



ANNUAL REPORT 2018

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WHO WE ARE

Who we are

Established in 2006, the International Forum of Independent Audit Regulators (IFIAR) comprises independent audit regulators from 55 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe.

Audit quality is the responsibility of auditors and provides a cornerstone of international financial stability and economic growth. Investors and the capital markets rely on auditors to assure the integrity of financial statements issued by entities and to help create the necessary confidence for making important financial decisions. In a world with interconnected capital markets, audit quality issues are not unique to any jurisdiction - they are global and necessarily require a global response.

Improving audit quality lies at the core of IFIAR's mission: to serve the public interest, including investors, by enhancing audit oversight globally.

Our key focus is to enhance global independent audit oversight capabilities for current and prospective members. We do this through consultative assistance, training programs, and a collaborative knowledge-sharing network. The ultimate goal is for this collective wisdom to influence audit oversight worldwide and advance sustainable, high quality audits. IFIAR's first Strategic Plan covers the period 2018-2021 and outlines our core strategies to realize the following strategic objectives, which are to:

1. Achieve significantly improved audit quality globally
2. Enhance capabilities for independent audit oversight
3. Grow the membership

Our Leadership

Brian Hunt, former CEO of the Canadian Public Accountability Board (CPAB) is Chair and Frank Schneider, CEO of the Swiss Federal Audit Oversight Authority (FAOA) is Vice Chair of IFIAR. They serve a 2-year term which ends on May 2. Carl Renner is Executive Director, leading the IFIAR Secretariat based in Tokyo and reporting to the Chair, Vice Chair, and Board.

In April 2017, IFIAR established the Board comprising up to 16 Members to reinforce its governance structure and strategic decision-making. The IFIAR Board and its two Committees, the Audit and Finance Committee (AFC) and the Human Resources and Governance Committee (HRGC), support the delivery of the Board's objectives and oversee the organization's Strategic Plan and the work of the Officers, the Executive Director and the Secretariat.

OFFICERS' MESSAGE

2018 marked a year of continued progress for IFIAR, with the approval of IFIAR's first three-year Strategic Plan and a revised Mission Statement to guide the organization for the coming years. It was also a year that saw several high-profile corporate and audit failures, impacting public confidence in the audit profession and in audit regulators. This has prompted changes in the national regulatory practices of some of our Members and consideration of changes in others. Some jurisdictions have gone so far as to launch reviews of their jurisdiction's audit regulator and / or the audit market.

Now more than ever, IFIAR has an important role to play on the international stage. IFIAR plays a key role: working with Members and audit firms to identify risks; challenging the audit firms to drive greater consistency of high-quality audits; and facilitating interaction and knowledge-sharing among our Members.

In 2018 IFIAR continued to engage with the leadership of the largest global network firms regarding their audit quality developments. Discussions focused on independence policies and procedures, firms' management of (audit) risks and identification of emerging risks including their client and engagement acceptance procedures.

IFIAR's annual plenary meeting is a key forum for Members to gain information and exchange experiences in matters impacting audit quality. The 2018 Plenary meeting, Disruptive Enablers: The Future of Audit looked at a number of emerging issues impacting the audit industry. The meeting highlighted the importance of confidence in audit, including analysis of the relevance of the audit, the public's trust in the quality of audits and the role that regulators can play in this respect, and consideration of the impact of new technologies.

We would like to thank IFIAR's Board and Committees, Secretariat, Working Groups, Task Forces, and our Members for their contributions in the past year. Our gratitude also goes to the CPAB team and the IFIAR Secretariat for their efforts in delivering a successful plenary meeting. We would also like to thank the Japan Financial Services Agency/Certified Public Accountants & Auditing Oversight Board for their ongoing hosting of the Secretariat in Tokyo, Japan. We look forward to working with all the Membership to continue developing IFIAR as the leading international organization on audit quality matters.



Brian Hunt
IFIAR Chair



Frank Schneider
IFIAR Vice Chair



EXECUTIVE DIRECTOR'S REPORT

Highlights of 2018 IFIAR activities

IFIAR published the 2018 Inspection Findings Survey Report which summarizes the survey of findings identified by our Members in their individual inspections of audit firms affiliated with six large, international audit firm networks. We continue to use key outcomes of the report to press the global leaders of the firms to continue in their efforts to strengthen their systems of quality control and drive consistent execution of high-quality audits throughout the world.



The Survey Report noted that overall, 37% of the listed public interest entities (PIEs) audits inspected had at least one finding, down from a high point of 47% in 2014, but demonstrates significant improvement is still required. This compares to a figure of 40% in the 2017 report (2016: 42%).

In the 2017 Report, IFIAR reported on the firms' progress at the half-way point, towards achieving the targeted 25% reduction in Global Audit Quality Working Group (GAQWG) jurisdiction inspected audits with at least one finding, set by the GAQWG in 2015. This target is for the firms to reduce the number of inspected audits with at least one finding from 39% to 29%. The 2017 data indicates that 30% of GAQWG jurisdiction inspected audits had at least one finding.

IFIAR continues to provide effective platforms for sharing regulatory practices of inspection and enforcement in audit oversight, including the 2018 annual Inspection Workshop, held in Sri Lanka in February.

The 2018 Enforcement Survey Report, published in December 2018, documents a significant level of enforcement activity from opening investigations and litigating or settling matters to imposing sanctions from 2015 through 2017. During the same period, many IFIAR Members were also given new enforcement authority.



The GAQWG continued its twice annual meeting schedule with the Global Public Policy Committee (GPPC) firms' assurance leaders, together with other relevant firm representatives depending on the agenda topics, and local jurisdiction firm representatives to explain how policies are put into practice. Areas explored with the firms during 2018 are discussed in the "Delivering IFIAR's Strategy" section of this report.

Standard setting is a matter of great interest to IFIAR. IFIAR actively contributes to developing international audit standards by providing its comments to the standard setting bodies. During 2018, IFIAR responded to public consultations of IAASB and IESBA, and contributed to IESBA roundtables held in Paris, Tokyo and Washington D.C. IFIAR, as a member of the Monitoring Group, strongly supports the need for reform of the governance structure of audit standard setting at the international level. The reform aims to strengthen the independence of the standard setting boards from the accounting profession and improve the timeliness of standard setting.

The Secretariat has continued to actively engage in outreach to prospective members and assessment of membership applications and with the FSB and World Bank to facilitate the improvement of audit quality globally. Dialogue continues with non-members, including G20 countries, as well as the consultative assistance that IFIAR provides to prospective Members who may not yet meet the acceptance criteria. In keeping with IFIAR's strategic objective of growing the membership, we were pleased to welcome the Philippines Securities Exchange Commission, the Authority for the Public Oversight of the Statutory Audit Activity of Romania and the Capital Market Authority of the Kingdom of Saudi Arabia as full Members of IFIAR in 2018.

Priorities for 2019

A number of workstreams commenced in 2018 which will continue in 2019 including the sharing of key learnings from jurisdictions experiencing issues in confidence in the audit profession and audit regulators.

Importantly, in 2019 the GAQWG, in conjunction with the Officers, will seek to agree to new targets for audit quality improvement with the six largest audit networks and continue to research broader measures for audit quality.

We plan to maintain our high levels of engagement with the standard setting bodies and the Monitoring Group, whilst increasing our outreach to prospective Members and will look to develop a key stakeholder engagement plan including targeted activities and key measurement points.

Finally, we will continue to deliver value for Members through our various activities, including any new initiatives determined by the Board in relation to feedback received from Members to our 2018 Membership Value Survey.



Carl Renner
Executive Director



DELIVERING IFIAR'S STRATEGY

The 2018-21 IFIAR Strategic Plan (Strategic Plan) was adopted by the Members at the 2018 IFIAR Plenary Meeting and provides a roadmap for IFIAR to shape international dialogue on audit oversight and initiate and coordinate strategic initiatives by Members and key stakeholders which have a material impact on audit quality.

IFIAR's strategic objectives (Strategic Objectives), as outlined in the Strategic Plan are to:

1. Achieve significantly improved audit quality on a global basis
2. Enhance capabilities for independent audit oversight
3. Grow the membership

To achieve these Strategic Objectives, IFIAR will implement the following four core strategies:

1. Facilitate collaboration and knowledge sharing between Members
2. Develop strategic relationships with investors and other key stakeholders, including standard setters, and maintain effective communications with global network firms
3. Implement sustained targeted outreach to Members and prospective Members
4. Establish an effective and efficient Board, Working Group, Task Force and Secretariat structure which enables coordinated high impact initiatives to achieve the strategic objectives

2018 Implementation

The table below outlines each of the above core strategies and details a selection of key actions that have been implemented by IFIAR to deliver against these strategies during the past year.

Core strategies	What we achieved
Facilitate collaboration and knowledge sharing between Members	<ul style="list-style-type: none"> • Delivered 2018 Inspection Workshop • Published second Enforcement Survey Report (December 14, 2018) • Commenced two assessments of applications to the IFIAR Multilateral Memorandum of Understanding (MMoU) • Established a Board sub-group discussing confidence in the profession, audit oversight and learnings from audit failures • Regularly published Members Newsletter • Developed website tools - skills inventory and a secondment facilitation tool • 2018 Plenary Meeting - convened IOSWG Advisory Group Panel on how innovation can contribute to provision of real-time, audited, financial and non-financial reporting
Further strategic relationships with investors and maintain	<ul style="list-style-type: none"> • Published comment letters on the International Ethics Standards Board for Accountants (IESBA) Proposed Strategy and Work Plan (July 24, 2018) and the

<p>effective communications with global audit network firms and other key stakeholders including the IFIAR Observer organizations</p>	<p>International Auditing and Assurance Standards Board (IAASB) Exposure Draft on ISA 315 (October 30, 2018).</p> <ul style="list-style-type: none"> • Published a Board response letter to the International Organization of Securities Commissions (IOSCO) Consultation Report on Audit Committees (July 24, 2018) • 2018 IFIAR Plenary Meeting - convened Standards Setters Panel with the IAASB and IESBA, where they provided Plenary attendees with an update on current workstreams together with an insight into areas that have been identified as potential work plans going forward. • Held meetings with representatives from IAASB and IESBA (February 2018) • Participated at IESBA Roundtables in the USA, France and Japan • Met twice with the global network firms to discuss initiatives to improve audit quality • Published the 2017 Inspection Findings Survey Report (March 8, 2018) • 2018 Plenary Meeting - the Inspection Findings Survey Task Force conducted a Members-only briefing • Member of the Monitoring Group, actively contributed at Monitoring Group meetings and chaired the Monitoring Group Working Group. Potential reforms of the international standard setting structure were discussed at IFIAR Board meetings and updates were provided to Members in newsletters and at the 2018 Plenary Meeting
<p>Implement sustained targeted outreach to Members and prospective Members</p>	<ul style="list-style-type: none"> • Targeted key G20 and other countries with independent audit oversight - or a commitment to develop - for IFIAR Membership • Conducted onsite visit at Philippines Securities and Exchange Commission as part of Membership application assessment • Accepted the Philippines Securities and Exchange Commission, the Authority for the Public Oversight of the Statutory Audit Activity of Romania and the Capital Market Authority of the Kingdom of Saudi Arabia as Members • Participated at the ASEAN Audit Regulator Group (AARG) 2018 inspection workshop and held one-on-one meetings with attendees from potential Member jurisdictions and our local Member • Represented IFIAR at the PCAOB International Institute and met with potential Member jurisdictions
<p>Establish an effective and efficient Board, Working Group, Task Force and Secretariat structure which enables coordinated high impact initiatives to achieve the strategic objectives</p>	<ul style="list-style-type: none"> • Commenced a reform of the governance framework of the IFIAR Working Groups and Task Forces • Ongoing monitoring of deliverables of the Operating Plan • Ensured IFIAR Association complied with Japanese laws, regulations and any filing requirements • Updated the Board regularly on the financial position of IFIAR • Ongoing review of Secretariat staff performance • Conducted a Member satisfaction survey

WORKING GROUPS AND TASK FORCES

Enforcement Working Group (EWG)

The EWG provides a forum for enforcement officials to exchange information on effective approaches to investigating and adjudicating alleged auditor misconduct, as well as emerging trends in such enforcement matters. The overall objective is to provide a forum for IFIAR Members to exchange information, share ideas, promote professional development and highlight effective approaches for identifying matters for investigation, investigating and adjudicating alleged auditor misconduct, and sharing information with other regulators.

Chair: Reto Sanwald, FAOA, Switzerland

Members:

ASIC Australia	IRBA South Africa
PRH Finland	FAOA Switzerland
H3C France	FSC Chinese Taipei
AOB Germany	FRC United Kingdom
CPAAOB/FSA Japan	PCAOB United States

Observer: SARAS Georgia

Dr. Reto Sanwald of the Swiss FAOA succeeded Claudius Modesti of the US PCAOB as Chair of the EWG in September 2018. Also during the year, the Dutch AFM and the Portuguese CMVM left the Working Group: IFIAR thanks Claudius, the AFM and the CMVM for their contributions to this Working Group.

The EWG for the first time presented an elective session during the IWWG Workshop in Sri Lanka in February 2018. The session focused on criteria for referring inspection findings to the enforcement function and providing techniques and approaches which can assist inspection teams in uncovering instances of audit firms improperly altering work papers and other documents before providing them to inspectors. Based on the positive feedback received from the participants, the EWG will present another elective session on enforcement at the March 2019 IWWG Workshop in Paris.

After the Plenary Meeting in Ottawa, Canada, the EWG focused its efforts on completing the 2018 Enforcement Survey, which includes an update of the 2014 Survey and additional questions. The EWG coordinates the Enforcement Survey and the Enforcement Workshop in a strategic manner so that the survey findings can provide a basis for discussion at workshops and moderated sessions at other IFIAR events. The [2018 Enforcement Survey Report](#) was published on 14 December 2018. The Report underscores the extent to which IFIAR members have the authority to respond to auditor misconduct and enforce compliance with the rules, laws, and standards that

govern the audit profession in different parts of the globe. The results recognize the unique and critical role that enforcement plays in audit oversight.

The fourth Enforcement Workshop will take place on a stand-alone basis in 2019 for the first time. The event will be held on 17 and 18 June 2019 in Zurich, Switzerland, at the invitation of the Swiss FAOA. The Workshop will cover topics selected to suit the interests of IFIAR members' enforcement officers including procedural aspects of enforcement and use of technology in enhancing efficiency and effectiveness, among others.

Global Audit Quality Working Group (GAQWG)

Through the GAQWG, IFIAR carries out an ongoing dialogue with the six largest international audit networks who are members of the Global Public Policy Committee (BDO, Deloitte Touche Tohmatsu, EY, Grant Thornton, KPMG, PwC) with the objective of improving audit quality globally.

Chair: Jane Williamson, CPAB, Canada

Vice Chair: Kathleen Hamm, PCAOB, US

Members:

ASIC Australia	AFM The Netherlands
CPAB Canada	ACRA Singapore
H3C France	FAOA Switzerland
AOB Germany	FRC United Kingdom
CPAAOB/FSA Japan	PCAOB United States

Jane Williamson of CPAB, Canada, succeeded Melanie Hind of the UK FRC as Chair of the GAQWG in 2018. IFIAR thanks Melanie for her contribution to the GAQWG.

Achieving significantly improved audit quality on a global basis and enhancing capabilities for independent audit oversight are two strategic imperatives for IFIAR and are the primary focus of the GAQWG activities as guided by our 2018 Operating Plan. Priority items in our plan include attaining the GPPC goal of 25% reduction in inspections findings by 2019 and enhancing our sharing of information and insights with the full IFIAR membership.

In executing on the Operating Plan in 2018, the GAQWG met with each of the six global networks in two meetings (March and September) on topics that included:

- Risk Management, including current and emerging risks and oversight by global leadership
- Independence
- Preparations for implementation of new accounting standards specifically ISQC 1 revised, and
- The firms' internal quality monitoring results.

The GAQWG continues to monitor and challenge the firms to understand their efforts to meet the objective of improved audit quality and their progress against the target of reducing the number of audits inspected with at least one finding in the GAQWG jurisdictions by at least 25 per cent. This is discussed in additional detail in IFIAR's reports on its 2015 through 2018 Surveys of Inspection Findings.

With the deadline of achieving the 25% reduction in inspection findings quickly approaching, the GAQWG established two sub-groups to determine 1) the next target as measured by inspections findings and 2) other broader measures of audit quality, or audit quality indicators. The objective of these two measures of audit quality is that they will complement one another and will provide better information and insights on global audit quality. Dialogue continues with the GPPC with the goal of having new targets agreed in early 2019.

In addition to the Heads of Inspections meetings, the GAQWG also continued to host annual risk calls to discuss various economic and other risks that impact the planning of risk-based inspections.

Recognizing the evolution of technology-based audit tools, the GAQWG monitors developments and meets with GPPC firms for demonstrations and discussion on their data analytics and other software audit tools. Commenced in 2016, this initiative continued in 2018 with demonstrations by the GPPC firms. The GAQWG anticipates that technological developments in audit will continue to be a focus of its dialogue with the GPPC networks.

Seeking to share what it learns with the full IFIAR membership, the GAQWG coordinated and moderated discussions at the 2018 IFIAR plenary meeting in Ottawa, including sessions with the CEOs of the global networks and breakout sessions on innovations in audit oversight, impact of new technology on audits and key audit matters. The GAQWG continued to monitor developments in, and in 2018 established a process to share summaries of insights about, the networks' governance arrangements, internal quality monitoring programs and other materials shared by the firms for purposes of discussions at the GAQWG meetings.

International Cooperation Working Group (ICWG)

The ICWG considers ways Members can cooperate and share information to enhance the effectiveness and efficiency of audit oversight processes and contribute to audit quality. In particular, the ICWG identifies areas where IFIAR Members can work more effectively together rather than in isolation, and then designs and implements work streams to facilitate such collaboration.

Chair: Martijn Duffels, AFM, The Netherlands

Members:

ASIC Australia	FSC/FSS Korea
CPAB Canada	AFM The Netherlands
H3C France	FAOA Switzerland
CONSOB Italy	FRC United Kingdom
CPAABO/FSA Japan	PCAOB United States

The ICWG elected Martijn Duffels from the AFM (the Netherlands) as its new Chair in 2018. He succeeded Doug Niven from ASIC (Australia) who has led the ICWG since its establishment. Under Doug's leadership, the ICWG completed a number of important workstreams, most notably the development of the IFIAR MMoU. IFIAR would like to thank Doug for his contribution to the ICWG.

Recent workstreams of the ICWG included a report on auditor mobility and assessing applicants to join the IFIAR MMOU.

Mobility of audit partners across borders has the potential to improve audit quality by facilitating access to specialist audit experience and expertise in the areas where it is most needed. In 2018, the ICWG finalized an internal report for its Members to assist them in considering the different approaches that may be considered for adoption in their own jurisdictions to facilitate the mobility of specialized auditors across borders.

The ICWG is currently performing assessments of two signatory applications to join the IFIAR Multilateral Memorandum of Understanding (MMoU). The MMoU was developed by the ICWG and was officially signed by 22 IFIAR members at the 2017 Tokyo Plenary Meeting. Other assessments may be carried out in 2019.

Inspection Workshop Working Group (IWWG)

IFIAR's annual Inspection Workshop is organized by the IWWG, in conjunction with the relevant host country. IFIAR is in a unique position to provide, through the Inspection Workshop, a forum for independent audit regulators to meet and discuss inspections practices and to learn from each other. This information sharing leads to a better understanding of the different inspection regimes and the identification and development of inspection practices; and promotes greater consistency in inspecting global and other audit firms, with the aim of improving the effectiveness of inspection regimes. This, in turn, helps contribute to IFIAR's mission of improving audit quality globally.

Chair: Chris Hibbert, FRC, United Kingdom

Members:

ADAA Abu Dhabi	IRBA South Africa
H3C France	FAOA Switzerland
AOB Germany	FRC United Kingdom
CPAAOB/FSA Japan	PCAOB United States
CSSF Luxembourg	

IFIAR's twelfth inspection workshop was held in February 2018 in Colombo, Sri Lanka and was attended by 110 participants from 40 IFIAR member organizations.

The workshop included keynote speeches about Investor and Audit Committee communications, soft skills and motivation. The IFIAR Chair, Vice Chair and Executive Director provided updates on recent IFIAR activities and plans, including discussions on the latest IFIAR Inspection Findings Survey.

There were 14 elective sessions on a variety of topics across different aspects of inspection and oversight activity, including on Bank, Insurance and IT inspections, Enforcement, Key Audit Matters, Audit Quality Indicators, Root Cause Analysis and the culture of the firms. There were also five free forms sessions on inspection approaches and other related matters from individual IFIAR members; these sessions were run for the first time and allowed participants to decide which sessions to attend on the day.

Since then, the Working Group was focused on preparing for the 2019 workshop, held in Paris on March 6-8.

Investor and Other Stakeholders Working Group (IOSWG)

The IOSWG organizes IFIAR’s dialogue with investor representatives and other stakeholders, in particular audit committees, and publishes information on that dialogue on the IFIAR website.

Chair: J. Robert Brown, Jr., PCAOB, United States

Members:

AOBA Austria	AFM The Netherlands
CPAB Canada	ACRA Singapore
H3C France	IRBA South Africa
CPAAOB/FSA Japan	FRC United Kingdom
FSC/FSS Korea	PCAOB United States

IOSWG Advisory Group (AG) Members:

- *Melissa Brown, Partner Daobridge Capital*
- *Ken Kiyohara, Representative Kiyohara International Law Office*
- *Art Korpach, Past Chair Calgary Chapter Institute of Corporate Directors (until May 1, 2018)*
- *Paul Koster, Director Dutch Shareholders’ Association*
- *Kurt Schacht, Managing Director Standards and Advocacy CFA Institute*

J. Robert Brown, Jr. of the United States PCAOB succeeded Gerben Everts of the Dutch AFM as Chair of the IOSWG in January 2019. IFIAR thanks Gerben for his contribution as Chair of this Working Group.

The IOSWG interacts periodically with its [Advisory Group](#), organizes sessions at IFIAR Plenary meetings and publishes reports. In 2018, the most prominent work of the Working Group involved: (i) the organization of a panel session on the impact of technological developments on financial reporting and audit, and the related expectations of investors and other stakeholders; (ii) a mapping exercise on IFIAR Member & Audit Committee Interactions; and (iii) various governance activities. These are outlined in turn below.

The panel session at the 2018 Plenary Meeting consisted of members of the Advisory Group and two external experts, Mr. Scott Layton - Director of Audit & Investigations for IBM’s Asia Pacific, Greater China Group, & Japan regions and Dr. Timothy Persons - Chief Scientist for the United States Government Accountability Office. The panel focused on the relevance of real time reporting and assurance for financial and non-financial information. It touched upon the use of third-party information vis-à-vis businesses’ internally generated information by investors and other stakeholders, and the timeliness thereof.

Following up on the IFIAR report “[Audit Committees and Audit Quality: Trends and Possible Areas for Further Consideration](#)” that was published in April 2017, the IOSWG developed a survey on

IFIAR Member & Audit Committee Interactions. There was a high participation rate on the survey from the Membership and the IOSWG has undertaken an analysis of the survey responses. Responses have provided insights into the roles and responsibilities of IFIAR Members vis-à-vis audit committees. They will be considered for the IOSWG's preparatory work for the sessions at the 2019 Plenary meeting.

In 2018, the IOSWG and Advisory Group undertook an evaluation of the role and functioning of the Advisory Group with the aim to identify areas for improvement to optimize cooperation and engagement between the IOSWG and the Advisory Group, and to attract potential new candidates for the role of Advisory Group member. The Working Group has started looking for potential candidates for the Advisory Group to widen competencies and experience covered by this group. This work continues in 2019.

Standards Coordination Working Group (SCWG)

The SCWG is responsible for establishing a forum for IFIAR Members to share views and concerns about standards of the IAASB and the IESBA. As part of its activities, the SCWG provides early input on projects and prepares consensus views on behalf of IFIAR Members on proposals or documents issued by standard setters.

Chair: Marjolein Doblado, H3C, France

Members:

ASIC Australia	CPAAOB/FSA Japan
CVM Brazil	AFM The Netherlands
CPAB Canada	IRBA South Africa
H3C France	ICAC Spain
AOB Germany	FRC United Kingdom
CONSOB Italy	PCAOB United States

The SCWG prepared the following comment letters in 2018, for issuance by IFIAR:

- 24 July 2018 - IESBA proposed strategy and work plan, 2019-2023
- 30 October 2018 - IAASB's exposure draft on the proposed International Standard on Auditing 315 (Revised) (Identifying and Assessing the Risks of Material Misstatement)

The SCWG held several meetings in person or through conference calls with the international standard setters in 2018. The SCWG received both IAASB and IESBA Chairs and representatives of task forces in Washington in February for a dedicated meeting to follow up on comment letters issued and discuss the scoping of several projects. Topics discussed included auditing of accounting estimates (ISA 540), identifying and assessing the risks of material misstatement (ISA 315), quality control (ISQC 1 - 2, ISA 220), group audits (ISA 600) as well as other topics such as

audit evidence (ISA 500), including “data analytics” implications, materiality (ISA 320), reliance on the work of management’s expert.

With respect to ethics, discussions included the coming release of the restructured IESBA Code of Ethics, the state of play regarding the adoption of the new requirements regarding Non-Compliance with Laws and Regulations (NOCLAR) applicable from June 2017, requirements relating to non-audit services and the link between fees and quality of the audit, IESBA’s plans to assess the potential non-audit services, and the impact of technological evolutions on auditors and professional accountants.

Conference calls were organized throughout the year to inform the relevant IAASB task forces on specific audit regulator concerns related to the standards under revision, namely on risk assessment (ISA 315), audit of accounting estimates (ISA 540), and quality control (ISQC 1 and ISA 220).

Further exchanges between the IFIAR members and the leadership of international standards setters were facilitated by the SCWG through a dedicated panel session which took place at the IFIAR Plenary meeting in Ottawa, in April 2018. The panel focused on current IAASB and IESBA projects, and how they adapt to and address the changes stemming from innovations in audit.

Inspection Findings Survey Task Force (IFSTF)

The IFSTF conducts IFIAR’s annual Inspection Findings Survey and is led by Liza McAndrew Moberg of the PCAOB. Current members of the Task Force are ASIC Australia, CPAB Canada, H3C France, AOB Germany, CPAAOB/FSA Japan, AFM The Netherlands, FRC United Kingdom and PCAOB United States.

In May 2019, the IFSTF published the results of its 2018 Annual Inspection Findings Survey. The IFSTF also published the results of its 2017 Survey in March 2018. The Survey collects data on key results from IFIAR Members’ inspections of audit firms’ systems of quality control and audits of listed public interest entities (PIEs), including systemically important financial institutions. Inspection findings for PIE audits are deficiencies in audit procedures that indicate that the audit firm did not obtain sufficient appropriate audit evidence to support its opinion, but do not necessarily imply that those financial statements are also materially misstated.

Inspection findings are one - albeit imprecise and not the sole - means to evaluate audit firms’ progress in improving audit quality. IFIAR’s purpose for conducting the annual Survey is not to measure the state of audit quality. Instead, the Survey provides insight into patterns, similarities, and differences among its Members’ inspection activities; IFIAR uses this information as a starting point for a variety of other IFIAR activities. These activities include IFIAR’s dialogue with leadership of the largest network firms about their efforts to enhance audit quality globally;

identification of relevant topics for IFIAR's annual Inspection Workshop; and consideration of international audit and ethics standard setting projects.

Consistent with prior years, the 2017 and 2018 Surveys revealed a continuing overall downward trend in the frequency of findings arising from participating IFIAR Members' inspections of the member firms of the six largest global audit firm networks. However, the level of findings varies considerably among reporting Members, and not all Members observed downward trends in findings. Understanding progress in the overall state of audit quality, however, requires a more balanced and nuanced evaluation of key drivers in audit quality, which is not necessarily observed through year-over-year comparisons or consideration of findings rates; this is recognized by the Global Audit Quality Working Group's activities to address audit quality in their discussions with global assurance leadership of the largest audit firm networks.

Smaller Regulators Task Force (SRTF)

The SRTF was established in 2015 to identify ways to assist smaller audit regulators address the unique challenges they face. During 2017, the SRTF reconstituted to align with the priorities of the IFIAR Board. Jacco Moison of the FMA New Zealand succeeded Naweed Lalani of the DFSA Dubai as lead of the SRTF and the DFSA Dubai left the Task Force at the end of the 2019 Plenary: IFIAR thanks Naweed and the DFSA Dubai for their contributions. Current members are SARAS Georgia, IAASA Ireland, FRC Mauritius, FMA New Zealand and APOA Slovenia.

Members are progressing well on the work streams of Training, Capacity Building and Leadership Development. A Secondment Register is live on IFIAR's Member-only website which provides IFIAR Members with a platform to share resources. Similarly, a Skills Database has been developed by the SRTF and is available on IFIAR's Member-only website. In terms of training, the SRTF is currently assisting several smaller regulators, whether or not IFIAR Members, to setup audit oversight divisions.

During 2018, the SRTF organized a joint session with the Smaller Regulators Task Force of the Committee of European Auditing Oversight Bodies (CEAOB) in Colombo, Sri Lanka. The session updated the inspection staff from smaller regulators on the respective work streams of both IFIAR and CEOB's task forces and explored models for collaboration. Alongside the April 2018 Plenary Meeting in Ottawa, the SRTF organized a breakfast session for smaller regulators with IFIAR's Officers and GAQWG. The SRTF has worked closely with the GAQWG to collate information from the smaller regulators. As a pilot project, the deputy leader of the SRTF observed the GAQWG meeting in Sydney. The SRTF also delivered breakout sessions for smaller regulators at the Inspection Workshop in Colombo.

In January 2019, following a review of IFIAR's Working Groups and Task Forces, it was agreed to reclassify the SRTF as a Special Interest Group named the Emerging Regulators Group.

GOVERNANCE REPORT

Board Report

The Board met several times throughout 2018. Some of the key matters discussed and agreed on at the board meetings included the following:

- Approval of policies and procedures, including those of the HRGC and the AFC;
- Engagement with leadership of each Working Group as they executed on their work plans;
- Monitoring progress during the first year of the three-year Strategic Plan, and against the 2018-19 Operating Plan to support the delivery of the Strategic Objectives;
- Developing a response to the Monitoring Group Consultation Paper;
- Considering membership applications and outreach initiatives;
- Receiving updates from the HRGC and AFC and approving relevant matters as recommended by the committees; and
- Developing communications strategies.

Key operating policies that have been developed and implemented by the Board include the IFIAR Strategic Plan 2018-21, Operating Plan 2018-19, Board Code of Conduct, Committees' Terms of Reference and Work Plans and others.

The following table shows attendance of Board Members at Board meetings in 2018. If Board members are unable to attend a Board meeting, they have the opportunity beforehand to provide input on any of the agenda items with the Chair.

<u>Record of Member Attendance</u>			
Member	Attendance	Member	Attendance
Abu Dhabi (ADAA)	6/6	Norway (FSA)	5/6
Australia (ASIC)	6/6	Singapore (ACRA)	6/6
Canada (CPAB)	6/6	Switzerland (FAOA)	6/6
France (H3C)	6/6	South Africa (IRBA)	6/6
Germany (AOB)	6/6	Turkey (CMB)	5/6
Japan (CPAAOB/FSA)	6/6	United Kingdom (FRC)	6/6
Korea (FSC/FSS)	5/6	United States (PCAOB)	6/6
Netherlands (AFM)	6/6		



Brian Hunt
IFIAR Chair

Human Resources and Governance Committee Report

In 2018 the HRGC worked on completing all policies relating to the HRGC which were recommended to, and subsequently approved by, the Board. This included the finalization of the Code of Conduct for Board Members and a review of the Secondment Policy, which had been prepared by the Secretariat. The HRGC Terms of Reference (ToR) and Human Resources & Remuneration policy were amended during 2018, and the committee also prepared the HRGC Calendar for 2019, which outlines the items that will be addressed in the coming year.

The HRGC also reviewed a Secondment Agreement for the position of Senior Policy Officer at the Secretariat and made a recommendation to the Board, which was approved, for an additional hire to the Secretariat at either Policy Officer or Senior Policy Officer level.

In addition, the HRGC worked on several other matters relating to human resources and governance including the Remuneration Framework for the Secretariat staff, the implementation of the HRGC Terms of Reference and Policies, and received updates on the workload of the Secretariat. This has been completed by the debrief on year-end evaluation and 2018 objectives and professional development setting process for the Secretariat staff and the Executive Director.

During 2019 the committee will focus mainly on the on-going discussions regarding the remuneration framework for the Secretariat staff, which includes a benchmarking exercise, together with the design of a procedure to review the effectiveness of the Officers, Board, and Working Groups Chairs.

The HRGC members are listed in the table below:

<u>Record of Member Attendance</u>	
Member	Attendance
France (H3C) - Chair	5/5
Germany (AOB)	5/5
Japan (CPA/OB/FSA)	5/5
Korea (FSC/FSS)	2/5
Singapore (ACRA)	5/5
Switzerland (FAOA)	5/5
Turkey (CMB)	1/5
United Kingdom (FRC)	4/5



William Di Cicco
HRGC Chair



Audit and Finance Committee Report

The committee has complied with its responsibilities, as set out in terms of section 5.1 of the IFIAR Charter. It has also operated within the terms of reference of the committee, regulated its affairs in compliance with the terms of reference and discharged all its responsibilities as set out below.

The committee reviewed the annual financial statements for the year ended 31 December 2018, for compliance with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) and relevant accounting policies as set out by IFIAR. The committee also confirmed the going concern principle as the basis of preparation. The Executive Director prepared the financial statements in accordance with all applicable legislation and submitted them to the AFC for review. The AFC reviewed these financial statements and the audit report from the external auditors and recommended the approval thereof with the accompanying audit opinion to the Board and IFIAR Plenary for approval.

The AFC reviewed the risk register, which had been prepared by the Executive Director and was recommended by the AFC for approval by the Board.

Under the AFC Terms of Reference, the committee also has responsibility for compliance management. To that end, the committee reviewed the Executive Director's report to the Board on legal compliance. The external auditors report any audit findings relating to compliance with laws and regulations, which are considered by the AFC, should there be any.

The committee reviewed all other policies relating to the AFC and made recommendations to the Board for approval. All AFC policies were approved by the Board.

I wish to express my appreciation to the members of the committee, the Officers, the Executive Director and Secretariat for their commitment and support during the past financial year.

The AFC members are listed in the table below:

<u>Record of Member Attendance</u>	
Member	Attendance
South Africa (IRBA) - Chair	5/5
Abu Dhabi (ADAA)	5/5
Australia (ASIC)	5/5
Canada (CPAB)	5/5
Norway (FSAN)	4/5

Bernard Peter Agulhas

Bernard Peter Agulhas
AFC Chair



FINANCIAL HIGHLIGHTS

2018 Financial Statements Highlights and Member Support

IFIAR established a General Incorporated Association (GIA) under Japanese law on January 4, 2017. IFIAR Association, in which IFIAR's Members are members, serves as the legal entity IFIAR uses for contracting purposes.

IFIAR Association is not subject to statutory audit, however, the members of IFIAR Association elect to have its financial statements audited. Mazars WB serves as IFIAR Association's auditor.

The income of IFIAR Association is primarily Membership fees and subsidies from IFIAR Members and the expenses are the operating costs of running the Secretariat such as office, staff and administrative costs together with travel costs.

IFIAR Association's financial statements include only part of the resources needed for IFIAR activities - other activities and resources are provided by Members directly to IFIAR, and therefore are not reflected in IFIAR Association's financial statements.

IFIAR relies on Members' voluntary contributions, including staff time and expenses for a variety of activities including Board and Board Committee meeting preparation and attendance, Working Group and Task Force participation, meeting and workshop hosting, and outreach. These activities are directly funded by the Members providing the resources (generally a combination of staff resources, travel costs, and event hosting costs). Member support during 2018 included:

- Hosting the 2018 Plenary Meeting and a Board meeting in Ottawa, Canada by CPAB (April 2018)
- Hosting a Board meeting in Zurich, Switzerland by FAOA (January 2018)
- Hosting a Board meeting in Sydney, Australia by ASIC (September 2018)
- Hosting the 2018 Inspection Workshop in Colombo, Sri Lanka by the Sri Lanka Accounting and Auditing Standards Monitoring Board (February 2018)
- Hosting the 2018 EWG meeting in Helsinki by PRH (October 2018)
- Hosting 2018 GAQWG meetings in Amsterdam by AFM and in Sydney by ASIC (March, September 2018)
- Hosting the 2018 SCWG meeting in Washington D.C. by PCAOB (February 2018)
- The Officers' organizational support provided by CPAB and FAOA
- Chairing and provision of administrative support of various Working Groups, Task Forces and other work streams by ASIC, CPAB, DFSA, H3C, AFM, FAOA, FRC and PCAOB
- Participation on the Board by ADAA, ASIC, CPAB, H3C, AOB, CPAAOB/FSA, FSS/FSC, AFM, NFSA, ACRA, FAOA, IRBA, POA/CMB, FRC, and PCAOB
- Secretariat staff support provided by the CPAAOB/FSA
- Participation of many Members in Working Groups, Task Forces and other IFIAR activities

The IFIAR Association Financial Statements were approved by the Membership at the IFIAR Association Annual General Assembly Meeting in Rhodes, Greece, in May 2019.

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL REPORT AND FINANCIAL STATEMENTS

Responsibilities under the IFIAR Charter

The IFIAR Officers are responsible for preparing the Annual Report, including the financial statements, for approval by the IFIAR Board, including determination of its distribution, in accordance with the IFIAR Charter.

Responsibilities under relevant laws and regulations

The Directors (two of whom are the IFIAR Officers) of the International Forum of Independent Audit Regulators Association (IFIAR Association) are responsible for preparing a Business Report and Financial Statements, in accordance with the IFIAR Association Articles of Association and applicable laws and regulations, to be presented to the IFIAR Association Members. The Members are required to approve the Financial Statements at the Association's Annual General Assembly Meeting. The IFIAR Annual Report includes the required content for Business Reports.

The Act on General Incorporated Associations and General Incorporated Foundations requires the Directors to prepare financial statements for each financial year in accordance with relevant Generally Accepted Accounting Principles. In preparing the financial statements, the Directors have elected to apply International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

Preparation of the financial statements

In preparing the financial statements, the Directors of IFIAR Association are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS for SMEs subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that IFIAR Association will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

IFIAR Association Director Confirmations

Each of the Directors of IFIAR Association, whose names are listed in Note 1 to the financial statements confirms that:

- IFIAR Association is financially sound and has adequate resources to continue operating for the foreseeable future; and
- to the best of their knowledge, the financial statements, which have been prepared in accordance with IFRS for SMEs, give a true and fair view of the assets, liabilities, financial position and profit of IFIAR Association.

Signed on behalf of the Directors of IFIAR Association:



Brian Hunt

Chair of IFIAR Board and Representative Director of IFIAR Association

March 13, 2019

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INDEPENDENT AUDITOR'S REPORT

International Forum of Independent Audit Regulators Association

For the attention of the Directors

18th Floor Otemachi Financial City Grand Cube

1-9-2 Otemachi, 100-0004 Chiyoda-ku

Tokyo

Opinion

We have audited the financial statements of the International Forum of Independent Audit Regulators Association (IFIAR Association), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of IFIAR Association as at December 31, 2018, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standard for SMEs (IFRS for SMEs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of IFIAR Association in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS for SMEs, and for such internal control as management determines is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing IFIAR Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate IFIAR Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing IFIAR Association's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



March 13, 2019

Mazars WB Audit Corporation

ATT New Tower, 11F

2-11-7 Akasaka, Minato-ku, Tokyo, 107-0052, Japan

FINANCIAL STATEMENTS

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 JPY	2017 (The period from Jan 4 to Dec 31) JPY
REVENUE			
Membership fees	3	140,319,684	124,055,320
Associate membership fees	3	-	412,882
Subsidies / Government Grants	3	89,740,334	208,844,361
Interest Income		2,018	-
Total revenue		230,062,036	333,312,563
OPERATIONAL EXPENDITURE			
Salaries and employee benefits	4,5	96,500,988	87,436,064
Recruitment costs		880,212	6,801,822
Travel expenses		17,409,870	17,720,442
Meeting expenses		1,039,465	421,044
Audit expenses		1,960,349	1,944,000
Information technology and communication		5,132,985	13,976,507
Professional fees		4,618,086	5,516,343
Other expenses		2,772,328	1,688,346
Office supplies		1,328,990	1,359,018
Rental and maintenance expense	5	10,775,482	10,494,116
Depreciation	6	15,179,949	11,292,372
Foreign exchange loss		3,225,894	(4,717,041)
Total operational expenditure		160,824,598	153,933,033
Operating surplus		69,237,438	179,379,530

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	Note	2018 JPY	2017 JPY
ASSETS			
Non-current assets			
Deposits	5	11,730,734	11,442,734
Property, plant and equipment	6	47,403,899	62,179,836
		59,134,633	73,622,570
Current assets			
Accounts and other receivables		1,863,823	1,909,466
Prepaid expenses		7,154,216	5,225,560
Cash and cash equivalents	7	248,237,548	151,244,382
		257,255,587	158,379,408
Total assets		316,390,220	232,001,978
LIABILITIES			
Non-current liabilities			
Deferred income	8	-	1,191,145
Asset retirement obligation	5	16,571,520	16,571,520
		16,571,520	17,762,665
Current liabilities			
Accounts and other payables	9	1,375,540	3,242,928
Accruals		5,254,701	3,837,968
Deferred income	8	34,776,490	27,778,888
		41,406,731	34,859,784
EQUITY			
Retained surplus		258,411,969	179,379,530
Total liabilities and equity		316,390,220	232,001,978

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

	Total JPY
Balance as at January 4, 2017	-
Surplus for the period	<u>179,379,530</u>
Balance as at December 31, 2017	179,379,530
Balance as at December 31, 2017	179,379,530
Surplus for the year	69,237,438
Contribution upon wind-up of IFIAR Verein	<u>9,795,001</u>
Balance as at December 31, 2018	<u><u>258,411,969</u></u>

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 JPY	2017 (The period from Jan 4 to Dec 31) JPY
CASH FLOWS FROM OPERATING ACTIVITIES			
Total operating surplus for the year		69,237,438	179,379,530
Adjustments for:			
Depreciation	6	15,179,949	11,292,372
Decrease / (Increase) in accounts and other receivables		45,643	(1,909,466)
Increase in accruals		1,416,733	3,837,968
Increase in deferred income	8	5,806,458	28,970,032
(Increase) in deposits	5	(288,000)	(11,442,734)
(Decrease) / Increase in accounts and other payables		(1,867,388)	3,242,928
(Increase) in prepaid expenses		(1,928,656)	(5,225,560)
Net cash from operating activities		87,602,177	208,145,070
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6	(404,012)	(56,900,688)
Net cash used in investing activities		(404,012)	(56,900,688)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution upon wind-up of IFIAR Verein		9,795,001	-
Net cash from financing activities		9,795,001	-
Net increase in cash and cash equivalents		96,993,166	151,244,382
Cash and cash equivalents at the beginning of the year		151,244,382	-
Total cash and cash equivalents at end of the year		248,237,548	151,244,382

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

NOTES TO THE FINANCIAL STATEMENTS

1. General information and purpose of the organization

International Forum of Independent Audit Regulators Association (IFIAR Association) was established on January 4, 2017, and serves as the legal entity the International Forum of Independent Audit Regulators (IFIAR) uses for contracting purposes to engage in financial transactions such as collecting membership fees, employing individuals for the secretariat and paying suppliers in relation to secretariat infrastructure and costs. IFIAR Association's financial statements relate to only part of the resources needed for IFIAR activities, being those contracted through IFIAR Association. Activities performed by, and resources provide by IFIAR Members are deemed as being contributed to IFIAR and not recorded in IFIAR Association's financial statements unless a contract is entered into with IFIAR Association with quantifiable amounts.

The Directors of IFIAR Association are Brian Hunt, Frank Schneider and William Di-Cicco.

IFIAR Association satisfies the requirements for a non-profit General Incorporated Association provided by the Japanese Corporation Tax Act and its subordinate regulations. Therefore, IFIAR Association is taxed to the extent that it carries out a profit-making business. IFIAR Association does not engage in any profit-making business.

2. Summary of significant accounting policies

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

2.1 Basis of presentation

The financial statements of IFIAR Association have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. The financial statements, except for Statement of Cash Flows, have been prepared on an accrual basis with all assets, liabilities, equity, income and expenses recognized when they satisfy the definitions and recognition criteria for those items.

2.2 Cash and cash equivalents

The measurement basis for cash and cash equivalents is the balance recorded in the IFIAR Association's bank account. These balances are denominated in Japanese Yen (JPY) (2017: JPY and Euro).

2.3 Receivables

Receivables are initially measured at the transaction price. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in income statement.

2.4 Revenue recognition

All revenues are measured at the fair value of the consideration received or receivable. Membership fees are recognized on a straight-line basis over the membership period. Host subsidies are recognized when they are due in accordance with the Host Agreement, and secondment subsidies are recognized on a straight-line basis over the secondment period. Interest income is recognized when earned.

2.5 Foreign currency translation

The functional and presentation currency for the IFIAR Association is the JPY. Foreign currency transactions are initially recorded by applying the average exchange rate for the month in which the transaction occurred. Monetary assets and liabilities denominated in a foreign currency are translated into JPY using the exchange rate at the reporting date.

2.6 Property, plant and equipment

Definition

Property, plant and equipment are non-current assets that are held for use for IFIAR Association administrative purposes and are expected to be used during more than one year.

Recognition and initial measurement

IFIAR Association recognizes the cost of property, plant and equipment as an asset when it is probable that future economic benefits associated with the item purchased will flow to the entity and the cost of the item can be measured reliably. Property, plant and equipment are initially measured at cost.

Subsequent measurement

IFIAR Association measures property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are depreciated on a straight-line basis over their expected useful lives. The straight-line method reflects the pattern in which IFIAR Association expects to consume the asset's future economic benefits. The useful lives of items of property, plant and equipment have been assessed as follows:

Category:	Useful life
Leasehold improvements	5 years
Furniture and fittings	10 years
Information Technology (IT) hardware	3 years

If there is an indication that there has been a significant change in the useful life of an asset, the depreciation of that asset is revised prospectively to reflect the new estimate.

2.7 Government assistance

Grants from the Government of Japan, which are paid to IFIAR Association by Certified Public Accountants and Auditing Oversight Board (CPA/OB) / Financial Services Agency (FSA), are recognized as revenue when there is reasonable assurance that the grant will be received. The Government of Japan has not imposed any future performance conditions on IFIAR Association to receive these grants.

The amount is fixed for four years at JPY 85,527,000 per annum with the first review required for the period 2021 to 2024. CPA/OB/FSA will continue to provide annual contributions as long as the secretariat is based in Japan. These financial contributions will be provided by CPA/OB/FSA upon the Diet approval of the national budget in accordance with the relevant procedures of Japan. In 2017, a one-time subsidy of JPY 123,317,361 was provided on establishment of the secretariat in Tokyo.

2.8 Operating leases

IFIAR Association classifies a lease as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership and recognizes lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line basis.

3. Revenue

Revenue comprises membership fees, subsidies from the Government of Japan and interest income.

Membership fees include those invoiced for the financial year, including members that joined and left IFIAR during the year for whom the fees are pro-rated for the period of membership. In 2018 membership fees were received from 53 (2017: 53) member jurisdictions.

Associate membership fees relate to fees received from one Member in 2017. The Member joined as an Associate, and then later became a full member during the year.

Subsidies include an annual contribution of JPY 85,527,000 in each year, as well as a one-time contribution in 2017 of JPY123,317,361 on establishment of the Secretariat in Tokyo. A further subsidy was received in relation to a seconded staff Member in 2018.

	2018	2017 (The period from Jan 4 to Dec 31)
	JPY	JPY
Membership fees	140,319,684	124,055,320
Associate membership fees	-	412,882
Subsidies / Government grants	89,740,334	208,844,361
Interest Income	2,018	-
	<u>230,062,036</u>	<u>333,312,563</u>

4. Salaries and employee benefits

	2018	2017 (The period from Jan 4 to Dec 31)
	JPY	JPY
Gross salaries	65,971,080	30,854,554
Officer organization staff reimbursement	-	33,167,237
Health and pension insurance	5,416,665	2,530,789
Staff welfare	20,743,646	9,486,191
Staff relocation cost	-	6,318,487
Other employee benefits	4,369,597	5,078,806
Total salaries and employee benefits	<u>96,500,988</u>	<u>87,436,064</u>

Of which:

Compensation paid to Key Management Personnel	<u>37,720,551</u>	<u>30,146,145</u>
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5. Lease related disclosures

a. Lease commitments

Total commitments for the IFIAR Association under operating leases were as follows:

Properties

	2018 JPY	2017 JPY
Payments within 1 year	24,557,291	24,606,660
Payments later than 1 year but within 5 years	19,338,912	38,496,203
Total lease commitments	43,896,203	63,102,863

Office Equipment

	2018 JPY	2017 JPY
Payments within 1 year	152,928	152,928
Payments later than 1 year but within 5 years	344,088	497,016
Total lease commitments	497,016	649,944

b. Lease expenses

Lease payments recognized as an expense during the year amounted to JPY30,159,588 (2017: JPY 15,527,391), as detailed below.

Statement of Comprehensive Income line item in which lease expenses are included	Leased item	2018 JPY	2017 (The period from Jan 4 to Dec 31) JPY
Rental and maintenance expense	Office and photocopier	9,822,384	9,784,152
Salaries and employee benefits	Residential leases	20,337,204	5,743,239
		30,159,588	15,527,391

c. Security deposits

Security deposits of JPY11,730,734 (2017: JPY 11,442,734) were paid with regard to the office lease and residential leases for three employees.

d. Asset retirement obligation

The office lease includes provisions requiring IFIAR Association to return the premises to the condition they were at the time of entering the lease. Therefore, an asset retirement obligation of JPY16,571,520 (2017: JPY 16,571,520) has been recognized in the Statement of Financial Position and is included in the leasehold improvement cost. The obligation crystallizes when IFIAR Association exits the premises, the timing of which is uncertain.

6. Property, plant and equipment

	Leasehold Improvements	Furniture & fixtures	IT Equipment	Total JPY
Cost at January 1, 2018	48,742,182	12,579,824	12,150,202	73,472,208
Additions	-	-	404,012	404,012
Cost at December 31, 2018	48,742,182	12,579,824	12,554,214	73,876,220
Accumulated depreciation at January 1, 2018	(7,311,330)	(943,488)	(3,037,554)	(11,292,372)
Depreciation	(9,748,440)	(1,257,984)	(4,173,525)	(15,179,949)
Accumulated depreciation at December 31, 2018	(17,059,770)	(2,201,472)	(7,211,079)	(26,472,321)
Net book value at December 31, 2018	31,682,412	10,378,352	5,343,135	47,403,899
Cost at January 4, 2017	-	-	-	-
Additions	48,742,182	12,579,824	12,150,202	73,472,208
Cost at December 31, 2017	48,742,182	12,579,824	12,150,202	73,472,208
Accumulated depreciation at January 4, 2017	-	-	-	-
Depreciation	(7,311,330)	(943,488)	(3,037,554)	(11,292,372)
Accumulated depreciation at December 31, 2017	(7,311,330)	(943,488)	(3,037,554)	(11,292,372)
Net book value at December 31, 2017	41,430,852	11,636,336	9,112,648	62,179,836

7. Cash and cash equivalents

Cash is held in a current bank account denominated in JPY (2017: Euros and JPY). There are no restrictions for the use of cash.

	2018 JPY	2017 JPY
Japanese Yen Bank Account	248,237,548	126,054,587
Euro Bank Account	-	25,189,795
Total cash and cash equivalents	248,237,548	151,244,382

8. Deferred income

Deferred income relates to membership fees received in advance from members.

	2018 JPY	2017 JPY
Current	34,776,490	27,778,888
Non-current	-	1,191,145
Total deferred income	34,776,490	28,970,032

9. Related party transactions

In 2017, prior to IFIAR Association being established and becoming operational, IFIAR Verein conducted transactions on behalf of IFIAR Association. Similarly, once IFIAR Association became operational, it conducted transactions on behalf of IFIAR Verein. These transactions were net-settled prior to the year end, with the exception of an amount included in Accounts and other payables, due to IFIAR Verein of JPY 1,292,994 (denominated in foreign currency) at December 31, 2017. This balance was net-settled in March 2018 when the remaining cash of IFIAR Verein, amounting to JPY 9,795,001, was transferred to IFIAR Association in accordance with the IFIAR Verein Articles of Association upon the liquidation of IFIAR Verein and a resolution of its Members.

IFIAR Association conducts transactions with the Members of IFIAR Association (who are also Members of IFIAR). All revenues (including the subsidies but excluding interest income) are received from Members (ref. note 3). The Accounts and other receivables balance in each year relates to amounts due from related parties which were settled subsequent to each year-end. Contributions to Key Management Personnel are disclosed in note 4. In 2018 JPY Nil (2017 JPY 40,634,000) of the operating expenses were paid to the organizations of the Chair and Vice-Chair of IFIAR as a contribution towards their staff and travel costs in relation to IFIAR activities.

IFIAR MEMBER DIRECTORY AND OBSERVERS

IFIAR Member Directory

A directory of IFIAR Members is available on our website at:

<https://www.ifiar.org/members/member-directory/>

Observers

The following organizations are observers of IFIAR meetings:

Basel Committee on Banking Supervision (BCBS)

European Commission

Financial Stability Board (FSB)

International Association of Insurance Supervisors (IAIS)

International Organization of Securities Commissions (IOSCO)

Public Interest Oversight Board (PIOB)

World Bank



INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

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

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