



IFIAR

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

Survey of Enforcement Regimes

2018

This report, released on 14 December 2018 includes information collected by IFIAR through its second survey of its Members' enforcement regimes.

Contents

| | |
|---|-----|
| Executive Summary..... | 1 |
| Introduction..... | 7 |
| Survey Methodology..... | 8 |
| Survey Results | 10 |
| Conclusion..... | 44 |
| Further Details..... | 46 |
| Appendix: The Survey Questionnaire (including Definitions) | A-1 |

1 Executive Summary

IFIAR, a membership organization of 53 independent regulators (Members), surveyed its Members' *enforcement* regimes (the Survey) for a second time.¹ The Survey's purpose is to develop an understanding of the mandates, objectives, and legal authority of Members' *enforcement* regimes, with the goal of sharing information and fostering the discussion of current and emerging *enforcement* issues, methodologies, and techniques.

The 2018 Survey updates the initial Survey report issued by IFIAR's Enforcement Working Group in 2014. The 2018 Survey sought information about Members' *enforcement* programs, including *enforcement* powers and authority; structure of *enforcement* programs; handling and reporting of *enforcement* matters; history and trends relating to *enforcement*; and ideas for *enforcement*-related reform. Forty-two IFIAR Members (collectively, the "respondents"), 79% of all IFIAR Members, responded to the 2018 Survey.²

¹ A copy of the survey questionnaire is attached as an Appendix to this report and includes the definitions of key terms used in the Survey (see page A-3) and which are *italicized* throughout the report. The 2014 Survey Results were published on 28 April 2015 and can be downloaded [here](#).

² This report is a summary and analysis of respondents' responses and is intended to be used for informational purposes. It should not be read to recommend best practices on behalf of IFIAR or EWG. The 2018 Survey results include responses from the 29 Members that completed the 2014 Survey. Due to the open-ended nature of many questions posed by the Survey, readers should exercise caution when interpreting the facts and figures contained herein, particularly in comparisons of the results of the 2014 and 2018 Surveys. Finally, although the 2018 Survey identifies differences in the results of the 2014 and 2018 Surveys, where appropriate, an explanation for those differences are provided only in those instances in which respondents' answers to questions provide a basis to do so.

What IFIAR Members' Enforcement Programs Do and Why it is Important?

The *investigation* of possible auditor misconduct and the *enforcement* of domestic regulatory standards and laws are core functions of a majority of the members of IFIAR. Moreover, the *enforcement* programs of these Members generally oversee activity directed at addressing violations of *audit laws* that may result in the imposition of penalties, punishments, restrictions, or other *disciplinary measures* or *sanctions*. Unlike inspection activity, which identifies deficiencies in an *audit firm's* audit engagements or quality control systems and monitors improvements in those, *enforcement* seeks to improve audit quality results through *adjudication*, *settlement*, and the imposition of *disciplinary penalties or measures* or, depending on the jurisdiction, *remediation measures*. The *enforcement* of *audit laws* is critical to protecting investors and other stakeholders and driving audit quality because of its deterrent and expressive values, among other reasons.

Some 60% of IFIAR Members who responded to the survey imposed *disciplinary measures* or *sanctions* against at least one *GPPC firm* or partner during 2015-2017. Further, in total, respondents *sanctioned* at least 300 *audit firms* and at least 300 *individual auditors* each year during 2015-2017.

What are the key findings of the 2018 Survey?

- Powers of Enforcement Programs (page 10)
 - **Who investigates, who prosecutes, who disciplines?** All (100%) respondents indicated that they have the authority to *investigate* potential violations of *audit laws*. Eighty-one percent (81%) of the respondents have the power to refer potential violations of *audit laws* to another body. Seventy-one percent (71%) of respondents indicated that disciplinary matters developed by their organizations may be *litigated* by their own personnel.
 - **What types of conduct?** Sixty percent (60%) of respondents indicated that their authority includes the *investigation* and/or discipline of conduct not directly related to a specific audit engagement, but that reflects on the auditor's integrity or fitness to audit.
 - **Whose conduct?** Nearly all (93%) of respondents have *enforcement* authority over both *audit firms* and *individual auditors*. However, fewer than half have such authority over other individuals (40%) or entities associated with an audit (40%) such as non-auditor personnel, outside specialists, etc.
 - **Extraterritorial oversight?** Slightly more than half (57%) of respondents indicated that their *enforcement* authority extends to firms domiciled outside their borders where the work of the foreign firms directly affects local markets.
 - **Other approaches?** The great variation in the mix of *formal* and *informal* measures that respondents use demonstrates that one size does not fit all. Sixty-two percent (62%) of respondents indicated they use *informal enforcement* as a

response to non-compliant behavior. Of those respondents, nearly all (92%) indicated they could apply *informal enforcement* to both *file-specific* and *firm-wide* non-compliant behavior. Since 2014, more than half of respondents have used an action or *remedial plan* (62%), unofficial warning (54%), or a meeting with senior management (50%) to address non-compliant behavior.

- **Increased authority?** Of the twenty-nine respondents who participated in both the 2014 and 2018 Surveys, fifty-two percent (52%) indicated they had been conferred new *enforcement* powers since the 2014 Survey, largely through the European Union (EU) Audit Reforms.³
- Structures of Enforcement Programs (page 22)
 - **Distinct from inspections.** Most respondents (83%) continue to report they distinguish between *enforcement* and inspections processes even if the same personnel work on both inspection and *investigation* fact-finding and analysis. Of these respondents, more than half (60%) also maintain separate reporting lines for each function.
 - **Distinct from remedial measures.** Most respondents (86%) continue to indicate that they distinguish between *remedial measures* resulting from an inspection and *enforcement* measures or *sanctions*.
- Handling of Enforcement Matters (page 23)
 - **Trend: new sources.** Respondents collectively reported an increase in the type of sources they use to identify potential *enforcement* matters since the 2014 Survey. In particular, the review and analysis of public filings by regulated entities and referrals from other authorities were more widely used amongst respondents compared to the 2014 Survey.
 - **Public interest.** More respondents than in 2014 reported public interest considerations (other than investor harm) and the nature of accounting and auditing issues as criteria considered in determining whether to launch an *investigation*. In fact, public interest considerations distinct from investor harm was the criterion considered by respondents more than any other one identified on the survey.

European Union Audit Reforms

Many European respondents cited Regulation (EU) No 537/2014 and amended Directive 2006/43/EC as the sources for the expansion of their enforcement powers against persons (other than the audit firm and individual auditors) and against third-parties to whom portions of the audit were outsourced, for bans on practice, and for publicizing whether an audit report complied with applicable audit laws.

³ See Commission Regulation 537/2014, 2014 O.J. (L 158) 77; Council Directive 2006/43, 2006 O.J. (L 157) 87 (EC). The EU Audit Reforms became effective in 2016.

- **Other tools.** Two-thirds of respondents (67%) reported having the power to use *enforcement* tools and measures other than *disciplinary measures* or *sanctions*. These ranged from publications describing generalized trends, to conducting roundtables, issuing private warnings, publishing new rules or interpretations, or ordering *remedial* action.
- Reporting of Enforcement Matters (page 28)
 - **Publication varies widely.** Respondents continue to possess widely varying levels of authority and discretion to publicize information about *enforcement* matters. Some respondents have no authority to publish specific information, while others are required to publish specific information, and still others have wide discretion to publish various types of information at various stages of the *investigative* process.
 - **Website disclosures.** Most respondents reported disclosing information on their websites in the 2014 Survey (83%) and 2018 Survey (86%). But less than half of respondents (40%) to the 2018 Survey indicated that they issue press or news releases to publicly disclose information, which is significantly lower compared to the 2014 Survey, where more than half of respondents (59%) indicated that they issued press or news releases.
 - **Disclosing on social media.** Only 12% of respondents reported that they currently disclose information using social media (e.g., Facebook, Twitter, etc.); however, these respondents accounted for 46% of respondents' combined gross domestic product (GDP).
- History and Trends (page 31)
 - **Matters involving larger firms.** Sixty percent (60%) of respondents reported imposing *disciplinary measures* or *sanctions* against at least one *GPPC firm* or partner during 2015-2017.
 - **What are regulators observing as recurring issues or trends?**
 - Audits where there have been financial statement misstatements—just over half of respondents (52%) observed a recurring issue or trend related to increased revenue recognition audit failures. Other noteworthy recurring issues or trends included audit failures related to financial statement disclosure (in general) (45%), impairments of non-financial assets (43%), and inventory (40%).
 - Audit process issues—over half of respondents observed recurring issues or trends related to audit documentation (62%), due care or professional skepticism (55%), and fair value measurement and management estimates (55%).

- Quality control issues—at least half of respondents observed a recurring issue or trend related to independence (57%) and engagement quality review audit failures (50%).
 - **Difficult to enforce without bright lines?** Half of respondents (50%) indicated that they face challenges relating to the principles-based nature of applicable ethics codes and independence rules.
 - **Other challenges.** Other challenges respondents reported their *enforcement* programs face include: (i) *investigations* involving parties not based in their local jurisdiction and (ii) the separation of powers and resources amongst securities and audit oversight regulators within their jurisdictions.
 - **New auditor’s report on the horizon?** Seven percent of respondents (7%) reported as an observed trend auditors’ implementation of new standards for the auditor’s report, despite the short periods of time since their adoption.
- Sharing Information with Other Regulatory Authorities (page 39)
 - **Domestic cooperation.** Eighty-six percent (86%) of respondents reported that they can share confidential *investigative* information with certain specific domestic authorities.
 - **International cooperation.** Seventy-one percent (71%) of respondents reported that they can share confidential *investigative* information with foreign authorities, provided that confidentiality arrangements are in place. Only two respondents (5%) indicated they could not share confidential information with other audit regulators.
 - Just over half of respondents (60%) indicated they currently have agreements or understandings in place with foreign authorities governing the sharing of confidential *investigative* information.

IFIAR MMOU

The IFIAR Multilateral Memorandum of Understanding (MMOU) concerns the exchange of information for audit oversight. IFIAR Members approved the MMOU in 2015, and 22 Members have signed it. The MMOU enables and strengthens opportunities for cooperation amongst IFIAR Members. The MMOU can be downloaded [here](#).

Conclusions and Considerations for the Future

The survey challenged audit regulators to think about the role that *enforcement* plays as part of a public audit oversight regime. No single *enforcement* program is optimal, and every *enforcement* program faces its own unique set of challenges. However, in general, *enforcement* regimes have become more robust since 2014, and programs increasingly have more enforcement instruments and penalties or other sanctions at their disposal. Members' *enforcement* programs also continue to evolve as they learn to address their challenges.

As key decision-makers within Members' organizations face critical decision points, IFIAR's goal is that the 2018 Survey results provide a useful benchmark for Members in formulating their own approaches to enforcing *audit laws*, particularly in the following areas:

- **Cooperation.** As cross-border audit activity and international *investigations* become more common, the ability to share confidential information with other regulators becomes increasingly relevant. Overall, respondents reported a high level of cooperation, both domestically and internationally. In 2018, 86% of respondents reported that they could share confidential *investigative* information with domestic authorities. Meanwhile, 71% of respondents reported that they could share confidential *investigative* information with foreign authorities, provided that there is a letter of cooperation, memorandum of understanding, or other similar agreement in place. Some 60% of respondents indicated that they already have in place agreements with other foreign authorities, either on a standalone basis as a part of multilateral arrangements or, in the case of EU regulators among themselves, applicable EU law.
- **Publication of Information.** Respondents varied with respect to which stages of the *enforcement* process they could publicly disclose information relating to an *enforcement* matter. Respondents most frequently reported they could publicly disclose information relating to *enforcement* matters when imposing a disciplinary measure or sanction, when the applicable period during which a party could appeal or seek review of a decision expired, and when a decision in an appeal or other review was issued.
- **Independence.** Over half of respondents (59% and 57% in 2014 and 2018, respectively) continued to indicate that independence was an observed trend or recurring issue related to quality control. This suggests that respondents perceive independence—a cornerstone of audit quality—to be a lingering issue.
- **Mix of Formal and Informal Sanctions.** Respondents' responses suggest that many Members possess the ability and flexibility, and demonstrate the willingness, to employ a mix of *formal* and *informal sanctions* in response to different non-compliant behaviors. Of respondents able to use an *informal sanction*, more than three-fourths do so considering the severity of the non-compliant behavior (77%) or its effectiveness and efficiency (81%). Respondents further indicated the ability and willingness to employ a range and variety of *informal sanctions*. Sixty-two percent of respondents (62%) reported using *informal enforcement* to respond to non-compliant behavior, and they reported using a mix of available *informal enforcement* tools, rather than any predominant tool.

2 Introduction

IFIAR is an organization comprised of audit regulators from around the world that are independent from the audit profession. IFIAR, currently comprised of 53 Members, focuses on:

- Sharing knowledge of the evolving audit environment and practical experience of independent audit regulatory activity;
- Promoting collaboration and consistency in regulatory activity; and
- Providing a platform for dialogue with other international organizations interested in audit quality.

IFIAR established the **Enforcement Working Group (EWG)** to promote stronger exchange of information and cooperation in the area of *investigations* and *enforcement* to enhance investor protection and improve audit quality. The objectives of the EWG are to:

- Develop an understanding of IFIAR Members' *enforcement* regimes with the goal of sharing information, including a discussion of current and emerging *enforcement* issues;
- Hold periodic Enforcement Workshops to provide a forum for all IFIAR Member *enforcement* professionals to exchange information, share ideas, promote professional development, and enhance effectiveness; and
- Develop and strengthen bilateral relationships among *enforcement* officials from IFIAR Members to facilitate *enforcement* cooperation on matters of mutual interest.

The EWG is chaired by the Federal Audit Oversight Authority of Switzerland and currently includes Members from Australia, Finland, France, Georgia (Observer), Germany, Japan, Portugal, South Africa, Chinese Taipei, United Kingdom, and the United States.⁴

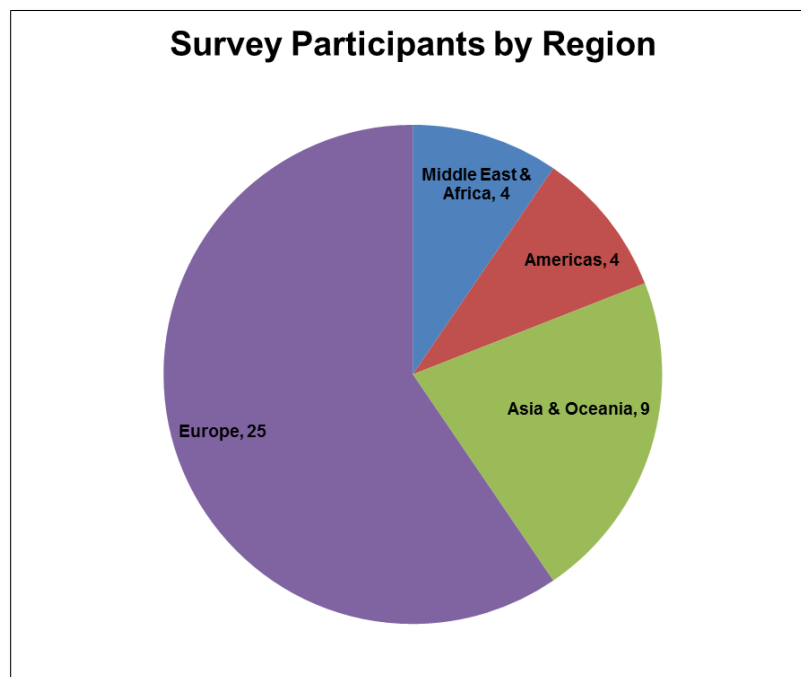
In 2018, the EWG updated its 2014 Survey to capture developments and trends in Members' *enforcement* regimes, between 2014 and 2018, both on a yearly and aggregate basis, when appropriate, to provide Members a resource to facilitate discussions about the effective and efficient alternatives, tools, and ways to manage trends, protect investors, and improve audit quality. The Survey sought information concerning: (i) the powers of the Members' *enforcement* programs; (ii) the structure of their *enforcement* programs; (iii) the handling of *enforcement* matters; (iv) the reporting of *enforcement* matters; (v) history and trends relating to *enforcement*; (vi) the sharing of information with other regulatory authorities; and (vii) ideas for *enforcement*-related reform. Because of IFIAR Members' different laws, the Survey defined key terms (not meant to be interpreted as technical terms of art) and encouraged respondents to provide explanatory information concerning how their laws, rules, policies, and practices distinguish matters or define key terms or standards.

⁴ More information about IFIAR and its activities may be found [here](#). More information about the EWG and its activities on behalf of IFIAR may be found [here](#).

3 Survey Methodology

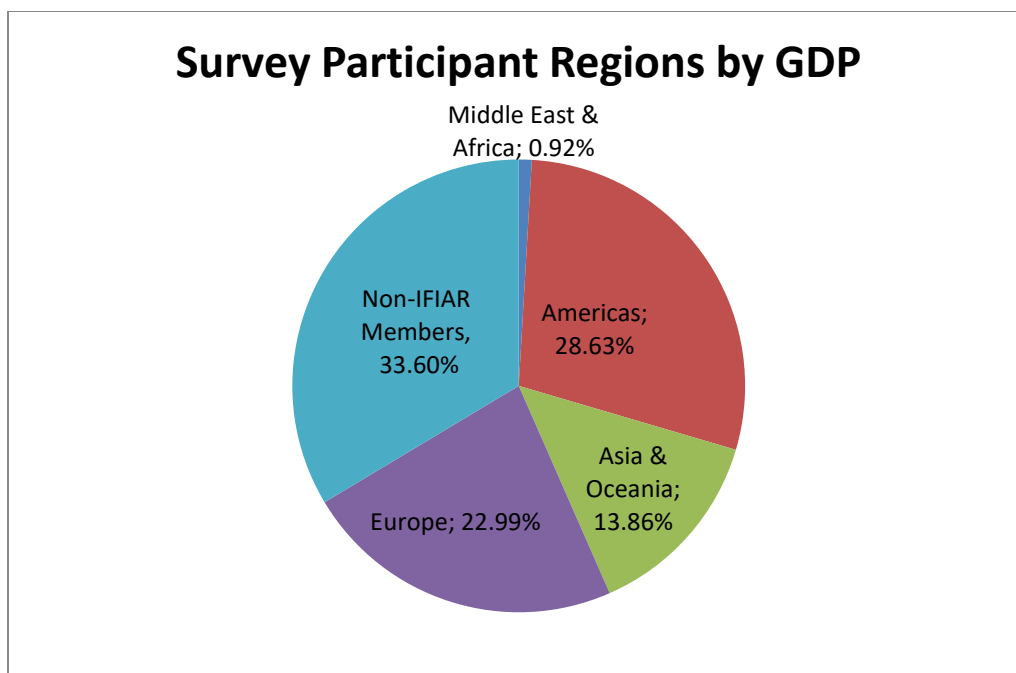
The questionnaire for the 2018 Survey contains seven sections and a total of 62 questions (See [Appendix: The Survey Questionnaire](#)). The EWG used an online portal for IFIAR Members to complete and submit their responses to the Survey. Each IFIAR Member received a link and login credentials to access the Survey by email on 22 December 2017, with a corresponding response deadline of 8 March 2018.

Forty-two IFIAR Members, a 30% increase in respondents since the 2014 Survey, located in all regions, submitted responses to the 2018 Survey.⁵ The chart below displays respondents by geographic region:



⁵ Three respondents from the 2014 Survey did not participate in the 2018 Survey.

The chart below presents the respondents by their economies' contribution⁶ to world GDP⁷ by geographic region. Respondents cumulatively represent about two-thirds (66%) of global GDP (approximately \$81 trillion in 2017).



The following section summarizes these Members' submissions.⁸

⁶ These numbers are approximate. The primary source was the World Bank, supplemented in two cases by IMF figures where World Bank ones were not available. See *GDP (current US\$) | Data*, THE WORLD BANK (25 July 2018), <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>; *World Economic Outlook Database Report for Selected Countries and Subjects*, INTERNATIONAL MONETARY FUND (25 July 2018), <https://www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx> (Taiwan 2017 GDP of \$579 billion); *United Nations Statistics Division – National Accounts*, UNITED NATIONS (25 July 2018), <https://unstats.un.org/unsd/snaama/dnlList.asp> (Cayman Islands 2016 GDP of \$4 billion).

⁷ “Gross domestic product (GDP) represents the sum of value added by all its producers. Value added is the value of the gross output of producers less the value of intermediate goods and services consumed in production, before accounting for consumption of fixed capital in production. The United Nations System of National Accounts calls for value added to be valued at either basic prices (excluding net taxes on products) or producer prices (including net taxes on products paid by producers but excluding sales or value added taxes). Both valuations exclude transport charges that are invoiced separately by producers. Total GDP is measured at purchaser prices. Value added by industry is normally measured at basic prices.” See *GDP (current US\$) | Data*, THE WORLD BANK (25 July 2018), <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

⁸ Not all respondents answered all Survey questions (e.g., not all respondents answered optional questions). Unless otherwise noted, percentages, tables, and other data presented herein are based on the total number of Survey respondents to the individual specific question. This report should be used for informational purposes only.

4 Survey Results

I. Powers of Enforcement Programs

The first section of the 2018 Survey (Questions 1 through 27) sought information about the extent of respondents' *enforcement* powers, including the scope of their respective authority and the range of *sanctions* available to them.

- General Enforcement Authority Relating to Audit Laws: All (100%) respondents indicated that they have the authority to *investigate* potential violations of *audit laws*. Eighty-one percent (81%) of the respondents have the power to refer potential violations of *audit laws* to another body. A similar percentage (81%) of respondents may impose *sanctions* directly, as opposed to referring *sanctions* to a separate authority (5%) or sharing the power to impose *sanctions* with other authorities (7%). Sixty-two percent (62%) of respondents share *enforcement* authority for *audit laws* with another body in their jurisdiction.

All respondents have the authority to investigate potential violations of audit laws and approximately four-fifths have the power to refer potential violations of audit laws to another body and impose sanctions directly. Nearly two-thirds share enforcement authority for audit laws with another body in their jurisdiction.

About three-quarters (71%) of respondents indicated that disciplinary matters developed by their organizations may be *litigated* by their own personnel; an additional twelve percent (12%) responded that in some cases other authorities' personnel may share *litigation* authority. Seventeen percent (17%) of respondents indicated that the disciplinary matters they develop are *litigated* by a separate authority, such as a public prosecutor or a magistrate.

- Enforcement Authority Over Non-Audit Conduct: About sixty percent (60%) of respondents indicated that their authority extends to conduct not directly relating to auditing that reflects on integrity or fitness to audit, such as forgery of documents or personal tax fraud.

- Types of Audits Subject to Enforcement Authority: The table below summarizes respondents' *enforcement* authority over audits of *public interest entities (PIEs)* and other entity types.

| Type of Audited Entity | 2018 Respondents With Enforcement Authority | 2014 Respondents With Enforcement Authority | Change ⁹ |
|---------------------------------|---|---|---------------------|
| PIEs | 41 (98%) | 100% | ↓2 pts. |
| Non-PIE Private Sector Entities | 25 (60%) | 72% | ↓12 pts. |
| Public-Sector Entities | 17 (40%) | 53% | ↓13 pts. |
| Other Entities | 17 (40%) | 24% | ↑16 pts. |

The 2018 Survey asked respondents to provide definitions for *PIEs* used in their jurisdictions. Eighty percent (80%) of respondents indicated that they define *PIE* in substantially the same way as defined in the 2018 Survey¹⁰:

A public interest entity is: (1) an entity that has securities (equity or debt) traded on securities markets and exchanges; or (2) an entity: (a) defined by regulation or legislation as a public interest entity; or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Respondents that provided their own definitions typically included publicly-traded companies, and in many cases, they also defined *PIEs* to include specific categories of entities, such as banks, insurance companies, other financial institutions, and even large charities and large institutions of a public character. Indeed, many of the respondents whose jurisdiction extends to “other entities” have the power to *enforce audit laws* for audits pertaining to these same types of entities as well as statutory audits.



BEHIND THE NUMBERS

Respondents diverged on their *enforcement* authority over *PIEs* when measured by regional GDP. On an aggregate GDP basis, 35% subjected public sector entities to *enforcement* authority; regionally, however, it swung to 78% for both Asian/Oceanian and European respondent GDP, respectively, and 0% for American respondent GDP. But without adjusting for GDP, only 56% and 68% of Asian/Oceanian and European respondent GDP, respectively, subject public sector entities to *enforcement* authority. This generally indicates that in these two regions, respondents with authority over public sector entity audits tend to come from countries with larger GDPs.

⁹ Readers should exercise caution when interpreting the facts and figures contained herein, particularly comparisons of the 2014 and 2018 Survey results. See fn. 2, *supra*.

¹⁰ Cf. 2018 Survey, [Appendix: The Survey Questionnaire](#) at page A-8.

- **Types of Parties Subject to Enforcement Authority:** The following table summarizes which parties are subject to respondents' *enforcement* authority. Nearly all (93%) respondents have *enforcement* authority over both *audit firms* and *individual auditors*. However, fewer than half have such authority over other individuals (40%) or entities associated with an audit (such as non-auditor personnel, outside specialists, etc.) (40%). The table below summarizes respondents' *enforcement* authority over audits of *PIEs* and other entity types.

Nearly all (93%) respondents have enforcement authority over both audit firms and individual auditors. However, fewer than half have such authority over other individuals (40%) or entities associated with an audit (40%).

| Type of Party | 2018 Respondents With Enforcement Authority | 2014 Respondents With Enforcement Authority | Change |
|--|---|---|----------|
| Individual auditors | 40 (95%) | 94% | ↑1 pts. |
| Audit Firms | 41 (98%) | 94% | ↑4 pts. |
| Other individuals or entities associated with audit engagement | 17 (40%) | 41% | ↓1 pts. |
| Other | 17 (40%) | 26% | ↑14 pts. |

Examples of “other” parties subject to respondents' *enforcement* authority include *PIEs* and their management and board of directors, individuals closely related to the auditor, actuaries, persons conducting auditing activities without a license, persons conducting their services in a manner deemed grossly inappropriate, professional bodies, and third parties to whom auditors have outsourced certain functions or activities. As compared to 2014 Survey, 14 points more respondents reported having *enforcement* authority over these “other” parties in 2018.

- **Scope of Enforcement Authority by Type of Party:** The 2018 Survey asked respondents for detail about the types of conduct that fall within the scope of their *enforcement* authority over various types of individuals and entities. Nearly all respondents have *enforcement* authority over *audit firms* and *individual auditors* regarding deficiencies in individual audit engagements (93% and 95%, respectively) or a failure to cooperate by providing documents or truthful information (98% and 93%, respectively). Nearly all (95%) respondents also have *enforcement* authority over *audit firms* regarding deficiencies in a firm's quality control. But only two-thirds (67%) of respondents have *enforcement* authority over *individual auditors* for deficiencies in a firm's quality control system. In addition, just over half of respondents have *enforcement* authority over *audit firms* (52%) and *individual auditors* (60%) regarding conduct not directly related to auditing that reflects on integrity or fitness to audit (e.g., forgery of documents or personal tax fraud). However, few respondents have *enforcement* authority over other individuals or entities associated with an audit, except with respect to failures to cooperate (43%). Generally, as compared to the 2014 Survey, more respondents have reported *enforcement* authority to discipline the failure to cooperate in 2018. Further,

though more respondents indicated more areas of *enforcement* authority over *audit firms* and *individual auditors*, they reported having less *enforcement* authority over others associated with the audit, except the failure to cooperate.

The 2018 Survey also asked respondents about their *enforcement* authority over parties' failure to register, pay fees, and make required filings. Generally, three-fourths of respondents have *enforcement* authority over *audit firms* and *individual auditors* for failures to register (76% and 74%, respectively) and make required filings (79% and 71%, respectively); just over half of respondents have *enforcement* authority over *audit firms* and *individual auditors* for failures to pay fees (57% and 52%, respectively). Respondents generally do not have this *enforcement* authority over other individuals or entities associated with an audit. The table below summarizes the scope of respondents' *enforcement* authority by type of party.

| Area of Enforcement Authority | 2018 Audit Firms | 2014 Audit Firms | Change | 2018 Individual Auditors | 2014 Individual Auditors | Change |
|--|------------------|------------------|----------|--------------------------|--------------------------|---------|
| Deficiencies in individual audit engagements | 39 (93%) | 87% | ↑6 pts. | 40 (95%) | 94% | ↑1 pts. |
| Deficiencies in firm's quality control | 40 (95%) | 91% | ↑4 pts. | 28 (67%) | 72% | ↓5 pts. |
| Failure to cooperate (by providing documents or truthful information) | 41 (98%) | 87% | ↑11 pts. | 39 (93%) | 87% | ↑6 pts. |
| Conduct not directly related to auditing that reflects on integrity/fitness to audit | 22 (52%) | 59% | ↓7 pts. | 25 (60%) | 62% | ↓2 pts. |
| Failure to register | 32 (76%) | N/A. | N/A. | 31 (74%) | N/A. | N/A. |
| Failure to pay fees | 24 (57%) | N/A. | N/A. | 22 (52%) | N/A. | N/A. |
| Failure to make required filings | 33 (79%) | N/A. | N/A. | 30 (71%) | N/A. | N/A. |

| Area of Enforcement Authority | 2018 Others Associated with Audit | 2014 Others Associated with Audit | Change | 2018 Other | 2014 Other | Change |
|--|-----------------------------------|-----------------------------------|---------|------------|------------|--------|
| Deficiencies in individual audit engagements | 9 (21%) | 29% | ↓8 pts. | 7 (17%) | N/A. | N/A. |
| Deficiencies in audit firm's quality control | 7 (17%) | 22% | ↓5 pts. | 2 (5%) | N/A. | N/A. |
| Failure to cooperate (by providing documents or truthful information) | 18 (43%) | 37% | ↑6 pts. | 14 (33%) | N/A. | N/A. |
| Conduct not directly related to auditing that reflects on integrity/fitness to audit | 8 (19%) | 19% | ↔ | 5 (12%) | N/A. | N/A. |
| Failure to register | 3 (7%) | N/A. | N/A. | 4 (10%) | N/A. | N/A. |
| Failure to pay fees | 1 (2%) | N/A. | N/A. | 2 (5%) | N/A. | N/A. |
| Failure to make required filings | 5 (12%) | N/A. | N/A. | 6 (14%) | N/A. | N/A. |

- Sanctions Available by Type of Party:** The 2018 Survey also asked respondents to indicate what *sanctions* are available as to the various categories of individuals and entities over which they have *enforcement* authority. For both *audit firms* and *individual auditors*, most respondents indicated that they have the authority to issue a reprimand or censure (74% and 79%, respectively), impose a monetary penalty (83% and 79%, respectively), revoke a registration or license (88% and 86%, respectively), institute a ban (88% and 95%, respectively), require the performance of *remedial measures* (86% and 74%, respectively), or restrict the activities of a firm or auditor (81% and 83%, respectively). Only some regulators indicated that they have the authority to impose third-party monitors (26% and 26%, respectively) or imprison actors (14%, for *individuals* only). Generally, the authority to impose *sanctions* on other individuals or entities associated with an audit is less prevalent.

| Sanctions Available | 2018 Audit Firms | 2014 Audit Firms | Change | 2018 Individual Auditors | 2014 Individual Auditors | Change |
|---|------------------|------------------|----------|--------------------------|--------------------------|----------|
| Warning | 29 (69%) | 53% | ↑16 pts. | 28 (67%) | 53% | ↑14 pts. |
| Reprimand or Censure | 31 (74%) | 78% | ↓4 pts. | 33 (79%) | 81% | ↓2 pts. |
| Money Penalties or Fines | 35 (83%) | 78% | ↑5 pts. | 33 (79%) | 75% | ↑4 pts. |
| De-registration or De-licensing | 37 (88%) | 87% | ↑1 pts. | 36 (86%) | 81% | ↑5 pts. |
| Dissolution of Audit Firm | 9 (21%) | 41% | ↓20 pts. | 0 (0%) | 28% | ↓28 pts. |
| Temporary or Indefinite Ban on Practicing | 37 (88%) | 78% | ↑10 pts. | 40 (95%) | 81% | ↑14 pts. |
| Restrictions on Activities | 34 (81%) | 62% | ↑19 pts. | 35 (83%) | 59% | ↑24 pts. |
| Remedial Measures or Commands | 36 (86%) | 66% | ↑20 pts. | 31 (74%) | 66% | ↑8 pts. |
| Third-Party Monitor | 11 (26%) | 28% | ↓2 pts. | 11 (26%) | 28% | ↓2 pts. |
| Imprisonment | 0 (0%) | * | * | 6 (14%) | 31% | ↑17 pts. |
| Other Criminal Penalties | 2 (5%) | 12% | ↓7 pts. | 4 (10%) | 22% | ↓12 pts. |
| Other Concepts of Measures or Sanctions | 9 (21%) | N/A. | N/A. | 8 (19%) | N/A. | N/A. |

* Denotes that 2014 Survey result that reported 12% of respondents could imprison *audit firms* is not comparable to 2018 Survey result here.

| Sanctions Available | 2018 Others Associated with Audit | 2014 Others Associated with Audit | Change | 2018 Other | 2014 Other | Change |
|---|-----------------------------------|-----------------------------------|---------|------------|------------|----------|
| Warning | 7 (17%) | 13% | ↑4 pts. | 6 (14%) | 10% | ↑4 pts. |
| Reprimand or Censure | 4 (10%) | 16% | ↓6 pts. | 5 (12%) | 12% | ↔ |
| Money Penalties or Fines | 11 (26%) | 31% | ↓5 pts. | 13 (31%) | 12% | ↑19 pts. |
| De-registration or De-licensing | 2 (5%) | 9% | ↓4 pts. | 4 (10%) | 12% | ↓2 pts. |
| Dissolution of Audit Firm | 0 (0%) | 6% | ↓6 pts. | 3 (7%) | 3% | ↑4 pts. |
| Temporary or Indefinite Ban on Practicing | 6 (14%) | 22% | ↓6 pts. | 8 (19%) | 9% | ↑10 pts. |
| Restrictions on Activities | 9 (21%) | 22% | ↓1 pts. | 5 (12%) | 9% | ↑3 pts. |
| Remedial Measures or Commands | 4 (10%) | 19% | ↓9 pts. | 4 (10%) | 9% | ↑1 pts. |
| Third-Party Monitor | 2 (5%) | 9% | ↓4 pts. | 2 (5%) | 3% | ↑2 pts. |
| Imprisonment | 2 (5%) | 9% | ↓4 pts. | 4 (10%) | 6% | ↑4 pts. |
| Other Criminal Penalties | 1 (2%) | 6% | ↓4 pts. | 4 (10%) | 3% | ↑7 pts. |
| Other Concepts of Measures or Sanctions | 1 (2%) | N/A. | N/A. | 5 (12%) | N/A. | N/A. |

Some respondents indicated that their *sanction* ability is tiered or graduated based on the severity of the offense. Further, as described above, some respondents reemphasized that their authority to impose certain *sanctions* is shared with other authorities or *tribunals*. As compared to the 2014 Survey, in 2018 fewer respondents reported the dissolution of an *audit firm* or *individual auditor* (20-point and 28-point decreases, respectively) as an available *sanction*, but more respondents reported the ability to impose *remedial measures* on *audit firms* (20-point increase) and restrictions

on activities of *audit firms* and *individual auditors* (19-point and 24-point increases, respectively).

Responses also materially differed in their sanction ability based on respondent GDP as shown in the tables below.

| Sanctions Available | 2018 Audit Firms | | 2018 Individual Auditors | |
|---|------------------|-----------------|--------------------------|-----------------|
| | Respondents | Total Resp. GDP | Respondents | Total Resp. GDP |
| Warning | 29 (69%) | 32% | 28 (67%) | 28% |
| Reprimand or Censure | 31 (74%) | 90% | 33 (79%) | 91% |
| Money Penalties or Fines | 35 (83%) | 92% | 33 (79%) | 90% |
| De-registration or De-licensing | 37 (88%) | 87% | 36 (86%) | 56% |
| Dissolution of Audit Firm | 9 (21%) | 17% | 0 (0%) | 0% |
| Temporary or Indefinite Ban on Practicing | 37 (88%) | 96% | 40 (95%) | 96% |
| Restrictions on Activities | 34 (81%) | 93% | 35 (83%) | 90% |
| Remedial Measures or Commands | 36 (86%) | 89% | 31 (74%) | 78% |
| Third-Party Monitor | 11 (26%) | 47% | 11 (26%) | 11% |
| Imprisonment | 0 (0%) | 0% | 6 (14%) | 9% |
| Other Criminal Penalties | 2 (5%) | 4% | 4 (10%) | 5% |
| Other Concepts of Measures or Sanctions | 9 (21%) | 16% | 8 (19%) | 12% |

| Sanctions Available | 2018 Others Associated with Audit | | 2018 Other | |
|---|-----------------------------------|-----------------|-------------|-----------------|
| | Respondents | Total Resp. GDP | Respondents | Total Resp. GDP |
| Warning | 7 (17%) | 7% | 6 (14%) | 3% |
| Reprimand or Censure | 4 (10%) | 38% | 5 (12%) | 16% |
| Money Penalties or Fines | 11 (26%) | 51% | 13 (31%) | 20% |
| De-registration or De-licensing | 2 (5%) | 2% | 4 (10%) | 15% |
| Dissolution of Audit Firm | 0 (0%) | 0% | 3 (7%) | 4% |
| Temporary or Indefinite Ban on Practicing | 6 (14%) | 49% | 8 (19%) | 18% |
| Restrictions on Activities | 9 (21%) | 48% | 5 (12%) | 11% |
| Remedial Measures or Commands | 4 (10%) | 5% | 4 (10%) | 15% |
| Third-Party Monitor | 2 (5%) | 1% | 2 (5%) | 1% |
| Imprisonment | 2 (5%) | 2% | 4 (10%) | 5% |
| Other Criminal Penalties | 1 (2%) | 1% | 4 (10%) | 5% |
| Other Concepts of Measures or Sanctions | 1 (2%) | 0% | 5 (12%) | 4% |



BEHIND THE NUMBERS

Regional differences in *sanction* ability based on GDP

- **Reprimand or Censure:** Although 38% of total respondents' GDP indicated the ability to use reprimands or censures on others associated with an audit, only 5% of European respondent GDP indicated this ability, while 84% of American respondent GDP reported being able to reprimand or censure others associated with an audit.
- **De-Registration or De-Licensing:** Though 86% and 94% of Asian/Oceanian and European respondent GDP, respectively, reported the ability to de-register or de-license *individual auditors*, 0% of American respondent GDP indicated this power.
- **Temporary or Indefinite Ban on Practicing:** While only 9% of European respondent GDP reported the power to ban practice on others associated with an audit, 84% of American respondent GDP indicated as such.
- **Restrictions on Activities:** Likewise, while only 14% and 23% of Asian/Oceanian and European respondent GDP, respectively, reported the ability to restrict activities of others associated with an audit, 84% of American respondent GDP reported this power.
- **Third-Party Monitor:** While only 20% and 10% of Asian/Oceanian and European respondent GDP, respectively, indicated the ability to impose third-party monitors on *audit firms*, 91% of American respondent GDP indicated being able to impose this *sanction*.

- **Powers in Connection with Audit Opinions:** The following table summarizes respondents' powers in connection with audit opinions. Although no *enforcement* power emerged as particularly prevalent, about half (47%) of respondents could publicly declare that an audit opinion was either invalid or did not meet legal requirements—but only six respondents (14%) of which had both powers—and just more than half (60%) of respondents could refer a matter to another regulator. About one fifth (19%) of respondents indicated they had none of the powers listed.

| Enforcement Power | 2018 Respondents with Enforcement Power |
|--|---|
| Order the Audit Firm to execute new audit procedures or to re-perform audit procedures | 12 (29%) |
| Order the Audit Firm to withdraw the audit opinion | 7 (17%) |
| Declare publicly that the audit opinion does not meet the legal requirements | 19 (45%) |
| Declare the audit opinion invalid | 7 (17%) |
| Refer the matter to the securities regulator or another regulator | 25 (60%) |
| None of the above | 8 (19%) |

When imposing *sanctions*, 30 respondents (71%) said their organizations were required to consider certain factors when determining the type or level of *sanctions*. Of those

30 respondents, the gravity of the violation, degree of responsibility, duration of the violation, and whether there were previous violations were the factors predominantly considered (i.e., more than 85% here). Respondents indicating “other” factors considered, generally indicated factors pertaining to macroeconomic effects and the public interest. The following table summarizes the factors considered.



BEHIND THE NUMBERS

Of the respondents who also participated in the 2014 Survey, 86% considered the intentional nature of the conduct and 68% considered the time lapse since the violation to determine the type or level of *sanctions*.

| Factor Considered | 2018 Respondents Considering the Factor |
|--|---|
| Intentional Nature of Conduct | 22 (73%) |
| Gravity of the Violation | 30 (100%) |
| Degree of Responsibility | 26 (87%) |
| Duration of the Violation | 27 (90%) |
| Time Lapse since Violation | 17 (57%) |
| Financial Strength of the Responsible Audit Firm or Individual Auditor | 23 (77%) |
| Amount of Profits Gained or Losses Avoided | 25 (83%) |
| Level of Cooperation | 23 (77%) |
| Previous Violations | 29 (97%) |
| Other | 8 (27%) |

- Enforcement Authority Over Foreign Audit Firms:** Slightly more than half (57%) of respondents indicated that their *enforcement* authority extends to firms domiciled outside their borders. Respondents with such extraterritorial authority were also asked to describe its scope. While the scope of this authority varied among respondents, they typically indicated that their *enforcement* authority extends to any firm that is registered with or has otherwise entered into their regulatory regime, regardless of where the firm is domiciled. For example, members of the EU or the European Economic Area (EEA) require auditors and audit firms from outside the EU or EEA to register as “third-country auditors” if they audit companies within the member’s jurisdiction. Third-country auditor registration subjects the firms to the *enforcement* authority of the member. Some respondents reported they entered into bilateral agreements with other jurisdictions and authorities that provide for cooperation in *enforcement* and other matters. Some of the respondents who indicated they have no *enforcement* authority over *audit firms* domiciled abroad described the use of alternative approaches, including *enforcement* on the local group auditor instead of the foreign

Slightly more than half (57%) of respondents indicated that their enforcement authority extends to audit firms domiciled outside their borders.

auditor, requesting the foreign jurisdiction to launch an *investigation*, and using *enforcement* authority over *individual auditors* from the respective *audit firm*.



BEHIND THE NUMBERS

Of the respondents who participated in the 2014 Survey, 69% in 2018 indicated their *enforcement* authority extended to firms domiciled outside their borders as compared to 53% in 2014.

- **Enforcement of Auditing Standards:** Nearly all (98%) respondents indicated that they have the authority to *enforce* auditing standards. Of those respondents with the authority to *enforce* auditing standards, forty-one percent (41%) said they *enforce* the International Standards on Auditing (ISA), without modification. Just more than half (54%) stated that they *enforce* the ISA with local modifications or alongside other sets of auditing standards.
- **Enforcement of Ethics Laws:** Nearly all (98%) respondents indicated that they have the authority to *enforce* ethics laws, regulations, or codes for professional accountants, including rules governing independence requirements. Of those respondents with the authority to *enforce* ethics laws, twenty-seven percent (27%) said they *enforce* the ethics code issued by the International Ethics Standards Board for Accountants (IESBA Code), without modification. However, slightly more than half of respondents (54%) stated that they *enforce* the IESBA Code with modifications by laws, rules, or regulations. The remaining eight respondents (20%) said they *enforce* ethics rules originally developed in their jurisdiction or region.
- **Other Firm-Wide Enforcement Areas:** In addition to the areas discussed above, nearly all (93%) respondents indicated they have *firm-wide enforcement* authority as a response to non-compliant behavior in relation to the *audit firm's* governance and quality control standards. Two-thirds (67%) of respondents indicated they have *firm-wide enforcement* authority as a response to identified non-compliant behavior in multiple audit engagements. Overall, respondents indicated they generally *enforce* at the *firm-wide* level as a result of an inspection, if (i) violations are recurring, (ii) the public interest in doing so is high, or (iii) the violation is deemed severe.
- **Enforcement Style:** The 2018 Survey asked respondents whether they preferred to use a cooperative or coercive *enforcement* style in response to non-compliant behavior. Eight respondents (19%) predominantly use a cooperative style, six respondents (14%) predominantly use a coercive style, and the remaining twenty-eight respondents (67%) respondents said they use neither a predominantly cooperative or coercive *enforcement* style. Rather, their style is determined based on the case at hand.
- **Informal Enforcement:** Sixty-two percent (62%) of respondents indicated they use *informal enforcement* as a response to non-compliant behavior. For respondents that use *informal enforcement*, more than three-fourths do so considering the severity of the non-compliant behavior (77%) and for effectiveness and efficiency (81%). The thresholds that respondents indicated they considered when evaluating the severity of

non-compliant behavior ranged from professional judgment on a case-by-case basis to qualitative criteria from case law and public interest determinations. Less common considerations included laws and regulations that were not sufficiently clear as to the level of non-compliance (46%) and whether the *audit firm's* culture was deemed the reason for non-compliance (54%). One respondent indicated that it applies a risk differentiation approach in determining whether to use *informal enforcement*, considering factors including whether there is recidivism, the duration of the violation, whether the violation led to market disruption, and whether the violation damaged the trust in the market; the same respondent also indicated it may use *informal enforcement* for behavior it deems “harmful,” but not illegal. Respondents that do not use *informal enforcement* (38%) indicated that this is generally because they are not legally authorized to do so or because of the lack of procedural rights and transparency.

Sixty-two percent (62%) of respondents indicated they use informal enforcement as a response to non-compliant behavior. For respondents that use informal enforcement, more than three-fourths do so considering the severity of the non-compliant behavior (77%) and for effectiveness and efficiency (81%).

Of those respondents indicating they use *informal enforcement*, nearly all (92%) indicated they could apply *informal enforcement* to both *file-specific* and *firm-wide* non-compliant behavior. The remainder (8%) only had *informal enforcement* power with respect to *file-specific* non-compliant behavior. When using *informal enforcement*, most did so in the form of either an action or *remediation* plan (85%), or meeting with senior management (81%); just over half (54%) issued an unofficial warning. Some respondents consider action and *remediation* plans to be part of their *formal enforcement* proceedings, rather than as *informal enforcement*. Some respondents also use feedback letters or reports as a form of *informal enforcement*, including when the behavior does not reach the level of *formal enforcement*.

The table below summarizes how these respondents have employed *informal enforcement* against *audit firms* and *individual auditors* from 2014-2017. Generally, respondents used a mix of *informal enforcement* tools. As compared to the 2014 Survey, in 2018 more than half of the respondents using *informal enforcement* tools used an action or remedial plan (62%), unofficial warning (54%), or a meeting with senior management (50%) against *audit firms*. Against *individual auditors*, fewer of those respondents used an action or remedial plan (54%), unofficial warning (42%), or a meeting with senior management (54%).

| Informal Enforcement Tool | 2018 Respondents Using Against Audit Firms | 2018 Respondents Using Against Individual Auditors |
|----------------------------------|---|---|
| Action/Remediation Plans | 16 (62%) | 14 (54%) |
| Unofficial Warning | 14 (54%) | 11 (42%) |
| Meeting with Senior Management | 13 (50%) | 14 (54%) |
| Other | 3 (12%) | 5 (19%) |

Respondents with other *informal enforcement* tools indicated their inspection reports had an “other reportable findings” box to communicate serious items to senior management

that did not reach the level of a comment, they could issue warning letters outside of the inspections process, they had the power to offer license holders the option to waive their licenses to avoid *formal enforcement* proceedings, and they could provide feedback through informal communication.

The following table summarizes when respondents employing *informal enforcement* have used it with respect to *formal enforcement*. Most of these respondents can use *informal enforcement* techniques both on a stand-alone basis and in conjunction with *formal enforcement* for *file-specific* (62%) and *firm-wide* (69%) non-compliant behaviors. Just less than a third of these respondents can use *informal enforcement* techniques on a stand-alone basis only for *file-specific* (31%) or *firm-wide* (27%) non-compliant behaviors.

| How 2018 Respondents Use Informal Enforcement | File-Specific Non-Compliant Behavior Cases | Firm-Wide Non-Compliant Behavior Cases |
|--|--|--|
| On a Stand-Alone Basis (Only Informal Enforcement) | 8 (31%) | 7 (27%) |
| In Conjunction with Formal Enforcement | 2 (8%) | 1 (4%) |
| Both on a Stand-Alone Basis and in Conjunction with Formal Enforcement | 16 (62%) | 18 (69%) |

However, these results differ regionally and economically. The tables below present the results by total respondent GDP, as well as by GDP within each region:

| How 2018 Respondents Use Informal Enforcement | File-Specific Non-Compliant Behavior Cases | | | | |
|--|--|----------|----------------|--------|-------------------|
| | Resp. GDP | Americas | Asia & Oceania | Europe | MEA ¹¹ |
| On a Stand-Alone Basis (Only Informal Enforcement) | 70% | 100% | 81% | 51% | 97% |
| In Conjunction with Formal Enforcement | 5% | 0% | 4% | 6% | 0% |
| Both on a Stand-Alone Basis and in Conjunction with Formal Enforcement | 26% | 0% | 14% | 43% | 3% |

| How 2018 Respondents Use Informal Enforcement | Firm-Wide Non-Compliant Behavior Cases | | | | |
|--|--|----------|----------------|--------|-----|
| | Resp. GDP | Americas | Asia & Oceania | Europe | MEA |
| On a Stand-Alone Basis (Only Informal Enforcement) | 57% | 0% | 86% | 40% | 97% |
| In Conjunction with Formal Enforcement | 3% | 0% | 0% | 6% | 0% |
| Both on a Stand-Alone Basis and in Conjunction with Formal Enforcement | 40% | 100% | 14% | 53% | 3% |

¹¹ Middle East & Africa.



BEHIND THE NUMBERS

The data suggests that jurisdictions with larger GDPs tend to have *enforcement* authorities that can use *informal enforcement* on a stand-alone basis only, while jurisdictions with smaller GDPs tend to have *enforcement* authorities that can use *informal enforcement* both on a stand-alone basis and in conjunction with *formal enforcement*.

Only one respondent makes its use of *informal enforcement* public, and when it does so, it does not name the firm and issues the report as an *informal* warning to all auditors. The remaining twenty-five respondents reported varying rationales for why they do not make *informal enforcement* public, including (i) no legal authorization to do so; (ii) disproportionate punishment compared to the behavior (i.e., where a publicized *formal enforcement* action would be more appropriate); (iii) an unreasonable adverse effect on the auditors associated with the publicity; (iv) undermining the efficiency and effectiveness of using an *informal enforcement* action, and (v) an expectation for better outcomes when *informal enforcement* actions are not public.

- **New Enforcement Powers:** Of the twenty-nine respondents participating in the 2014 Survey, fifty-two percent (52%) of them indicated they had since been conferred new *enforcement* powers.¹²

Many of the European respondents of this subset cited Regulation (EU) No 537/2014 and amended Directive 2006/43/EC as the sources for expanding the *enforcement* powers against persons (other than the *audit firm* and *individual auditors*) and against third-parties to whom portions of the audit were outsourced, for bans on practice, and for publicizing whether an audit report complied with applicable *audit laws*. Other respondents reported additional general oversight powers and additional *disciplinary measures* and *sanctions*, such as fines, bans, and suspensions.



BEHIND THE NUMBERS

From a GDP perspective, only thirty percent (30%) of respondents to the 2014 Survey reported the conferral of new *enforcement* powers in 2018, suggesting that new *enforcement* powers were conferred to respondents in jurisdictions with smaller economies. Notably, Asian/Oceanian and European respondents reported the conferral of new *enforcement* powers since 2014.

¹² Including respondents who answered this question despite *not* participating in the 2014 Survey, fifty-six percent (56%) indicated they had since been conferred new *enforcement* powers.

EU Audit Reforms

The EU Audit Reforms came into effect in June 2016 and introduced new audit rules for approximately 30,000 *PIEs* within the EU. The aims of the new legislation are to strengthen the competences and powers of the competent authorities responsible for the public oversight of the audit profession and to establish a more effective sanctioning regime by harmonizing the types and addresses of sanctions.

Under the EU Audit Reforms, each EU member state is now required to ensure there are effective systems of *investigation* and sanctions to detect, correct, and prevent inadequate execution of statutory audits and breaches of the legal provisions governing audit oversight. While the EU Audit Reforms provides the general framework for the new rules, national legislation and/or local regulators' practices may affect the application of the rules and/or additional requirements depending on jurisdiction.

The new rules require member states to provide for appropriate administrative sanctions and measures that can be applied to violations of EU audit legislation. For this purpose, member states must comply with the following common minimum standards, all of which are without prejudice to provisions of national criminal law:

- The types and addresses of sanctions
- The criteria to be taken into account by competent authorities when applying sanctions
- The publication of sanctions
- The mechanisms to encourage reporting of potential violations

II. Structures of Enforcement Programs

The second section of the 2018 Survey (Questions 28 through 30) concerned the structure of the respondents' *enforcement* programs, particularly the relationship between the *enforcement* and inspection functions.

- **Relationship to Inspections Function:** While most respondents (83%) reported they distinguish between *enforcement* and inspections processes, respondents who reported that the functions are distinguished also provided detailed information concerning how the distinction is maintained. In many cases, respondents indicated that the two functions are housed in different organizational units. In others, the distinction is not organizational, but functional, based on the different purposes of the *enforcement* and inspections functions.

Of the respondents that distinguish between *enforcement* and inspections processes, just over half (60%) also maintain separate reporting lines for each function. Many respondents indicated the existence of formal reporting or referral mechanisms between the *enforcement* and inspections functions. At the same time, some respondents also reported that communication could be informal.

Most respondents (83%) reported that they distinguish between enforcement and inspections processes, but some respondents formally separate these processes in different organizational units, and other respondents functionally separate the processes based on their purposes.

The 2018 Survey also asked respondents whether they distinguish between *remedial measures* resulting from an inspection and those resulting from *enforcement measures* or *sanctions*. Most respondents (86%) indicated that they do distinguish between these two types of measures. The 2018 Survey also asked respondents how they make this distinction. While explanations varied, many respondents cited the voluntary or corrective nature of measures resulting from inspection activity, as opposed to the compulsory or punitive nature of measures resulting from *enforcement sanctions*. *Remedial* measures resulting from an inspection may arise from an *audit firm's* quality policies, procedures, or even culture. Many respondents also stated that they reserve *enforcement sanctions* for conduct that is more severe or that raises public interest issues. Additionally, some respondents noted that they used *enforcement sanctions* in situations when *audit firms* or auditors did not adhere to the voluntary *remedial measures* the respondent proposed; however, some respondents noted that they treated *remedial measures* and *sanctions* separately.

III. Handling of Enforcement Matters

The third section of the 2018 Survey (Questions 31 through 45) sought detailed information concerning the processes and procedures utilized by respondents in identifying potential *enforcement cases*, carrying out *investigations*, and other aspects of their *enforcement programs*.

- **Case Identification:** The 2018 Survey asked respondents which sources of information they used to identify potential *enforcement matters*. As summarized in the table below, nearly all respondents reported that inspections (100%); referrals from other authorities (100%); and tips, complaints, and whistleblowers (98%) were sources of information. Moreover, approximately three-quarters of respondents also cited press and media reports (88%), internal fact-finding and risk analysis (81%), and review and analysis of public filings (74%) as sources of case identification information. As noted below, the use of these five sources of information has increased amongst respondents as compared to the 2014 Survey.

Question

What were the most common sources of information used to identify potential enforcement matter?

- *Inspections (100%);*
- *Referrals from other authorities (100%)*
- *Tips, complaints, and whistleblowers (98%)*

| Source | 2018 Respondents Using Source | 2014 Respondents Using Source | Change |
|---|-------------------------------|-------------------------------|----------|
| Inspections | 42 (100%) | 94% | ↑6 pts. |
| Referrals from Other Authorities | 42 (100%) | 91% | ↑9 pts. |
| Tips, Complaints, and Whistleblowers | 41 (98%) | 91% | ↑7 pts. |
| Press and Media Reports | 37 (88%) | 87% | ↑1 pts. |
| Internal Fact-Finding and Risk Analysis | 34 (81%) | 78% | ↑3 pts. |
| Review and Analysis of Public Filings by Regulated Entities | 31 (74%) | 62% | ↑12 pts. |
| Monitoring of Third-Party Claims (such as Private Lawsuits) | 18 (43%) | 47% | ↓4 pts. |
| Other | 4 (10%) | 6% | ↑6 pts. |

Other sources to identify potential *enforcement* matters included other regulatory authorities, peer review reports, and professional organizations. One respondent indicated that fact-finding could commence only after another regulatory authority recommends action.

Regarding these sources of information, about half of respondents (48%) indicated they were required to initiate an *investigation*, while the remaining respondents (52%) were not required to initiate an *investigation*. Of those respondents indicating they were required to *investigate*, some indicated they were required to *investigate* regardless of the source of conduct—generally, as a matter of principle—while some indicated they were required to *investigate* only if the information came from a specific source(s), like inspections or press and media reports. On the other hand, respondents that were not required to *investigate* generally had discretion on what to *enforce*; in some cases, respondents had to determine whether to *enforce* based on criteria, and in other cases, respondents merely had the additional step of first determining whether the facts they possessed were sufficient to initiate *enforcement* action. Some of these respondents noted they could first informally obtain additional information (e.g., through interviews or documents) before deciding to take *formal enforcement* action.

- Criteria for Pursuing Investigations: The 2018 Survey asked respondents to describe the set of criteria they considered in determining whether to launch an *investigation*. The following table summarizes the responses.

| Criterion | 2018 Respondents Considering Criterion | 2014 Respondents Considering Criterion | Change |
|---|--|--|----------|
| Materiality | 37 (88%) | 84% | ↑4 pts. |
| Investor harm | 34 (81%) | 78% | ↑3 pts. |
| Nature of Accounting and Auditing Issues Involved | 36 (86%) | 75% | ↑11 pts. |
| Public Interest Considerations Other Than Investor Harm | 39 (93%) | 72% | ↑21pts. |
| Resource Constraints | 16 (38%) | 34% | ↑4 pts. |
| Other | 10 (24%) | 25% | ↓1 pts. |

Significantly, and as noted above, as compared to the 2014 Survey, the percentage of respondents who consider the public interest other than investor harm and the nature of accounting and auditing issues involved in 2018 has increased by 21 points and 11 points, respectively.

Other criteria respondents considered included: (i) how long ago the alleged conduct occurred; (ii) whether there is “reasonable doubt” about the auditor’s conduct or “reasonable grounds” to pursue an *investigation*; (iii) whether there was a disagreement between the *audit firm* and the respondent as to the nature of the identified deficiency; (iv) statutory authority; (v) the potential impact on the conduct of other auditors; (vi)

precedent value; (vii) media and public perception; and (viii) outcomes from previous *enforcement* activities.

- Procedures for Approving the Commencement of Investigations:** Because of the varying organizational structures, respondents have adopted varying procedures for approving the commencement of *enforcement investigations*. The two most common models were (i) approval by an individual who is the head of the organization or of the organizational unit responsible for *enforcement* activity, or (ii) approval by the governing board or body or by a subcommittee thereof. In some cases, a committee made a recommendation to an organizational head or vice-versa. In addition, some respondents indicated that *investigations* were at least initially commenced by their staff generally or by a small group of senior leaders in the organization. One respondent indicated that its regulations directly specified whether to commence an *investigation*. Approximately three-fifths (60%) of respondents indicated a person or body internal to the organization must approve whether to launch an *investigation*.
- Investigative Powers:** The 2018 Survey sought information from respondents concerning the *investigative* tools available to them in *enforcement investigations*. The set of tools available to the majority of respondents, as shown in the table below, have remained relatively constant as compared to the 2014 Survey, perhaps excluding the power to compel oral testimony, which a smaller percentage of respondents now use.

| Investigative Power | 2018 Respondents with Investigative Power | 2014 Respondents with Investigative Power | Change |
|---------------------------------------|---|---|---------|
| Compel the Production of Documents | 39 (93%) | 91% | ↑2 pts. |
| Compel Answers to Specified Questions | 40 (95%) | 91% | ↑4 pts. |
| Compel Oral Testimony | 34 (81%) | 87% | ↓6 pts. |
| Inspect Physical Premises | 31 (74%) | 78% | ↓4 pts. |
| Other | 8 (19%) | 22% | ↓3 pts. |

Other *investigative* powers included the power to compel written testimony, the power to compel an expert witness to appear and provide an expert opinion, the power to access computer systems and obtain electronic data, and the power to use *investigative* powers against third-parties to whom the *audit firms* outsourced certain functions and activities and other persons who participated in the activities of the *audit firm* and auditors. Another respondent also indicated that it possessed similar *investigative* powers, but only on a voluntary basis.

Nearly all respondents indicated they could use the *investigative* tools discussed above against *audit firms* (98%) and *individual auditors* (95%). Over half of respondents said they could use their *investigative* tools on audited entities (60%) and persons involved in the activities of an *individual auditor* or *audit firm* (64%). Other respondents indicated they could *investigate* members of an audit committee or board of directors,

Nearly all respondents indicated they could use the *investigative tools* available to them against *audit firms* (98%) and *individual auditors* (95%). And over half of respondents reported they could use their *investigative tools* on *audited entities* (60%) and persons involved in the activities of an *individual auditor* or *audit firm* (64%).

individuals exercising the activity of an auditor without a license, auditors whose services are deemed grossly inappropriate even if not associated with an audit engagement, professional bodies, and any person believed to have relevant information with respect to an *investigation* or case.



BEHIND THE NUMBERS

Of the respondents who also participated in the 2014 Survey, 76% indicated they could use *investigative* tools against persons involved in the activities of the *individual auditor or audit firm*.

The 2018 Survey also asked whether their exercise of *investigative* powers was subject to any limitations. Just over half (55%) of respondents indicated they had no limitations. Some respondents identified procedural and administrative limits, such as due process, statute of limitations,

jurisdiction over certain actors (e.g., third-parties, only *PIEs*, carve-outs for financial institutions), and abuse of power. One respondent noted that its board must determine whether to issue an order of formal investigation based on its *enforcement* division's recommendation before an *investigation* could start. Other respondents identified other legal limits, such as search warrants for phone tapping, legal thresholds for *investigation* (e.g., only if "necessary" in a given case, or only if the respondent believes a fact exists that may lead to a disciplinary action), and privileged information. One respondent emphasized that its *investigative* powers could not compel information from auditors and *audit firms*.

- **Determination to Take Enforcement Action:** Respondents follow a variety of models concerning the determination of whether to take *enforcement* action upon the conclusion of an *investigation*. Most often, either an organization's governing board (35%) or a committee within the organization (35%) made this determination. Some respondents (23%) reported that a single individual, generally the chair of the board or head of a department, made this determination. Some respondents reported a mix of models, depending on the type of *investigation* or violation and depending on whether the respondent itself ultimately prosecutes the case. Slightly less than one-third (31%) of respondents reported that approval was not necessary to take *enforcement* action; of the respondents needing approval to take *enforcement* action (61%), only one indicated that the approving party was external to the organization because it referred its findings to other disciplinary bodies or a public prosecutor. The approving parties were likewise usually boards or committees.

- **Evidentiary Burdens:** The 2018 Survey asked respondents to indicate what standard of proof applied in an *adjudication* to determine whether to impose *sanctions* or *remediation*. The following table summarizes the information provided by the respondents.

| Standard of Proof Applied in Adjudicated Proceedings | 2018 Respondents Applying the Standard | 2014 Respondents Applying the Standard | Change |
|--|--|--|---------|
| Preponderance of the Evidence | 18 (43%) | 44% | ↓1 pts. |
| Proof Beyond a Reasonable Doubt | 17 (40%) | 34% | ↑6 pts. |
| Other Standard | 10 (24%) | 31% | ↓7 pts. |
| No Specific Standard | 9 (21%) | 19% | ↑2 pts. |

Some respondents reporting “Other” (5%) explained that their jurisdictions applied both proof beyond a reasonable doubt and preponderance of the evidence, but to different types of cases (i.e., criminal and civil). Some respondents (7%) reported using the “balance of probabilities” threshold.

Nearly all respondents (93%) indicated that the evidentiary standard on appeal is the same as the standard in the initial *adjudication*. However, two respondents added the clarification that in their jurisdictions, the evidentiary standards were theoretically the same, but likely different in practice because of different procedures for the higher court or the lack of precedent for an appeal (for a regulator that has only recently been established).

- **Confidential or Nonpublic Disciplinary Measures or Sanctions:** The 2018 Survey asked respondents whether they ever impose confidential or non-public *sanctions*. Thirty-six percent (36%) of the respondents indicated that they impose non-public *sanctions*. Of these, several respondents (27%) indicated that their organizations had the discretion to impose these *sanctions* anonymously when it determined that the sanction contained personal information disproportionate to the violation, when the publication would jeopardize the financial markets or any ongoing criminal *investigation*, or would otherwise cause disproportionate harm to individuals or entities involved. Other respondents (20%) with the power to impose non-public *sanctions* indicated that *sanctions* would be confidential if they contained state secrets or unless public disclosure was statutorily required.

See [Public Disclosure Limitations](#) on page 31 within [Section IV](#) for additional details on respondents’ disclosure abilities.

- **Power to Levy Fees for Conducting Investigations:** Most respondents (71%) reported that they did not have the power to levy fees for conducting *investigations*. Of those that did, those respondents (12%) could levy fees only when imposing *disciplinary measures* or *sanctions*, often according to a predetermined fee schedule. Respondents levying fees regardless of imposing *sanctions* (29%) generally did so as part of auditors’ registration fees for monitoring and oversight activities or to directly recover the cost of *investigations*.

- Power to use Other Tools and Measures Instead of Sanctions: The 2018 Survey asked respondents if, after an *investigation*, they had the power to use other tools or measures designed to modify behavior and reduce violations of their *audit laws*, in addition to or instead of seeking *disciplinary measures* or *sanctions*. Two-thirds of respondents (67%) indicated that they do have such authority. Of this subset, three-fourths (75%) indicated they could issue a report or publication, either describing generalized statistics and trends or delving into specific audit engagements and *enforcement* results (e.g., findings, recommendations, outcomes). In addition, some respondents cited the ability to conduct roundtables and conferences, issue private warnings, publish new rules or interpretations of *audit laws*, or simply order *remedial* action or corrective orders as measures to modify behavior and reduce violations.

IV. Public Disclosure of Enforcement Matters

The fourth section of the 2018 Survey (Questions 46 through 49) requested information about respondents' authority and practices concerning the public disclosure of *enforcement* and disciplinary matters.

- Authority to Publicly Disclose Information: Respondents reported various degrees of discretion concerning their authority to publicly disclose information relating to *enforcement* matters at various stages of the *enforcement* process. However, as the below chart notes, only a few (5%) reported that their *enforcement* matters were always non-public. The three most frequently cited stages of the *enforcement* process at which disclosure may be made were (i) upon the imposition of a *disciplinary measure or sanction* (57%), (ii) upon the expiration of any applicable period during which a party may appeal or otherwise seek review of a decision (52%), and (iii) upon the issuance of a decision in an appeal or other review of a decision (52%).

Disclosure of the enforcement process varies but occurred most frequently during these stages:

- *Upon imposition of disciplinary measure or sanction (57%)*
- *Upon expiration of period during which party may appeal or seek review of decision (52%)*
- *Upon issuance of decision in an appeal or other review of a decision (52%)*

| Stage | 2018 Respondents with Authority to Publicly Disclose Information About an Enforcement Matter |
|--|--|
| Never | 2 (5%) |
| Upon commencement of an Investigation | 9 (21%) |
| During the course of an Investigation | 6 (14%) |
| At the conclusion of an Investigation | 9 (21%) |
| Upon the institution of a Disciplinary Proceeding | 8 (19%) |
| Upon the issuance of an initial decision in a Disciplinary Proceeding | 7 (17%) |
| Upon the imposition of a Measure or Sanction in a Disciplinary Proceeding | 24 (57%) |
| Upon the commencement of an appeal or other review of a decision in an Disciplinary Proceeding | 14 (33%) |
| Upon the expiration of any applicable period during which a party may appeal or otherwise seek review of a decision in a Disciplinary Proceeding | 22 (52%) |
| Upon the issuance of a decision in an appeal or other review of a decision in a Disciplinary Proceeding | 22 (52%) |
| Other | 7 (17%) |

Other respondents indicated that public disclosure occurred only with the party's consent (although one respondent noted that such consent has never been given), if the respondent's determination was later challenged in a *tribunal*, or if the violation was criminal. Additionally, other respondents indicated that their jurisdiction's public transparency laws, duty of confidentiality, or public interest concerns applied.

Notably, nine respondents (21%) reported they could publicly disclose information about an *enforcement* matter at five or more¹³ of the stages identified above, indicating greater flexibility for public disclosure. On the other hand, thirty-eight percent (38%) of respondents selected only one stage, and twenty-one percent (21%) selected only two stages.

- **Publicly Disclosable Information:** The 2018 Survey also asked respondents what information they could disclose if able to publicly disclose information about an *enforcement* matter. Nearly all respondents (93%) indicated they could publicly disclose the name of the *audit firm*. Many respondents also indicated they could publicly disclose a general description of any misconduct (81%) and the names of *individual auditors* involved (76%). Generally, as compared to the 2014 Survey, in 2018 a smaller percentage of respondents have reported the ability to disclose the names of the *individual auditors* involved or a specific description of the facts, although a larger percentage of respondents now report the ability to publicly disclose a general description of the misconduct. The following table summarizes the responses.

¹³ The 2018 Survey allowed respondents to select as many responses as applicable.

| Information to be Publicly Disclosed | 2018 Respondents Publicly Disclosing | 2014 Respondents Publicly Disclosing | Change |
|--|--------------------------------------|--------------------------------------|---------|
| Name of Audit Firm(s) Involved | 39 (93%) | 93% | ↔ |
| Name of Individual(s) Auditors Involved | 32 (76%) | 83% | ↓7 pts. |
| Name of third parties involved (e.g. Audited Entity) | 17 (40%) | N/A. | N/A. |
| Specific Description of Facts | 19 (45%) | 52% | ↓7 pts. |
| General Description of Misconduct | 34 (81%) | 76% | ↑5 pts. |
| Other | 8 (19%) | N/A. | N/A. |

Other respondents indicated they could publicly disclose the *sanctions* imposed or the date of the *sanction's* imposition. One respondent noted that occasionally the audited entity was disclosed, either via a court decision or when confirming whether an *investigation* was occurring. Another respondent noted that its jurisdiction's public transparency laws and duty of confidentiality applied. Another respondent noted that its decisions were published in their entirety, but the sanctioned person could request during the proceedings to be anonymous under certain circumstances. One respondent indicated an *audit firm* was disclosed if the *sanction* concerned the *audit firm* itself, not the *individual auditor*.

- Media for Public Disclosure:** The 2018 Survey also asked respondents what media they utilize to publicly disclose *enforcement* matters. Most respondents reported that they used their organizational websites (83%) to publicly disclose *enforcement* matters. However, the 2018 Survey revealed that less than half of respondents (40%) now issue press releases or other news releases, significantly lower than the 2014 Survey, where 59% of respondents indicated they used press and news releases. Overall, traditional media sources, like the news or the press, have become less prevalent media through which to publicly disclose *enforcement* matters, while respondents' websites have become the predominant media choice.

Less than half of respondents (40%) now issue press releases or other news releases, a significant decrease from the 2014 Survey, where 59% of respondents indicated they used press and news releases.



BEHIND THE NUMBERS

The 2014 respondents diverged from the 2018 Survey respondent population regarding media they utilize to publicly disclose *enforcement* matters. While only 40% and 24% of total respondents indicated they utilized press releases or distributed materials directly to press or media contacts, 52% and 34% of respondents from the 2014 Survey indicated that they utilized these media to publicly disclose *enforcement* matters.

The following table summarizes respondents' answers.

| Medium for Public Disclosure | 2018 Respondents Using Medium | 2014 Respondents Using Medium | Change |
|--|-------------------------------|-------------------------------|----------|
| Your Organization's Website | 36 (86%) | 83% | ↑3 pts. |
| Press Release or Other News Release | 17 (40%) | 59% | ↓19 pts. |
| Distribution Directly to Press or Media Contacts | 10 (24%) | 31% | ↓7 pts. |
| News Conference | 6 (14%) | 24% | ↓10 pts. |
| Social Media (Facebook, Twitter etc.) | 5 (12%) | N/A. | N/A. |
| Other | 24 (57%) | N/A. | N/A. |

Other respondents indicated that they could also publicly disclose information in their annual reports or bulletins, through public speeches and presentations, and by publishing articles in other publications widely read by auditors. Several respondents indicated some of the information publicly disclosed was on other authorities' websites, sometimes depending on the type of *sanction* imposed or the type of violation. One respondent indicated it was not restricted to any particular medium.

- Public Disclosure Limitations:** The 2018 Survey asked respondents that were able to publicly disclose information about *enforcement* matters whether they had any limitations on their authority to do so. Just over one third (36%) of respondents indicated no limitations applied to their abilities to publicly disclose information about *enforcement* matters. About forty percent (40%) indicated they were limited as to which categories of information they could publicly disclose. Examples of such categories of information respondents said they were limited to publicly disclose included information pertaining to third-parties involved, the audit deficiencies, personal data (and other considerations of public transparency laws and the duty of confidentiality), whether there was also an ongoing criminal *investigation*, and information that would compromise the professional secrecy of auditors' workpapers. One respondent noted that the relevant parties to a case may request access to *investigation* records, and the auditor and *audit firm* could request access to the final decision after that decision has been made. Other respondents noted that they were limited by concerns such as whether disclosure would be disproportionate to the violation, harmful to the financial markets, or other public policy concerns. Further, some respondents also indicated the extent of information that could be publicly disclosed was at their boards' or other internal committees' discretion.

| Public Disclosure Limitation | 2018 Respondents with Public Disclosure Limitation |
|---|--|
| No | 15 (36%) |
| Yes, as Separate Approval is Required | 1 (2%) |
| Yes, Disclosure of Certain Categories of Information is Forbidden | 17 (40%) |
| Other | 9 (21%) |

See [Confidential or Nonpublic Disciplinary Measures or Sanctions](#) on page 27 within [Section III](#) for additional details on respondents' disclosure abilities.

V. History and Trends

The fifth section of the 2018 Survey (Questions 50 through 54) concerned the history of respondents' *enforcement* programs, including patterns and trends in imposing *sanctions* and the challenges respondents face in their *enforcement* programs.

Disciplinary Measures or Sanctions Against GPPC Firms and Partners: The 2018 Survey asked respondents whether they imposed *disciplinary measures* or *sanctions* against a *GPPC firm* or partner during 2015-2017. Sixty percent of respondents (60%) imposed *disciplinary measures* or *sanctions* against at least one *GPPC firm* or partner. Just over a third of respondents (38%) said they did not, while one respondent (2%) noted it did not have this information readily available.

- Overall Disciplinary Measures and Sanctions: The following table¹⁴ summarizes respondents' *disciplinary measures* and *sanctions* overall from 2015-2017 against *GPPC firms*.

| Disciplinary Measures and Sanctions – GPPC Firms | 2015 | 2016 | 2017 |
|---|------|------|------|
| Cases Opened Against GPPC Firms ¹⁵ | 20 | 9 | 29 |
| Suspensions | 0 | 1 | 0 |
| ≤ 1 month | 0 | 1 | 0 |
| Fines Imposed | 7 | 10 | 19 |
| Restrictions/Other Disciplinary Measures or Sanctions | 14 | 5 | 19 |
| Warning | 5 | 0 | 2 |
| Censure/Reprimand | 3 | 2 | 6 |
| Order/Remediation | 5 | 1 | 2 |
| Ban/Prohibition/De-licensing ¹⁶ | 1 | 2 | 9 |
| Cases Pending Outcome | 2 | 2 | 4 |

¹⁴ Some respondents' answers to this question and the same question regarding GPPC partners were indeterminable; other respondents could not report these results because of confidentiality provisions. See also fn. 17, *infra*. Such responses were omitted from this analysis. Accordingly, it is possible that the numbers in the table understate the true numbers.

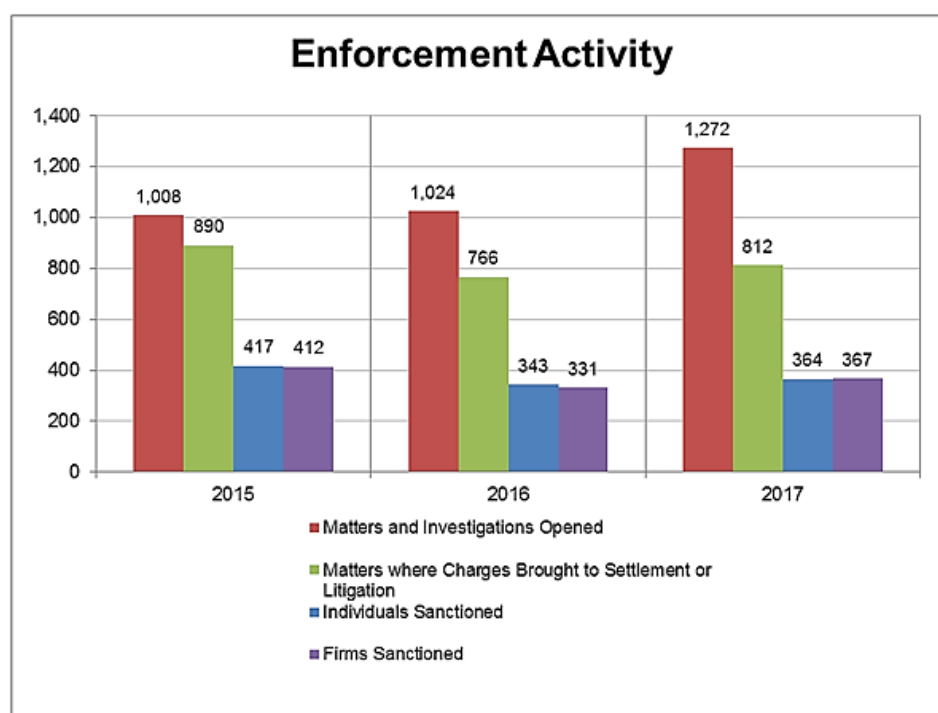
¹⁵ The number of *disciplinary measures and sanctions* may not equal the number of cases in a given year because in several instances respondents imposed multiple *disciplinary measures or sanctions* against the GPPC Firm or GPPC Partner (e.g., both imposing a fine and ordering remedial measures) and because of the timing mismatch between when cases are brought and when cases are decided (e.g., when cases are pending outcome).

¹⁶ The bans prohibitions or de-licensings reported were generally minor, such as temporary bans or suspensions from certain listed audits or certain services, ranging from 3 months to 2 years. Two respondents de-licensed a GPPC Partner each in 2016, but no GPPC Firms were de-licensed during this time period.

The following table summarizes respondents' *disciplinary measures* and *sanctions* overall from 2015-2017 against GPPC Partners (*individual auditors*).

| Disciplinary Measures and Sanctions – GPPC Partners | 2015 | 2016 | 2017 |
|--|-------------|-------------|-------------|
| Cases Opened Against GPPC Partners (Individual Auditors) | 46 | 26 | 14 |
| GPPC Partners: | 11 | 2 | 5 |
| ≤ 1 month | 6 | 0 | 0 |
| >1 month and ≤ 6 months | 4 | 0 | 1 |
| >6 months | 1 | 0 | 3 |
| Bars/License Withdrawals | 0 | 2 | 1 |
| Fines Imposed | 22 | 13 | 8 |
| Restrictions/Other Disciplinary Measures or Sanctions | 26 | 16 | 5 |
| Warning | 0 | 15 | 1 |
| Censure/Reprimand | 25 | 0 | 4 |
| Order/Remediation | 0 | 0 | 0 |
| Ban/Prohibition/De-licensing | 1 | 1 | 0 |
| Cases Pending Outcome | 0 | 0 | 0 |

- **Enforcement Activity Level:** The 2018 Survey also asked respondents about their *enforcement* activity level regarding *investigations* opened, charges brought, individuals sanctioned, and firms sanctioned. The following graph summarizes respondents' results.¹⁷



¹⁷ Some respondents said their information concerning *enforcement* activity level was confidential, declined to answer, said no information was available, or were not yet established. As a result, it is possible that the numbers in the table understate the true numbers.



BEHIND THE NUMBERS

When *enforcement* activity is broken down by respondent GDP quartiles, the top quartile opened at least 63% of the matters and *investigations* in each year from 2015-2017. Further, during the same time, the top quartile accounted for at least 80% of the matters where charges were brought to *settlement* or *litigation*.

Results further diverged with respect to those jurisdictions sanctioning individuals versus those sanctioning firms. Jurisdictions in the top quartile of respondent GDPs comprised a smaller percentage of total sanctions against individuals (ranging from 59% to 66% from 2015-2017) than against firms (ranging from 77% to 84% during the same time). Interestingly, jurisdictions in the second quartile of respondent GDPs comprised less than 1% of sanctions against firms from 2015-2017.

Despite fewer overall charges brought and sanctions imposed in 2017 than in 2016, jurisdictions in the first and fourth respondent GDP quartiles largely drove the increase in matters and *investigations* opened in 2017, together opening 46 points more matters and *investigations* than in 2016. In comparison, jurisdictions in the second and third respondent GDP quartiles opened 13 points *fewer* matters and *investigations* in 2017 than in 2016.

- **Range and Mix of Disciplinary Measures and Sanctions:** As discussed within [Sanctions Available by Type of Party](#) on page 13, respondents indicated that the range of *disciplinary measures* and *sanctions* included monetary fines, warnings, reprimands, censures, suspensions or bans, deregistration, public disclosure of violations, imposition of an external monitor, *remedial* training, and requirements to remedy quality control issues. Some of the larger (or more severe) *disciplinary measures* or *sanctions* that respondents imposed included large monetary penalties, temporary or permanent bans from practice, and deregistration. Respondents elected to impose these larger *disciplinary measures* or *sanctions* for failures to perform audit procedures (or outright audit failures), failures to provide information to regulators when required or the provision of false information, failures resulting in a breach of independence requirements, failures to obtain audit evidence, failures in the audit reports themselves, insufficient professional skepticism, failures to comply with ethical standards, failures to comply with quality assurance criteria, and the performances of an audit without a license or registration. One respondent noted that two firms objected to these larger *disciplinary measures*, appealed, and the district court reversed the fines imposed; this respondent has since appealed to a higher court, where its case is currently pending.

Several respondents that imposed monetary penalties and fines indicated that the monetary penalties were as high as \$8 million USD/ 7 million € or up to the amount of audit fees for severe violations.

Additionally, several respondents noted that the *sanctions* they chose to impose were tailored to factors including the conduct and nature of the violations, risk to investors (or other stakeholders), and deterrence effects; others noted that the *sanctions* imposed were statutorily defined. Some respondents (10%) indicated that because their

organizations were established more recently, they did not have relevant data, had not imposed *disciplinary measures* or *sanctions*, or had not imposed those available *disciplinary measures* or *sanctions* they deemed appropriate for violations they considered sufficiently severe to warrant their imposition.

- Observed Trends or Recurring Issues Relating to Misstatements in Financial Statements Subject to Audit: The 2018 Survey then asked respondents about the trends or recurring issues they observed in *enforcement* matters. The table below summarizes responses for issues related to misstatements in financial statements subject to audits:

| Issue | 2018 Respondents Reporting Issue | 2014 Respondents Reporting Issue | Change |
|--------------------------------------|----------------------------------|----------------------------------|----------|
| Financial Instruments | 15 (36%) | 42% | ↓6 pts. |
| Inventory | 17 (40%) | 45% | ↓5 pts. |
| Impairment of Non-Financial Assets | 18 (43%) | 47% | ↓4 pts. |
| Provision and Contingent Liabilities | 13 (31%) | 53% | ↓22 pts. |
| Revenue Recognition | 22 (52%) | 56% | ↓4 pts. |
| Related Party Transactions | 16 (38%) | 59% | ↓21 pts. |
| Financial Statement Disclosure | 19 (45%) | 50% | ↓5 pts. |
| Other | 9 (21%) | 23% | ↓2 pts. |

Just over half (52%) of respondents observed a recurring issue or trend for financial statement misstatements related to revenue recognition; other noteworthy recurring issues or trends included financial statement disclosures (in general) (45%), impairments of non-financial assets (43%), and inventory (40%). Overall, as compared to the 2014 Survey, in 2018 respondents have less frequently observed trends or recurring issues related to financial statement misstatements, particularly with respect to provisions and contingent liabilities (22% decrease) and related party transactions (21% decrease).

Other recurring issues or trends related to misstatements included accounts receivables, technical provisions for claims, acquisition accounting, goodwill, and financial asset impairments. Five respondents (12%) indicated that they did not observe any trends in any particular area.



The 2014 respondents diverged from the 2018 Survey population on revenue recognition. Though 52% of 2018 respondents indicated revenue recognition as a recurring issue or trend, 66% of respondents from the 2014 Survey indicated it as a trend or recurring issue.

There is further regional and economic divergence with respect to related party transactions.

Though only 16 respondents reported related party transactions as an observed trend or recurring issue, these respondents comprise 63% of the total respondents' GDP. Further, while 81% and 84% of Asian/Oceanian and American respondent GDP, respectively, reported related party transactions as an observed trend or recurring issue, only 28% of European respondent GDP did so.

- Observed Trends or Recurring Issues Relating to Audit Processes: The table below summarizes responses for issues related to audit processes:

| Issue | 2018 Respondents Reporting Issue | 2014 Respondents Reporting Issue | Change |
|---|----------------------------------|----------------------------------|----------|
| Fair Value Measurement/Management Estimates | 23 (55%) | 66% | ↓11 pts. |
| Use of Expert and Specialist | 15 (36%) | 59% | ↓23 pts. |
| Audit Risk Assessment | 20 (48%) | 59% | ↓11 pts. |
| Fraud Testing | 13 (31%) | 50% | ↓19 pts. |
| Due Care/Professional Skepticism | 23 (55%) | 66% | ↓11 pts. |
| Audit Documentation | 26 (62%) | 66% | ↓4 pts. |
| Confirmation Process | 13 (31%) | 50% | ↓19 pts. |
| Review and Supervision | 12 (29%) | 44% | ↓15 pts. |
| Going Concern | 17 (41%) | 50% | ↓9 pts. |
| Group Audits | 13 (31%) | 56% | ↓25 pts. |
| Internal Control Testing | 14 (33%) | 47% | ↓14 pts. |
| Substantive Analytical Procedures | 12 (29%) | 41% | ↓12 pts. |
| New Auditor's Report | 3 (7%) | N/A | N/A. |
| Other | 6 (14%) | 16% | ↓2 pts. |

For audit process issues, over half of respondents observed recurring issues or trends related to audit documentation (62%), due care or professional skepticism (55%), and fair value measurement and management estimates (55%). Other issues related to audit processes included planning, materiality, audit evidence, subsequent events, communicating with those charged with governance, understanding the issuer's business, and following up on red flags. Again, four respondents (10%) indicated that they did not have any trends in any particular area discussed above.

Over half of respondents observed recurring issues or trends related to audit documentation (62%), due care or professional skepticism (55%), and fair value measurement and management estimates (55%).

Overall, in 2018 respondents have less frequently observed trends or recurring issues related to audit processes as compared to the 2014 Survey, particularly with respect to group audits (25-point decrease), the use of experts and specialists (23-point decrease), fraud testing (19-point decrease), and the confirmation process (19-point decrease). But, a larger percentage of 2014 respondents did report trends or recurring issues with respect to fair value measurement/ management estimates (66%), audit risk (59%), and due care/professional skepticism (66%).

- Observed Trends or Recurring Issues Relating to Quality Control: The table below summarizes responses for issues related to quality control:

| Issue | 2018 Respondents Reporting Issue | 2014 Respondents Reporting Issue | Change |
|--|----------------------------------|----------------------------------|----------|
| Independence | 24 (57%) | 59% | ↓2 pts. |
| Client Risk Assessment, Acceptance and Continuance | 14 (33%) | 47% | ↓14 pts. |
| Engagement Quality Control Review | 21 (50%) | 50% | ↔ |
| Other | 9 (21%) | 22% | ↓1 pts. |

For quality control issues, at least half of respondents observed a recurring issue or trend related to independence (57%) or engagement quality review (50%).

Independence continues to be an observed recurring issue or trend related to quality control with 59% and 57% of respondents reporting it as an issue in 2014 and 2018, respectively.

Other recurring issues or trends identified by respondents related to quality control were noticeably broad. One respondent noted a quality control trend involving policies and procedures, especially related to (i) providing the *audit firm* assurance that engagements are performed according to applicable professional standards; (ii) that the firm or partner issues appropriate reports; (iii) that the engagement team completes the assembly of final engagement files timely after the report's issuance; and (iv) that the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation is maintained. Other respondents reported quality control issues related to engagement performance (in general), anti-money laundering policies and procedures, and compliance with audit partner rotation requirements. One respondent also reported that its organization could review firms' quality control in an advisory capacity only because it did not have statutory *enforcement* authority over firms' quality control. Here again, four respondents (10%) indicated they did not have any trends in any particular area. Overall, since the 2014 Survey, respondents less frequently observed trends or recurring issues related to client risk assessment, acceptance, and continuance (14-point decrease).



BEHIND THE NUMBERS

These results further diverge with respect to engagement quality control review. The 50% of respondents reporting engagement quality control review issues comprise only 40% of respondents' total GDP. Notably, however, 77% of Asian/Oceanian and 57% of European respondent GDP, but only 9% of America respondent GDP, reported engagement quality control review as a trend or recurring issue relating to quality control.

- Observed Trends or Recurring Issues Relating to Non-Audit Conduct: The table below summarizes responses for issues related to non-audit conduct:

| Issue | 2018 Respondents Reporting Issue | 2014 Respondents Reporting Issue | Change |
|----------------------------|----------------------------------|----------------------------------|----------|
| Discreditable Acts | 4 (10%) | 22% | ↓12 pts. |
| Auditing Without a License | 4 (10%) | 22% | ↓12 pts. |
| Other | 8 (19%) | 22% | ↓3 pts. |

Generally, fewer respondents noted trends or recurring issues related to non-audit conduct. Indeed, respondents much less frequently observed trends or recurring issues related to discreditable acts (12-point decrease) and auditing without a license (12-point decrease). The "Other" issues identified related to violations of anti-money laundering legislation and non-competition regulations. One respondent reported trends of noncompliance related to conditions imposed and conducting audits while suspended. Five respondents (12%) reported they did not observe any trends in any particular area.

- **Enforcement Program Challenges:** The 2018 Survey then asked respondents which challenges their *enforcement* programs faced. The table below summarizes their responses:

| Challenge | 2018 Respondents Facing Challenge | 2014 Respondents Facing Challenge | Change |
|---|-----------------------------------|-----------------------------------|----------|
| International Investigations | 7 (17%) | 28% | ↓11 pts. |
| Conceptions of the “Public Interest” in Audit Context | 7 (17%) | 3% | ↑14 pts. |
| Public Reporting of Information | 10 (24%) | 28% | ↓4 pts. |
| Principles-Based Ethics Codes and Independence Rules | 21 (50%) | 50% | ↔ |
| Other | 11 (26%) | 16% | ↑10 pts. |

Half (50%) of respondents indicated that they face challenges relating to the principles-based nature of the ethics codes and independence rules for *audit firms* or *individual auditors*. However, as the following charts shows, these results change when viewed by GDP.

| Challenge | 2018 Respondents Facing Challenge | | | | |
|---|-----------------------------------|----------|----------------|--------|-----|
| | Resp. GDP | Americas | Asia & Oceania | Europe | MEA |
| International Investigations | 53% | 91% | 17% | 28% | 47% |
| Conceptions of the “Public Interest” in Audit Context | 4% | 0% | 0% | 13% | 0% |
| Public Reporting of Information | 51% | 93% | 12% | 22% | 49% |
| Principles-Based Ethics Codes and Independence Rules | 55% | 84% | 28% | 39% | 0 |
| Other | 24% | 0% | 44% | 40% | 51% |

Other challenges respondents reported their *enforcement* programs face included *investigations* involving parties not based in their local jurisdiction and the separation of powers and resources amongst securities and audit oversight regulators. One respondent noted constraints on the ability to gather evidence concerning due care (because of auditors’ attempts to conceal evidence, the time between the occurrence and detection of misstatements, and conflicts with other authorities) and difficulties in determining appropriate penalties (especially when multiple cases or periods are alleged and when grounds for reduction or aggravation should be considered). Another respondent noted a case precedent in its jurisdiction holding that mere



A smaller percentage of respondents indicated they face challenges with respect to international *investigations* and the public reporting of information (17% and 24%, respectively) but comprise over half of the respondents’ total GDP (53% and 51%, respectively). Notably, 91% of American respondent GDP reported international *investigations* as a challenge. However, 12% of Asian/Oceanian and 22% of European respondent GDP indicated the public reporting of information was a challenge, while 93% of American respondent GDP reported the public reporting of information as a challenge.

audit errors without corresponding significant accounting errors normally are not sufficient for imposing formal *sanctions*; however, this respondent noted it had not yet pursued a case since the EU Audit Reforms. Seven (17%) respondents reporting “other” either indicated not applicable or declined to respond.

VI. Sharing Information with Other Regulatory Authorities

The sixth section of the 2018 Survey (Questions 55 through 58) sought information about other authorities in respondents’ jurisdictions with *enforcement* authority over audit-related conduct in order to provide institutional context and determine whether respondents could share confidential information domestically and internationally.

- Sharing Information with Domestic Authorities: Eighty-six percent (86%) of respondents reported that they can share confidential *investigative* information with domestic authorities. Some of the authorities mentioned generally include public prosecutors and the courts, securities regulators, financial authorities, national disciplinary boards or panels, national or central banks, certain self-regulatory organizations and professional bodies, administrative law judges, and law enforcement authorities. Some respondents indicated that the authorities with whom they could share confidential information were defined statutorily, and some respondents indicated that they were statutorily required to share information with certain authorities that requested it. Many jurisdictions noted they could only share this information if it was deemed relevant to the tasks and duties of the receiving authority. Many respondents also emphasized the need for these authorities to maintain professional secrecy given the confidential nature of the information.
- Sharing Information with Foreign Authorities: Seventy-one percent (71%) of respondents reported that they can share confidential *investigative* information with foreign authorities, but only where a letter of cooperation, memorandum of understanding, or similar agreement is in place. Some respondents stated they could share confidential information as signatories to multilateral agreements such as the IFIAR MMoU, International Organization of Securities Commissions (IOSCO) MMoU, or, if an EU member state, through applicable EU directives or regulations. Specifically, Regulation (EU) No 537/2014 and Directive 2006/43/EC permitted authorities to share confidential information with their EU and EEA counterparts. Some respondents noted that to share information, they required working arrangements built on reciprocity. Likewise, respondents also reemphasized the need for confidentiality with respect to international sharing of *investigative* information.

Just over half of respondents (60%) indicated they currently had agreements or understandings in place with foreign authorities to govern the sharing of confidential *investigative* information. While many of these respondents indicated they had entered into either the IFIAR MMoU or IOSCO MMoU or were subject to EU law, many of these respondents had agreements directly with other foreign authorities, sometimes in addition to the MMoUs or EU law and sometimes in lieu of such. Some arrangements were ongoing, but some were one-time agreements. A handful of respondents (7%) that

did not have any agreements or understandings in place said that they were open to such arrangements in the future or were currently negotiating arrangements.

- Restrictions on Sharing Information with Foreign Authorities: Two respondents (5%) indicated they could not share confidential information with foreign authorities. Nine respondents (21%) indicated either that their jurisdiction did not have any such law on the books or that no such restriction applied. The majority of respondents (74%) reported that they had some type of restriction for sharing confidential *investigative* information. Generally, such restrictions arose out of underlying statutes or agreements with other authorities, and they often involved confidentiality, notice and approval, permissible use of the information (e.g., some jurisdictions do not permit shared information to be used as evidence in a criminal proceeding), and whether the sharing of such information was relevant to the business or duties of the other organization. A handful of respondents (7%) also noted augmented restrictions on information that contained personal data. Likewise, a handful of respondents (7%) noted that their laws were written in the negative (i.e., prohibited *unless* (emphasis added) another law otherwise allows sharing).

VII. Other Ideas

The final section of the 2018 Survey (Questions 59 through 62) invited respondents to:

(i) identify legislative or regulatory improvements that they have considered, would like to see enacted, or have put in place; (ii) describe any other questions not asked in the survey that might have elicited helpful information; and (iii) share which auditing standards they believed were most difficult to *enforce*.

As to potential reform ideas, respondents suggested the following specific ideas, some of which may be relevant only within the respondent's own jurisdiction:

- Legislative or Regulatory Changes to Improve Enforcement Program Effectiveness: The 2018 Survey asked respondents whether, since the 2014 Survey, there were any legislative or regulatory changes they had considered, would like to enact, or have enacted to improve the effectiveness of their programs. Eighteen respondents (43%) indicated they had not considered, desired to enact, or enacted any legislation. One respondent noted that its organic statute established it as an organization since the 2014 Survey, along with another authority to impose administrative measures and *sanctions*. Ten respondents (24%) reported legislative and regulatory changes resulting from the EU Audit Reforms. As discussed previously above, Regulation (EU) No 537/2014 expanded the *enforcement* powers against persons (other than the *audit firm* and *individual auditors*) and against third-parties to whom portions of the audit are outsourced, for bans on practice, and for publicizing whether an audit report complies with applicable *audit laws*. See [EU Audit Reforms](#) summary box within [Section I](#) on page 22.

The remaining respondents indicated a variety of legislative and regulatory changes. One respondent indicated a new law in its jurisdiction that requires the following of firms auditing *PIEs*:

- establish independent supervisory boards at the highest level of the *audit firm's* organization with the power to appoint, suspend, or dismiss executive board members;
- include a suitability test for members of the executive and supervisory boards;
- restrict the work of day-to-day policymakers within an audit firm; and
- expand the possible information exchange between other law enforcement and regulatory authorities.

Another respondent indicated that its jurisdiction had updated its standards to increase the essential qualifications of a CPA by (i) rescinding the regulation that allows replacement of practical training with pre-professional training, (ii) imposing a specific requirement for continuing professional education, (iii) emphasizing compliance with the regulatory requirements for a CPA to obtain a CPA Association membership for his or her practice, and (iv) requiring the signing of a co-location contract to establish a co-location CPA firm.

Two respondents (5%) alluded to when *disciplinary proceedings* should become public knowledge rather than confidential. One of these respondents noted that the non-public nature of *disciplinary proceedings* incentivized *litigation* rather than *settlement*, while allowing firms and practitioners to continue to audit public companies unbeknownst to the public. Another of these respondents indicated it is now empowered to publish the names of public accountants who failed review or restriction orders on their revisit inspections.

Other proposed or actual regulatory changes involved the powers to censure licensed individuals auditing for unlicensed firms or licensed firms not overseen by the audit regulator, to fine the firm if the responsible individual cannot be identified without disproportionate effort, to conduct formal testimonies, to conduct firm-level inspections, to *sanction* non-compliance, to increase penalties, to directly impose *sanctions*, and to obtain information and evidence from *audit firms'* premises.

- Auditing Standards Most Difficult to Enforce: The 2018 Survey then asked respondents which auditing standards were the most difficult to *enforce* based on their experience as regulators. An overall theme emerged that principles-based auditing standards and aspects of an audit subject to professional judgment were most difficult to *enforce* because there were not objective criteria against which to determine whether there was an actual audit violation. One respondent indicated that case precedent in its jurisdiction, which held that mere audit errors without a corresponding significant accounting error were not sufficient to impose formal *sanctions*, presented its biggest challenge to *enforcement*.

The following table shows which auditing standards respondents most frequently cited as the most difficult to *enforce*:

| Auditing Standard | Topic | 2018 Respondents |
|-------------------|----------------------|------------------|
| ISQC 1 | Quality Control | 4 (10%) |
| ISA 230 | Audit Documentation | 3 (7%) |
| ISA 315 | Risk Assessment | 5 (12%) |
| ISA 530 | Audit Sampling | 4 (10%) |
| ISA 540 | Accounting Estimates | 6 (14%) |
| ISA 600 | Group Audits | 4 (10%) |

Difficulties associated with the International Standard on Quality Control (ISQC) 1 primarily involved determining when to take *enforcement* action, especially without a nexus to an audit engagement performance.

International Standard on Auditing (ISA) 315 was difficult to *enforce* because it involved challenging an auditor’s risk assessment, which was subject to professional judgment, especially when the auditor performed the assessment on the firm’s standard templates and when it involved proving to what extent the auditor may have failed to gain a sufficient understanding of the issuer and its environment. For example, one respondent reported similar challenges with respect to enforcing ISA 320 (audit materiality). These challenges corresponded with what respondents reported for enforcing ISA 530 on audit sampling—one respondent noted it was difficult to prove that a sample design and size was insufficient and a violation of ISA 530 when it was determined according to the firm’s internal methodology. Additionally, the sample design and size was determined based on the initial determination of audit risk, which remained subject to professional judgment as previously discussed.

Respondents most heavily cited ISA 540 regarding accounting estimates as difficult to *enforce*. Overall, respondents found it challenging to find and identify evidence that the auditor did not adequately challenge management’s assumptions. One respondent described its difficulty challenging accounting estimates prepared by management’s experts; specifically, auditors would be reluctant to dispute management’s expert’s report, but the form of review would hang over the substance of review in *enforcement*. Other respondents described difficulty challenging accounting estimates supplemented by the auditor’s own experts, which they believed simply validated management’s positions, even if overly optimistic. *Enforcement* was then difficult because it involved challenging the auditors’ professional judgment.

Respondents also noted that ISA 600 regarding group audits was difficult to *enforce* for several reasons. One respondent noted that the requirements were so general as to allow for situations where the group audit workpapers did not account for the component unit’s transaction flowchart or the extent or results of procedures performed. Another respondent similarly noted the level of rigor and professional skepticism of the engagement group partner was difficult to *enforce*, especially as it pertained to what was sufficient documentation of audit evidence gathered by the component unit’s auditors to support the group audit opinion. Another respondent believed that auditors over-relied on memoranda from component auditors, despite the fact that the quality of communication was poor and

that the description of the audit risks and responses to them were often overly summarized and boilerplate. *Enforcement* of ISA 600 was difficult, however, because reliance on the component auditor's memoranda was within the group auditor's professional judgment. Yet another respondent noted that while the group auditor may easily comply with ISA 600 when reviewing the component auditor's workpapers and performing additional testing when necessary, enforcing the standard could not protect against a scenario where the component auditor's underlying work went wrong.

Another frequently cited standard (7%) was ISA 230 concerning audit documentation. Generally, respondents noted that the challenge in *enforcement* was that auditors would claim that they performed procedures even though not documented within the workpapers; auditors would then provide additional or alternative documentation or supplement oral representations to prove that they performed the proper procedures. One respondent noted it was difficult to detect unauthorized modification to audit workpapers, especially hard copy files, after the archival date.

Other standards that respondents reported challenging to *enforce* include ISA 570 (goodwill), ISA 550 (related parties), ISA 250 (compliance with laws and regulations), ISA 200 (ongoing *litigation*), ISA 220 (supervision), ISA 300 (audit plan updates), ISA 505 (confirmations and alternative audit procedures), and ISAs in the context of small- and medium-sized entities.

5 Conclusion

IFIAR Members' responses to the 2018 Survey reveal a variety of approaches to the *investigation* and *adjudication* of matters involving the *enforcement of audit laws*; however, they continue to demonstrate a unanimous and unwavering commitment to effective *enforcement* programs. *Enforcement* plays a critical role in audit oversight. Despite the shared goal, the 2018 Survey results show that IFIAR Members faced their own unique sets of diverse challenges, influenced by their jurisdictions' regulatory schemes, the size and structure of their organizations, and the *enforcement* powers statutorily enumerated to them. IFIAR Members have also observed additional complexity arising from the pervasive use of technology in auditing, growing convolution in the audits of multinational issuers, and increased professional judgment used in audits as they pertain to certain accounting estimates.

The EWG intends for the findings in the 2018 Survey to facilitate further discussions among IFIAR Members, as well as within Members' own jurisdictions, concerning the most effective and efficient ways to manage these trends and work for the protection of investors and the improvement of audit quality.

Observations on Significant Issues

Several issues emerged from the 2018 Survey results as important considerations for IFIAR Members as they determine, within the context of the broader legal and regulatory framework of their jurisdictions, how best to implement or improve their public audit oversight *enforcement* programs:

- **Cooperation.** The increase in multinational *PIEs* and global audit networks that provide cross-border audit services has resulted in increased international *investigatory* activity. The ability to share confidential information with other regulators has therefore become more important for IFIAR Members even though impediments to sharing information remain. The results of this Survey may assist Members to explore ways of reducing current barriers to the sharing of information with a view toward enhancing and smoothing the sharing of confidential information across borders in the public interest.¹⁸
- **Publication of Information.** Respondents' approaches varied greatly as to the public reporting of *enforcement* cases and *sanctions*. Some audit regulators have the authority to announce cases and *sanctions* only when final, while others have the discretion to announce matters, even at the *investigatory* stage. This determination involves policy questions weighing the value of public disclosure of information to be used by investors, audit committees, the audit profession, and others against the potential for reputational damage or perceived unfairness. Audit regulators, to the extent they have the discretion, may wish to consider the appropriate balancing of these interests in determining their

¹⁸ See fn. 3, *supra*.

approach to public disclosure as well as whether to seek legislation to permit additional disclosure.

- **Independence.** Over half of respondents continued to indicate that independence was an observed trend or recurring issue related to quality control. This suggests that respondents perceive independence—a cornerstone of audit quality—to be a lingering issue, despite their *enforcement* capabilities and activities.
- **Mix of Formal and Informal Sanctions.** Respondents' responses suggest that many Members possess the ability and flexibility, and demonstrate the willingness, to employ a mix of *formal* and *informal sanctions* in response to different non-compliant behaviors. Of respondents able to use an *informal sanction*, more than three-fourths do so considering the severity of the non-compliant behavior (77%) or its effectiveness and efficiency (81%). Respondents further indicated the ability and willingness to employ a range and variety of *informal sanctions*. Sixty-two percent of respondents (62%) reported using *informal enforcement* to respond to non-compliant behavior, and they reported using a mix of available *informal enforcement* tools, rather than any predominant tool.

6 Further Details

For further information about the EWG or this report, please contact:

- The EWG Chairman – Dr. Reto Sanwald, Head of the Legal & International Affairs, Swiss Federal Audit Oversight Authority FAOA, by phone at +41 31 560 22 22 or by e-mail to reto.sanwald@rab-asr.ch.
- The EWG Survey Group Head – Michael W. Davis, Assistant Director, Division of Enforcement and Investigations, Public Company Accounting Oversight Board, by phone at +1 202-207-9348 or by e-mail to davism@pcaobus.org.
- The IFIAR Secretariat based in Tokyo (Japan), by phone at +81 3 4510 3495 or by e-mail to secretariat@ifiar.org.

Appendix: The Survey Questionnaire

The Survey Questionnaire distributed to IFIAR Members begins on the following page.

IFIAR Enforcement Working Group:

2018 Survey Questionnaire on Enforcement Regimes

Purpose: The purpose of this questionnaire is to develop an understanding of IFIAR Members' enforcement regimes through a survey of mandates, objectives and legal authority, with the goal of sharing information, including a discussion of current and emerging enforcement and investigation issues, methodology and techniques. The 2018 survey is to a large extent an update of the 2014 Survey, but has also been expanded in certain areas.

Please be aware that aggregate, summary information (without identifying specific respondents by name) compiled in the course of this survey may be made public.

Please complete the survey by 8 March 2018. The respondents may be contacted following their completion of the survey for clarification and/or follow-up information.

Guidance: This questionnaire is designed to elicit useful information about enforcement powers and activities conducted by an IFIAR member's organization primarily concerning audits of financial statements, but also addressing other accountant services and activities. Because enforcement matters can be and are structured differently across the globe, the EWG is also interested in the enforcement powers exercised by other parties within your jurisdiction against auditors of financial statements. Sometimes these may be separate from the IFIAR member's process and sometimes they may intersect. Thus, a later set of questions asks you to describe the broader enforcement context within which you as an audit oversight authority operate.

Given the variation among IFIAR members' laws, the words used in these questions (such as "sanctions") are not meant to be technical terms of art.

The survey has been crafted to include as many "tick-the-box" questions as possible, while allowing for additional explanation to be added in text boxes where necessary. Where a question seeks a "tick-the-box" answer, please use the additional space in the text boxes only if necessary to explain your answer.

If you are unable or unwilling to answer any question of the survey, you may opt out by leaving your response blank. To the extent possible, please use the text boxes in the survey to explain your reasons for leaving a response blank.

If you have any questions about this questionnaire, please contact the Chair of the EWG Survey Subgroup, Mr. Reto Sanwald (international@rab-asr.ch).

Definitions

The following definitions shall apply for purposes of this survey:

Adjudication: An adjudication is a determination by a Tribunal or other body as to whether:

- (1) allegations have been established with adequate evidence or proof; and
- (2) Disciplinary Measures or Sanctions should be imposed against a regulated Audit Firm or Individual Auditor.

Audit Firm: An audit firm means an entity regardless of its legal form, a partnership or a sole proprietorship conducting audits of financial statements

Audit Laws: Audit laws are laws, rules and/or standards governing the audits of financial statements and quality control in Audit Firms performing such audits.

Disciplinary Measures or Sanctions: A disciplinary measure, or a sanction, is a penalty, punishment, restriction, or other measure imposed as a means of enforcing compliance with or deterring violations of Audit Laws, as opposed to a Remedial Measure taken voluntarily as a result of inspection or other regulatory oversight.

Disciplinary Proceeding: A disciplinary proceeding is a process carried out by a government entity or an entity designated by law to determine whether an Audit Firm or Individual Auditor has violated Audit Laws or other auditor duties and whether Disciplinary Measures or Sanctions are warranted.

Enforcement/Enforce: Enforcement is oversight activity directed at addressing violations of Audit Laws, which may result in imposition of penalties, punishments, restrictions, or other Disciplinary Measures or Sanctions, either by way of Adjudication or Settlement. Enforcement activities are distinguished from inspections, which are aimed at identifying deficiencies in a firm's audits or quality controls and monitoring improvements in those audits and quality controls. Enforcement can, however and in accordance with the applicable legal framework, also comprise Remediation Measures.

File-Specific Enforcement: Use of Enforcement powers provided by laws and regulations as a response to non-compliant behavior in a single audit engagement. Such non-compliant behavior may also encompass not meeting ethical standards such as independence. File-Specific Enforcement can take place vis-à-vis Audit Firms and/or Individual Auditors.

Firm-Wide Enforcement: Use of Enforcement powers provided by laws and regulations vis-à-vis Audit Firms as a response to non-compliant behavior in relation to the Audit Firm's governance and quality control standards, or as a response to identified non-compliant behavior in multiple audit engagements.

Formal Enforcement: Use of Enforcement powers provided by laws and regulations in the area of audit oversight.

GPPC Firm: A GPPC Firm is an Audit Firm belonging to the global networks of BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, or PricewaterhouseCoopers.

Individual Auditor: An individual auditor is natural person conducting audits of financial statements. The term comprises the lead engagement partner and all members of the audit team holding a license.

Informal Enforcement: Use of other means or techniques than Formal Enforcement in response to non-compliant behavior aiming at Remediation of non-compliant behavior and/or prevention of future non-compliant behavior. Informal Enforcement does not have the objective to sanction a non-compliant party (Audit Firm and/or Individual Auditor). Examples are action/remediation plans, unofficial warnings or meetings with senior management.

Investigation/Investigate/Investigative: To investigate is to collect evidence or other information to assess whether Audit Laws have been violated and whether a Disciplinary Proceeding should be initiated. As such, investigation is part of the overall Enforcement process.

Litigation/litigate: Litigation is the regulator's and Tribunal's participation in an Adjudication.

Public Interest Entity (PIE): A public interest entity is:

- (1) an entity that has securities (equity or debt) traded on securities markets and exchanges; or
- (2) an entity:
 - a. defined by regulation or legislation as a *Public Interest Entity*; or
 - b. for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Remedial Measure/Remediation: A remedial measure is a step taken by an Audit Firm to correct a deficiency in its audits or quality controls identified in the course of a regulatory inspection or other regulatory oversight. Remediation is the process of correcting such a deficiency based on such a legal or regulatory requirement. A remedial measure may be voluntarily undertaken by an auditor or imposed by a regulator.

Settlement: A settlement involves a decision by a regulated Audit Firm or Individual Auditor to accept a Disciplinary Measure or Sanction instead of contesting the allegations in an Adjudication.

Tribunal: A tribunal is a person or body empowered to make an independent determination as to whether:

- (1) allegations have been established with adequate evidence or proof; and

(2) Disciplinary Measures or Sanctions should be imposed against a regulated Audit Firm or Individual Auditor.

Identifying Information (to provide for in English)¹⁹

Full name of responding IFIAR Member (in English and, if desired, in original language): [TEXT BOX -- 200 characters]

Jurisdiction in which IFIAR Member is located: [TEXT BOX – 100 characters]

Name(s) and contact information (in the event clarifying or follow-up information is needed):

[NOTE: Would like form to allow for entry of information for multiple people, perhaps by using an “Add additional contact” button at bottom of form?]

Name: [TEXT BOX – 100 characters]

Address: [TEXT BOX – 200 characters]

Telephone Number: [TEXT BOX – 30 characters]

Fax number: [TEXT BOX – 30 characters]

Email address: [TEXT BOX – 30 characters]

Name(s) and contact information of Head of Enforcement (for the purposes of establishing contacts by the IFIAR Enforcement Working Group):

Name: [TEXT BOX – 100 characters]

Address: [TEXT BOX – 200 characters]

Position within the organization: [TEXT BOX – 100 characters]

Telephone Number: [TEXT BOX – 30 characters]

Email address: [TEXT BOX – 30 characters]

¹⁹ Identifying information supplied here may later be provided to the IFIAR Secretariat for inclusion on the members-only IFIAR website.

Section I: Powers of Your Enforcement Program

More details will be asked in Sections II, III, and VI.

1. Does your own organization have the power to investigate potential violations of Audit Laws?

yes

no

2. Does your organization have the power to refer potential violations of Audit Laws to another authority outside your organization?

yes

no

3. Does your organization have the power to impose Disciplinary Measures or Sanctions based on violations of Audit Laws (even if subject to review by the courts or other agencies) or must a separate authority outside your organization impose any sanctions?

empowered (though may be subject to review or appeal)

separate authority must decide a case and impose any Disciplinary Measures or Sanctions

If “separate authority” is checked, please identify and explain: [TEXT BOX – 1000 characters]

both

If “both” is checked, please identify and explain: [TEXT BOX – 1000 characters]

4. Is another authority within your jurisdiction (other than Tribunals responsible for appeals), whether in the public sector or in the private sector, also empowered to enforce Audit Laws?

yes

no

5. Is your organization empowered to address conduct not directly related to auditing that reflects on integrity or fitness to audit (for example, forgery or personal tax fraud)?

yes

no

6. Do personnel within your organization litigate Disciplinary Proceedings based on matters developed by your organization, or must a separate authority (such as a public prosecutor or magistrate) litigate them?

IFIAR member personnel litigate

Outside personnel litigate

Both

If “both” is checked, please explain: [TEXT BOX – 1000 characters]

7. Does your organization have the power to enforce Audit Laws:

Public Interest Entities (PIEs)? yes no

If yes, does your organization define PIEs in the same way as in this survey (see Definitions, above)? yes no

If yes, but your organization does not define PIEs in the same way as in this survey, how does your organization define PIEs? [TEXT BOX – 1000 characters]

Private sector entities that are not PIEs? yes no

Public-sector entities? yes no

Other types of entities? yes no

If yes, explain: [TEXT BOX – 1000 characters]

8. Which types of parties are subject to your Investigations and Enforcement actions (please check all that apply):

Audit Firms

Individual Auditors

Other persons (individuals and/or entities) Associated with An Audit Engagement

Others

If “others” is checked, explain: [TEXT BOX – 1000 characters]

9. What kinds of conduct does your Enforcement program have authority to address, and as to which kinds of parties? (Please check all that apply as to each kind of party. To the extent necessary, please use the text box to add explanatory information.)

| Conduct | Audit Firms | Individual Auditors | Other individuals or entities associated with an audit | Others (as described in response to question 8) |
|---|--------------------|----------------------------|---|--|
| Deficiencies in performance of individual audit engagements | | | | |
| Deficiencies in a firm's quality control | | | | |
| Failures to cooperate (e.g., by providing documents or truthful information) | | | | |
| Conduct not directly related to auditing that reflects on integrity/ fitness to audit (e.g., forgery or personal tax fraud) | | | | |
| Failure to register | | | | |
| Failure to pay fees | | | | |
| Failure to make required filings | | | | |

Additional Explanation: [TEXT BOX – 2000 characters]

10. Which types of Disciplinary Measures or Sanctions are available to your organization for violations of your Audit Laws? (Please check all that apply as to each kind of party. To the extent necessary, use the text box to add explanatory information. In addition, please note that the survey does not consider the publication of sanctions a separate sanction. For questions related to publication of sanctions please see Section IV.)

| Disciplinary Measure or Sanction | Audit Firms | Individual Auditors | Other individuals or entities associated with an audit | Others (as described in response to question 8) |
|--|--------------------|----------------------------|---|--|
| Warning | | | | |
| Reprimand or Censure | | | | |
| Money penalties or fines (please indicate any applicable ranges or limits in text box below) | | | | |
| De-registration or de-licensing | | | | |
| Dissolution of the Audit Firm | | (n/a) | | |
| Temporary or permanent ban on practicing (e.g., suspension) (please indicate any applicable time ranges or limits in text box below) | | | | |
| Restrictions on activities | | | | |
| Remedial measures or commands (e.g., changes to policies or training) | | | | |
| Imposition of a third-party monitor | | | | |
| Imprisonment | | | | |
| Other criminal penalties (please explain in text box below) | | | | |
| Other concepts of Measures or | | | | |

| Disciplinary Measure or Sanction | Audit Firms | Individual Auditors | Other individuals or entities associated with an audit | Others (as described in response to question 8) |
|---|-------------|---------------------|--|---|
| sanctions (e.g. within the inspection process) (please explain in text box below) | | | | |

Additional explanation: [TEXT BOX – 2000 characters]

11. Does your organization have the power to do the following in connection with an audit opinion (please check all that apply)?

Order the Audit Firm to execute new audit procedures or to re-perform audit procedures, depending on the outcome of which the audit opinion might be withdrawn by the Audit Firm

Order the Audit Firm to withdraw the audit opinion

Declare publicly that the audit opinion does not meet the legal requirements

Declare the audit opinion invalid

Refer the matter to the securities regulator or another regulator

None of the above

12. Are there any aspects or circumstances your organization is obliged (either by law or court rulings, or otherwise) to take into account when determining the type and level of Disciplinary Measures or Sanctions?

no

yes

If “yes” is checked, please describe the nature of the relevant circumstances to be considered (please check all that apply):

intentional nature of conduct (state of mind)

gravity of the violation

degree of responsibility

duration of the violation

time lapse since violation

financial strength of the responsible Audit Firm or Individual Auditor

amount of profits gained or losses avoided

level of cooperation

previous violations

other

If “other” is checked, please explain: [TEXT BOX – 1000 characters]

13. Does your organization have Enforcement authority over Audit Firms domiciled outside of your country?

no

If “no,” please describe any alternative measures or approaches taken with respect to Audit Firms domiciled outside of your country. [TEXT BOX – 1000 characters]

yes

If “yes,” please describe the nature of, and any limits on, that authority, and any relevant agreements you have made with other countries to help exercise that authority. [TEXT BOX – 2000 characters]

14. Does your organization have the power to enforce auditing standards in your jurisdiction?

no

yes

If “yes,” what standards are enforced by your organization?

International Standards on Auditing (ISA)

International Standards on Auditing (ISA) with local modifications

PCAOB Auditing Standards

other

If “other,” please explain: [TEXT BOX – 1000 characters]

15. Does your organization have the power to enforce ethics laws, regulations or codes for Audit Firms and/or Individual Auditors including the independence rules of auditors (collectively “Ethics rules”)?

yes

no

16. [If Q17=yes] Which type of Ethics rules are enforced by your organization in your jurisdiction?

The ethics rules issued by the International Ethics Standards Board for Accountants (IESBA Code) without modification.

Ethics rules based on the IESBA Code with modifications by laws, rules and/or regulations.

Ethics rules (originally) developed in your jurisdiction/region.

17. Does your organization apply Firm-Wide Enforcement in the following cases (please check if yes):

As a response to non-compliant behavior in relation to the Audit Firm's governance and quality control standards.

As a response to identified non-compliant behavior in multiple audit engagements.

If checked, please specify at which stage and under which circumstances this will happen (e.g., minimum number of audit engagements concerned, level of severity of the non-compliant behavior, recurrence of errors (similarity), etc.): [TEXT BOX – 2000 characters]

18. What Enforcement style does your organization use in response to non-compliant behavior?

predominantly coercive style based on power

predominantly cooperative style based on regulatory interaction

both, depending on case at hand

19. Does your organization make use of Informal Enforcement as a response to non-compliant behavior?

yes

no

If "no", please explain why not (e.g. lack of procedural rights, lack of transparency, lack of court decisions etc.): [TEXT BOX – 2000 characters]

If "yes", under which circumstances would your organization consider making use of Informal Enforcement (please check all answers that apply)?

Laws and regulations are not sufficiently clear as to the level of non-compliance

The severity of the non-compliant behavior

If checked, please indicate the threshold applicable in your jurisdiction: [TEXT BOX – 1000 characters]

Root cause of non-compliant behavior rests within culture of Audit Firm and is therefore better addressed by Informal Enforcement

Effectiveness and efficiency considerations

Other

If "other" is checked, please explain: [TEXT BOX – 1000 characters]

20. [If Q20=yes] Please indicate for which types of non-compliant behavior your organization can decide to apply Informal Enforcement:

Solely in relation to file-specific non-compliant behavior

Solely in relation to firm-wide non-compliant behavior

Both in relation to file-specific and firm-wide non-compliant behavior

21. [If Q20=yes] What types of Informal Enforcement can your organization apply (please check all answers that apply):

Action/Remediation plans

Unofficial warning

Meeting with senior management

Other

If checked, please explain: [TEXT BOX – 1000 characters]

22. [If Q20=yes] In cases in relation to file-specific non-compliant behavior, does your organization apply Informal Enforcement:

On a stand-alone basis (only Informal Enforcement)

In conjunction with Formal Enforcement

Both on a stand-alone basis and in conjunction with Formal Enforcement

23. [If Q20=yes] In cases in relation to firm-wide non-compliant behavior, does your organization apply Informal Enforcement:

On a stand-alone basis (only Informal Enforcement)

In conjunction with Formal Enforcement

Both on a stand-alone basis and in conjunction with Formal Enforcement

24. [If Q20=yes] Does your organization make the use of Informal Enforcement public?

Yes

If “yes”, please explain the circumstances in which your organization would consider making use of Informal Enforcement public (e.g., timing, form [website, media release etc.], level of detail [e.g. name of Audit Firm and/or Individual Auditor involved]): [TEXT BOX – 1000 characters]

No

If “no”, please explain the considerations for not making the use of Informal Enforcement public: [TEXT BOX – 1000 characters]

25. [If Q20=yes] Please indicate what type of Informal Enforcement your organization has applied in the years 2014-2017 against Audit Firms:

Action/Remediation plans

Unofficial warning

Meeting with senior management

Other

If checked, please explain: [TEXT BOX – 1000 characters]

26. [If Q20=yes] Please indicate what type of Informal Enforcement your organization has applied in the years 2014-17 against Individual Auditors:

Action/Remediation plans

Unofficial warning

Meeting with senior management

Other

If checked, please explain: [TEXT BOX – 1000 characters]

27. Were any new Enforcement powers conferred to you since you completed the 2014 Survey?

we did not respond to the 2014 Survey

no

yes

If “yes” is checked, please explain: [TEXT BOX – 1000 characters]

Section II: Structure of Your Enforcement Program

28. Does your organization distinguish between (i) Enforcement matters and processes and (ii) inspection programs and processes?

yes

If yes, explain how your organization distinguishes: [TEXT BOX – 2000 characters]

no

29. [If Q29=yes] Does your organization maintain different reporting lines for the inspection function and enforcement function?

yes

If “yes” is checked, explain what kinds of formal or informal channels of communication exist between the two functions. [TEXT BOX – 2000 characters]

no (same reporting lines)

30. Does your organization distinguish between Remedial Measures resulting from an inspection and Enforcement (Disciplinary) Measures or Sanctions?

yes

If “yes” is checked, explain how your organization distinguishes: [TEXT BOX – 1000 characters]

no

Section III: Handling of Enforcement Matters

31. What sources of information do you use to identify potential Enforcement matters? (Check all that apply.)

- Internal fact-finding and risk analysis
- Inspections
- Review and analysis of public filings by audited entities
- Press and media reports
- Tips, complaints, and whistleblowers
- Monitoring of third-party claims (such as private lawsuits)
- Referrals from other authorities
- Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

32. For any of the sources of information mentioned in Question 31, is your organization required to initiate an Investigation?

- yes

If “yes” is checked, please identify which sources of information require the initiation of an investigation: [TEXT BOX – 1000 characters]

- no

If “no” is checked, please explain the process of initiating an Investigation: [TEXT BOX – 1000 characters]

33. What criteria do you consider in determining whether to launch an Investigation? (check all that apply.)

- Investor harm
- Public interest considerations other than investor harm
- Materiality
- Nature of accounting and auditing issues involved
- Resource constraints
- Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

34. Which individual or body decides whether to launch an Investigation? Please explain (e.g. ‘CEO’ would suffice, but ‘enforcement committee’ would require the explanation who is a member of that committee).

[TEXT BOX – 500 characters]

35. Is the approval of any person, body or other organization required before you can launch an investigation?

no

yes, within our organization

yes, outside of our organization

If either “yes” is checked, please explain: [TEXT BOX – 1000 characters]

36. What are the Investigative powers of your organization? (Check all that apply.)

Compel the production of documents

Compel oral testimony

Inspect physical premises

Compel answers to specified questions

Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

37. In relation to whom may your organization use its Investigative powers (check all options applying)?

Audit Firms

Individual Auditors

Audited entities

Persons involved in the activities of the Individual Auditor or Audit Firm

Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

38. Are there any limitations on your ability to exercise the Investigative powers specified in response to Question 37?

[TEXT BOX – 1000 characters]

39. After your organization has investigated a matter, which individual or body decides whether a case will be brought against an Audit Firm, Individual Auditor or other person for violations of your country's Audit Laws based on your fact-finding and, if such a case is to be brought, what charges, claims, or allegations will be included?

[TEXT BOX – 1000 characters]

40. Is the approval of any person, body or other organization required before you can bring a case against an Audit Firm, Individual Auditor or other person?

no

yes, within our organization

yes, outside of our organization

If either "yes" is checked, please explain: [TEXT BOX – 1000 characters]

41. What evidentiary burden or standard must be met to impose Disciplinary Measures or Sanctions or Remediation in an Adjudication? (Check all that apply.)

Preponderance of the evidence

Proof beyond reasonable doubt

No specific standard

Other

If "other" is checked, please explain: [TEXT BOX – 1000 characters]

42. Is the evidentiary burden or standard different on appeal?

no

yes

If "yes" is checked, please explain: [TEXT BOX – 500 characters]

43. Does your organization ever impose confidential or nonpublic Disciplinary Measures or Sanctions?

no

yes

If "yes" is checked, please explain: [TEXT BOX – 1000 characters]

44. Does your organization have the power to levy fees for conducting Investigations?

no

yes

yes, but only in case of imposition of Disciplinary Measures or Sanctions

If either “yes” is checked, please explain what fees can be levied and under what circumstances fees can be levied: [TEXT BOX – 1000 characters]

45. Is your organization empowered, after an Investigation, to use other tools or measures designed to modify behavior and reduce violations of your Audit Laws, in addition to or instead of seeking Disciplinary Measures or Sanctions? (e.g., can you issue a public report describing a set of facts or trends which your organization considers a violation in order to influence behavior in the future?)

no

yes

If “yes” is checked, please explain what the other tools or measures consist of, and the circumstances in which those tools may be used: [TEXT BOX – 1000 characters]

Section IV: Reporting Enforcement Matters

46. Do you have the authority to publicly disclose information about an Enforcement matter at any of the following stages? (Please check all that apply.)

Never

Upon commencement of an Investigation

During the course of an Investigation

At the conclusion of an Investigation

Upon the institution of an Disciplinary Proceeding

Upon the issuance of an initial decision in an Disciplinary Proceeding

Upon the imposition of a Measure or Sanction in an Disciplinary Proceeding

Upon the commencement of an appeal or other review of a decision in an Disciplinary Proceeding

Upon the expiration of any applicable period during which a party may appeal or otherwise seek review of a decision in an Disciplinary Proceeding

Upon the issuance of a decision in an appeal or other review of a decision in an Disciplinary Proceeding

Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

47. If you are able to publicly disclose information about an Enforcement matter, what information may be disclosed? (Please check all that apply.)

Name of Audit Firm(s) involved

Name of Individual(s) Auditors involved

Name of third parties involved (e.g. audited entity)

Specific description of facts

General description of misconduct

Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

48. If you are able to publicly disclose information about an Enforcement matter, in what medium or media is disclosure made? (Please check all that apply.)

Your organization’s website

Press release or other news release

Distribution directly to press or media contacts

News conference

Social media (Facebook, Twitter etc.)

Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

If “Your organization’s website” is checked, please enter your enforcement website URL: [TEXT BOX – 150 characters]

49. If you are able to publicly disclose information about an Enforcement matter, are there limitations on your authority to do so?

no

yes, as separate approval is required

yes, disclosure of certain categories of information is forbidden

If either “yes” is checked, please explain: [TEXT BOX – 1000 characters]

other

If “other” is checked, please explain: [TEXT BOX – 1000 characters]

Section V: History and Trends

50. Have you imposed Disciplinary Measures or Sanctions against a GPPC Firm or a partner of a GPPC Firm in your jurisdiction in 2015, 2016 and/or 2017, please fill in the following table:

| Year | GPPC Firm (F) or Partner (P) | Suspension or Bar (if so, for how long) | Money Penalty or Fine (if so, what amount) | Restrictions (if so, describe) | Other Disciplinary Measures or Sanctions (if so, describe, e.g. censure) |
|------|------------------------------|---|--|--------------------------------|--|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

[Note: If you require more rows for the table above, please contact us at admin@ifiar-survey.com.]

51. Please provide the following information for each of 2015, 2016 and 2017 (Enforcement activity level):

| Year | Number of matters Investigations opened | Number of matters in which charges brought to Settlement or Litigation | Number of individuals sanctioned | Number of firms sanctioned |
|------|---|--|----------------------------------|----------------------------|
| 2015 | | | | |
| 2016 | | | | |
| 2017 | | | | |

52. Please describe the range of Disciplinary Measures or Sanctions, some of the larger Disciplinary Measures or Sanctions that have been imposed, and the kinds of conduct for which the larger Disciplinary Measures or Sanctions have been imposed.

[TEXT BOX – 1000 characters]

53. What trends or recurring issues have you observed in Enforcement matters (please check all that apply)?

Issues relating to misstatements in financial statements subject to audits

- Financial instruments
- Inventory
- Impairment of non-financial assets
- Provision and contingent liabilities
- Revenue recognition
- Related party transactions
- Financial statement disclosure
- Other

If “other” is checked, please explain: [TEXT BOX –1000 characters]

Issues relating to audit processes

- Fair value measurement/Management estimates
- Use of expert and specialist
- Audit risk assessment
- Fraud testing
- Due care/Professional skepticism
- Audit documentation
- Confirmation process
- Review and supervision
- Going concern
- Group audits
- Internal control testing
- Substantive Analytical Procedures
- New Auditor’s Report
- Other

If “other” is checked, please explain: [TEXT BOX – 500 characters]

Issues relating to quality control

- Independence
- Client risk assessment, acceptance and continuance
- Engagement quality control review
- Other

If “other” is checked, please explain: [TEXT BOX –1000 characters]

Issues relating to non-audit conduct

- Discreditable acts (such as tax fraud)
- Auditing without holding a license
- Other

If “other” is checked, please explain: [TEXT BOX –1000 characters]

54. What challenges have you faced in your Enforcement program?

- Challenges relating to international Investigations
- Changing conceptions of the “public interest” in the audit context
- Challenges in connection with public reporting of information
- Challenges relating to the principles-based nature of the ethics codes and independence rules for Audit Firms and/or Individual Auditors
- Other

If “other” is checked, please explain: [TEXT BOX – 1000 characters]

Section VI: Other Relevant Authorities

55. Can you share confidential Investigative information with domestic authorities?

- yes
- no

If “yes” is checked, please explain which domestic authorities you may share confidential information with and what type of information can be shared and under what conditions: [TEXT BOX – 2000 characters]

56. Can you share confidential Investigative information with foreign authorities?

- yes
- no

If “yes” is checked, please explain which foreign authorities you may share confidential information with and what type of information can be shared and under what conditions: [TEXT BOX – 2000 characters]

57. Do you have relevant agreements or understandings with foreign authorities governing confidential information sharing? If so, please describe.

[TEXT BOX – 1000 characters]

58. Please describe any restrictions on your ability to share such information.

[TEXT BOX – 1000 characters]

Section VII. Other Ideas

59. Since the completion of the Enforcement Survey 2014, are there legislative or regulatory changes you have considered, would like to enact or have enacted to improve the effectiveness of your program?

[TEXT BOX – 1000 characters]

60. Is there any question not asked in this survey that you believe would have elicited helpful information, or any issue not addressed as to which you would like to offer information? Please use this space to address any important Enforcement-related topic that you have not addressed above.

[TEXT BOX – 2000 characters]

61. Based on your experience as an audit regulator, which auditing standards are the most difficult to enforce? Please provide up to three practical examples related to specific standards that you find difficult to enforce.

Example 1: [TEXT BOX 1 – 1000 characters]

Example 2: [TEXT BOX 2 – 1000 characters]

Example 3: [TEXT BOX 3 – 1000 characters]

62. The next IFIAR Enforcement Workshop will take place in Zurich/Switzerland in October 2018. What topics should in your view be discussed during this event? Please name three preferred topics.

[TEXT BOX 1 – 250 characters]

[TEXT BOX 2 – 250 characters]

[TEXT BOX 3 – 250 characters]