

# ANNUAL REPORT 2019



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## 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. IFIAR's mission is to serve the public interest, including investors, by enhancing audit oversight globally. In fulfilling our mission, we strive to drive improvements to audit quality, both globally and in each of our member's jurisdictions.

Investors and other stakeholders rely on high quality financial reporting. Along with management, audit committees, other directors, standard setters and regulators, auditors play a critical role in helping promote high quality financial reporting. By providing investors with independent assurance on the integrity of reported financial results, auditors across the globe contribute to the effective and efficient allocation of capital and to international financial stability and economic growth.

IFIAR contributes to high quality auditing through enhancing the independent audit regulatory oversight capabilities of its members, and by regularly engaging with global network firms to influence their continual improvements to audit quality.

We enhance the capabilities of our members through consultative assistance, training, 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; and
3. Grow the membership.

### **Our Leadership**

IFIAR is governed by a 16-member Board, established in April 2017. IFIAR Members elected Frank Schneider, CEO of the Swiss Federal Audit Oversight Authority (FAOA) as Chair and Duane DesParte, Board Member of the United States Public Company Accounting Oversight Board (PCAOB) as Vice Chair of IFIAR in 2019. They serve a 2-year term which ends in 2021. Carl Renner was appointed as Executive Director in 2017, and is responsible for leading the IFIAR Secretariat based in Tokyo. The Executive Director is accountable to the Chair, Vice Chair, and Board.

The IFIAR Board plays a key role in IFIAR's governance structure and is responsible for developing IFIAR's strategy and providing strategic direction to the Secretariat. 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

We are pleased to present IFIAR's 2019 Annual Report.

In 2019 IFIAR has continued to actively implement its current three-year Strategic Plan covering the period from 2018 to 2021. After the establishment of a new Board and the staffing of a Secretariat in Tokyo in prior years, IFIAR has focused its current activities on the engagement with Members and external stakeholders to become a more proactive organization and exerting greater influence over the evolution of audit oversight globally.

In 2015, IFIAR launched a strategic initiative to significantly improve audit quality over a four-year period (2016 - 2019). GPPC networks agreed a goal to reduce the rate of listed PIE audits inspected by GAQWG members that had one or more findings by at least 25%. The 2019 IFIAR Inspection Finding Survey (2019 Survey) published in February 2020 indicates that, over the four-year period, the GPPC networks had collectively achieved a 21% reduction, with findings in 31% of audits inspected by GAQWG members. While IFIAR is encouraged by this decrease, it is disappointed that the reduction target of 25% was not met, and that the overall frequency of inspection findings remains too high. In this respect IFIAR continues its engagement with the largest global network firms at the Global Leadership level. In 2019 discussions focused primarily on firm-specific key initiatives to further increase audit quality, the importance of firm culture, risk management, the workforce of the future and the increase use of centralized service delivery centers.

IFIAR also announced a new initiative agreed with the firms, with the new metric seeking a 25% reduction, measured across four years, across nearly half of IFIAR's Member jurisdictions. The 2019 Survey results will serve as the baseline for the new metric and as a reference point for candid discussion with the global network firms and are aimed to prompt firm actions to further improve audit quality. We expect that the firms will continue the multi-year trend of a reduction in inspection findings and make significant progress towards this new target over the coming years.

IFIAR's annual Plenary meeting continues to be the key annual forum for Members to gain insights and exchange experiences in respect of all matters that have an impact on audit oversight and audit quality. The 2019 IFIAR Plenary Meeting (2019 Plenary Meeting) was hosted by the Hellenic Accounting and Auditing Standards Oversight Board (HAASOB) in Greece with a theme looking at The Evolving World of Audit, in recognition of the current discussions being held in certain jurisdictions regarding the future and relevance of audit and the impact on approaches to audit oversight. This sharing of information between Members has been further strengthened by the establishment of a new Task Force, which will look to provide Members with updates and lessons learned on current developments from around the world, relevant to audit oversight.

We are honored to have been elected as Officers and work together with the Board to deliver on IFIAR's strategy. We believe that our strategy is responsive to the dynamic environment in which auditors and regulators operate, and we will continue to monitor developments to ensure that IFIAR remains relevant and adds value to its Members, the public and investors.

## Appreciation

We would like to thank IFIAR's Board and Committees, Secretariat, Working Groups, Task Forces, and our Members for their continued contributions in the past year.

In particular, we would like to take this opportunity to thank Brian Hunt, formerly CEO of the Canadian Public Accountability Board (CPAB), for his leadership and contribution as Chair from 2017-2019. Brian led the organization through an important period, which included the establishment of a fully staffed Secretariat in Tokyo, Japan - a significant milestone for the organization.

Our gratitude also goes to the HAASOB 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 (JFSA) and the Certified Public Accountants & Auditing Oversight Board (CPAFOB) for their ongoing hosting of the Secretariat in Tokyo, Japan.

We look forward to working with our Membership to continue developing IFIAR as the leading international organization on audit quality matters.



**Frank Schneider**  
IFIAR Chair



**Duane DesParte**  
IFIAR Vice Chair



# EXECUTIVE DIRECTOR'S REPORT

## Highlights of 2019 IFIAR activities

2019 represented a solid year for IFIAR, continuing to support its Members by sharing information relevant to their regulatory roles in a timely manner.

Following discussions at the 2019 Plenary Meeting on current developments in a number of jurisdictions, IFIAR formed a new Task Force on Internationally Relevant Developments in Audit Markets (IRDAM TF). This new Task Force will act as a conduit to share relevant current developments with Members, further emphasizing IFIAR's role in providing its Members with the opportunity to learn from each other, whilst also monitoring different global initiatives related to the audit market and their potential impact on audit quality.

Developments in technology is a recurring topic that has become increasingly prominent in discussions with our Members, both in relation to the new technologies used by firms in conducting the audit and the technology that can be effectively utilized by our Members in a regulatory capacity. As a result, IFIAR is forming a new Task Force to assist Members on technology matters that are relevant to audit oversight bodies, such as sharing information about technology used by the global network firms and approaches Members take to assessing the technologies as part of their inspections.

In the latter half of the year, the Board formed a task force to review IFIAR's Core Principles to ensure they remain fit for purpose, given the evolving landscape of audit and audit oversight.

IFIAR continues to provide effective platforms for sharing regulatory practices of inspection and enforcement in audit oversight, including the 2019 annual Inspection Workshop and IFIAR's fourth Enforcement Workshop, which were very well attended and received by our Members for the significant value and tangible benefits on offer at both events.

The Inspection Workshop, among other IFIAR workstreams, draw upon the results of the annual Inspection Findings Survey Reports, which summarize the survey of findings identified by our Members in their individual inspections of audit firms affiliated with six large, international audit firm networks. IFIAR continues 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 2019 Inspection Findings Survey Report (2019 Survey Report) noted that overall 33% of the listed PIE audits had at least one finding, down from a high point of 47% in 2014, but demonstrates the need for a sustained focus on continuing improvement. This compares to a figure of 37% in the 2018 report (2017: 40%).

The results of the 2019 Survey Report are particularly important given that this was the final measurement year of the initial metric of reducing the number of audits inspected with at least one finding in the GAQWG jurisdictions by at least 25%. The results of this survey also became the baseline for the new metric of at least a 25% reduction during 2019-2023 in the rate of listed PIE engagements with one or more findings in wider IFIAR Member jurisdictions.

IFIAR's active contribution to developing international audit standards by providing its views and comments to the standard setting bodies has continued in the past year. During 2019, IFIAR continued its ongoing liaison with the International Ethics Standards Board for Accountants (IESBA) and responded to public consultations of the International Auditing and Assurance Standards Board (IAASB), including on the challenges using the International Standards on Auditing (ISAs) in audits of less complex entities and their exposure drafts for International Standard on Quality Management (ISQM) 1, ISQM 2 and ISA 220, whilst also commenting on their proposed strategy and work plan for the coming years. IFIAR continues to be an advocate for reform of the governance structure of audit standard setting at the international level, strengthening independence and improving the timeliness of standard setting. The Monitoring Group - of which IFIAR is a member - continued to work towards these reforms through 2019 and will continue to do so in 2020.

## **Outreach**

The Officers and Secretariat have continued to actively engage in outreach to prospective members and all relevant stakeholders 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 2019, the authorities from Romania, Saudi Arabia and Ukraine joined IFIAR.

## **Human Resources**

From a Secretariat perspective, it is important that we continue to strengthen our capability as a team, both by developing our current staff and by attracting the right talent to complement our existing abilities. To that end, I am pleased to report that during 2019 we successfully recruited an additional Policy Officer, and during the recruitment process also identified a replacement secondee Senior Policy Officer, since the JFSA secondment ends in June 2020.

## Priorities for 2020

As we head into our final year of the 2018-2021 Strategic Plan, IFIAR will look to build on its achievements and focus on the next stage of its strategic direction, with a focus on delivering value to the Membership. Key priorities for 2020 include:

- Development of the next Strategic plan;
- Engagement with the global network firms on quality initiatives and progress towards achieving consistent high-level audit quality performance;
- Building Membership capabilities through the annual inspection workshop and other sharing of information and learnings; and
- Continuation of the Core Principles review.

## Appreciation

I would like to thank the Chair, Vice Chair, Board, Committees, Working Groups, Task Forces, and Members for their support and direction in guiding the Secretariat to deliver effectively on our responsibilities and the strategy. I also thank my staff for their unfailing commitment and support in achieving IFIAR's objectives.



**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

## 2019 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"> <li>• Facilitated 2019 Inspection Workshop</li> <li>• Facilitated the fourth Enforcement Workshop</li> <li>• Finalized two assessments of applications and added those two signatories to the IFIAR Multilateral Memorandum of Understanding (MMoU)</li> <li>• Established the Internationally Relevant Developments in Audit Markets Task Force (IRDAM TF) to share relevant current developments with Members whilst also monitoring different global initiatives on the structure of the audit market and their potential impact on audit quality.</li> <li>• Considered the creation of an IFIAR TF to assist Members in the area of technology. The new TF will be established in H1 2020.</li> <li>• Regularly published a Members Newsletter</li> <li>• 2019 Plenary Meeting - convened a keynote panel exploring the current issues facing the profession and audit regulators, including lessons incorporating the direct experiences of regulators managing challenges and analyzing proposed changes in their jurisdictions; also convened an IOSWG Advisory Group Panel on the role of Audit Committees in the financial reporting ecosystem</li> </ul>

<p>Further strategic relationships with investors and maintain effective communications with global audit network firms and other key stakeholders including the IFIAR Observer organizations</p>	<ul style="list-style-type: none"> <li>• Published comment letters on the International Auditing and Assurance Standards Board (IAASB) Exposure Drafts for ISQM 1, ISQM 2 and ISA 220 (July 1, 2019), the IAASB Proposed Strategy for 2020-2023 and Work Plan for 2020-2021 (June 4, 2019) and the IAASB consultation on audits of less complex entities (September 25, 2019).</li> <li>• 2019 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.</li> <li>• Held meetings and conference calls with representatives from IAASB and IESBA throughout 2019.</li> <li>• Met twice with global network firms to discuss initiatives to improve audit quality</li> <li>• Published the 2018 Inspection Findings Survey Report (May 16, 2019)</li> <li>• 2019 Plenary Meeting - the Inspection Findings Survey Task Force conducted a Members-only briefing</li> <li>• As a member of the Monitoring Group, actively contributed at Monitoring Group meetings. 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 2019 Plenary Meeting</li> <li>• Conducted a Member survey to seek Member views on how to develop the CEO Sessions at the annual Plenary meetings; liaised with the global audit network firms on these changes</li> </ul>
<p>Implement sustained targeted outreach to Members and prospective Members</p>	<ul style="list-style-type: none"> <li>• Targeted the remaining G20 and other countries with independent audit oversight - or a commitment to develop - for IFIAR Membership</li> <li>• The Authority for the Public Oversight of the Statutory Audit Activity of Romania, the Capital Market Authority of the Kingdom of Saudi Arabia and Audit Public Oversight Body of Ukraine officially joined as IFIAR Members</li> <li>• Represented IFIAR at the PCAOB International Institute and met with potential Member jurisdictions</li> <li>• Noted progress with the activities of the African Forum of Independent Audit and Accounting Regulators (AFIAAR), an independent forum established in Africa with objectives similar to IFIAR and potential for members to join IFIAR</li> </ul>
<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"> <li>• Considered reforms of the governance framework of the IFIAR Working Groups and Task Forces</li> <li>• Ongoing monitoring of deliverables of the Operating Plan</li> <li>• Ensured IFIAR Association complied with Japanese laws, regulations and any filing requirements</li> <li>• Updated the Board regularly on the financial position and financial performance of IFIAR</li> <li>• Ongoing review of Secretariat staff performance</li> <li>• Held 5 Board meetings (in-person and by conference call), 5 AFC and 3 HRGC meetings during the year.</li> <li>• Held several working group and task force meetings during the year (see section below 'Working Groups and Task Forces').</li> <li>• Commenced with a review of the IFIAR Core Principles during the year.</li> <li>• Approved HR, Governance and Finance policies during the year.</li> </ul>

# WORKING GROUPS AND TASK FORCES

The following working groups and task forces were operational during the year:

## Enforcement Working Group (EWG)

The EWG provides a forum for Members' 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*

*Vice Chair: Takashi Nagaoka, FSA Japan*

*Members:*

ASIC Australia	IRBA South Africa
PRH Finland	FAOA Switzerland
H3C France	FSC Chinese Taipei
AOB Germany	FRC United Kingdom
JFSA/CPAAOB Japan	PCAOB United States
SARAS Georgia* <sup>1</sup>	

*\*1 Georgia became a full EWG Member in October 2019*

In February 2019, Mr. Takashi Nagaoka of the Japanese FSA was confirmed by the IFIAR Board to serve as the EWG's Vice Chair. SARAS of Georgia changed its status from observer and was welcomed as a new member of the group.

The EWG presented for the second time an elective session during the Inspection Workshop in Paris in March 2019. The session focused on the results of the 2018 Enforcement Survey Report (FAOA/Switzerland), on what to think about during inspections if subsequent enforcement is likely (H3C/France) and on practical experience from an enforcement leader's perspective (PCAOB/US). Based on the positive feedback received from the participants, the EWG presented a free form session on enforcement at the 2020 Inspection Workshop in Washington, D.C.

The fourth Enforcement Workshop, the first in a standalone format, was held on 17 and 18 June 2019 in Zurich, Switzerland, at the invitation of the Swiss FAOA. The Zurich Workshop covered topics selected to suit the interests of IFIAR members' enforcement officers including procedural aspects of enforcement, various enforcement case studies and the use of technology in

investigations, among others. The workshop was well-received with 73 participants from 34 jurisdictions. As a result of this successful event, the EWG will continue to hold Enforcement Workshops separate from the Plenary in the future.

The EWG also launched a new work stream of enforcement and liability cases write-ups with the first publication on the Members-only IFIAR website in December 2019. The goal is to provide Members with more in-depth descriptions and explanations of high profile or landmark cases, in particular with regard to the main legal issues encountered in the proceedings. These write-ups aim to offer a source of reference to IFIAR Members including case studies, which can be used for a number of purposes.

## 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: William Di Cicco, H3C, France*

*Vice Chair: (currently vacant)*

### *Members:*

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

William Di Cicco of H3C, France succeeded Jane Williamson of CPAB, Canada, as Chair of the GAQWG and Kathleen Hamm of the PCAOB, United States stepped down as Vice Chair in 2019. IFIAR thanks Jane and Kathleen for their contributions 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 2019 Operating Plan. Priority items in our plan include a focus on considering the next quantitative and qualitative measures of audit quality and enhancing our sharing of information and insights with the full IFIAR membership. With the completion of the initial 25% reduction target measurement period in 2019, we adopted a new metric of 25% reduction in audits inspected with findings by 2023. The GAQWG continues its dialogue with the GPPC members on the measures to use to assess audit quality.

In executing on the Operating Plan in 2019, the GAQWG met with each of the six global networks in two meetings (March and October) on topics that included:

- Risk Management, including current and emerging risks and oversight by global leadership
- The workforce of the near future
- The identification of broader measures of audit quality
- Centralized service centers and their impact on audit quality, and
- The firms' internal quality monitoring results.

The GAQWG continued to monitor and challenge the firms to understand their efforts to meet the objective of improved audit quality. 2019 was the final measurement year of the initial 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 stakeholder announcement dated January 30, 2020.

The GAQWG established two sub-groups to determine 1) a next metric to measure rates of inspections findings and 2) other broader measures of audit quality. The objective of these two projects is to gain better insights on measures of global audit quality. As noted above, dialogue with the GPPC established a new metric of at least a 25 percent reduction over four years in the rate of listed PIE engagements inspected with one or more findings. Nearly half of IFIAR's Member jurisdictions will participate in the new metric. The 2019 Inspection Findings Survey will serve as the baseline for the measurement.

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 may impact the planning of risk-based inspections.

Recognizing the evolution of technology-based audit tools, the GAQWG monitors developments and periodically meets with GPPC firms for demonstrations and discussion on their data analytics and other software audit tools. 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 2019 Plenary Meeting in Greece, including sessions with the CEOs of the global networks and breakout sessions on sharing inspection findings with audit committees, significant current developments, and data analytics. The GAQWG continued to monitor developments in and 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 how 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
JFSA/CPAAOB Japan	PCAOB United States

Recent work streams of the ICWG included an exploratory report on Supervisory Colleges and similar forms of cooperation between audit regulators, and assessments of Member applications to become signatories to the IFIAR Multilateral Memorandum of Understanding (MMOU).

The report 'Exploring International Supervisory Cooperation: Report on Supervisory Colleges' was prepared by the ICWG in 2018-19 and provides IFIAR Members with information on Supervisory Colleges and examples of groups of supervisory authorities working collaboratively to enhance international cooperation and coordinate supervisory activities.

The ICWG also assessed two applications from Members to join the IFIAR MMOU as signatories and issued recommendations on these Members' applications. This decision-making process was completed on July 2, 2019, with IFIAR's announcement that the Members from Norway and Poland were officially accepted as MMOU signatories.

## Inspection Workshop Working Group (IWWG)

IFIAR's annual Inspection Workshop is facilitated 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
JFSA/CPAAOB Japan	PCAOB United States
CSSF Luxembourg	

IFIAR's 13<sup>th</sup> Inspection Workshop was hosted by H3C (France) and took place in Paris between March 6-8, 2019. It was attended by 160 individuals from 47 countries, which was the highest number since the workshop started.

There were external keynote speakers on subjects relevant to inspections, as follows:

- The president of the Association of Certified Fraud Examiners talked about fraud examinations;
- Representatives from the IASB explained the new international accounting standards (including IFRS 9 and 15);
- There was an update from the IAASB by the Chair of the ISQM1 task force;
- A representative of the Integrated Reporting Council explained developments in integrated reporting.

The IFIAR Vice-Chair and Executive Director gave an update on IFIAR's recent activities and plans, and there was an update from the Chairs of the working groups. Break-out sessions were organized on the subjects of Key Audit Matters (KAMs) and data analytics, and there were a number of other sessions on topics related to inspections, including initiatives by individual IFIAR members.

The Working Group then focused on preparing for the 2020 workshop, which was held in Washington, D.C. on February 4-6, 2020.

## Investor and Other Stakeholders Working Group (IOSWG)

The IOSWG facilitates 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*

*Vice Chair: Peter Hofbauer, AOBA Austria*

### *Members:*

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

### *IOSWG Advisory Group (AG) Members:*

- *David Gerald, President and CEO, Securities Investors Association (Singapore)*
- *Ken Kiyohara, Representative Kiyohara International Law Office*
- *Annette Koehler, Chair of Accounting and Auditing at the Mercator School of Management, University of Duisburg-Essen and Member of Audit Committees*
- *Paul Koster, Director Dutch Shareholders' Association*
- *Kurt Schacht, Managing Director Standards and Advocacy CFA Institute*
- *Liz Murrall, Director Stewardship and Reporting, The Investment Association*
- *Tarryn Sankar, Head, Listed Credit, Futuregrowth Asset Management*

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 Everts for his contribution as Chair of this Working Group. In April 2019, the IOSWG also appointed a Vice Chair, Peter Hofbauer of Austria APAB, and welcomed two new Advisory Group Members, David Gerald and Annette Koehler. Melissa Brown, an inaugural member of the Advisory Group, resigned her membership effective April 2019, and IFIAR thanks her for her contributions over the last four years. In December 2019, the IOSWG welcomed two new Advisory Group Members, Liz Murrall and Tarryn Sankar.

The IOSWG seeks input from its Advisory Group, organizes panel discussions and other sessions at IFIAR Plenary meetings and, when appropriate, publishes reports relating to topics of interest to a variety of IFIAR stakeholders. In 2019, the IOSWG hosted two sessions at the 2019 Plenary Meeting. One session featured a panel discussion on Audit Committee Perspectives, including good practices for audit committees to enhance audit quality, communications between audit committees and investors, and interactions between audit committees and audit regulators. The second session was a break-out session addressing ways in which audit regulators may be able to share inspection findings with audit committees.



Also, in 2019, the IOSWG established two new work streams, which is coordinated by sub-sets of the working group. Mr. Brown leads a sub-set of IOSWG members in gathering investor views on existing auditor responsibilities related to financial statement fraud and company illegal acts in order to provide IFIAR members with greater insight into these views. This work includes developing an investor survey distributed by the IOSWG to investors and investor representatives. Mr. Hofbauer leads a sub-set of IOSWG members who will share information about Members' approaches to stakeholder outreach by audit regulators. Members of the Advisory Group will assist and advise the IOSWG in connection with these efforts. The IOSWG and its Advisory Group held its first stand-alone, in-person meeting in Washington, D.C., in December 2019 to discuss the preliminary results of its work streams and to plan its contribution to the next Plenary Meeting.

## 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	JFSA/CPAAOB 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 2019, for issuance by IFIAR:

- June 4, 2019 - IAASB consultation on its strategy for 2020-2023 and work plan for 2020-2021
- July 1, 2019 - IAASB exposure drafts for ISQM 1, ISQM 2 and ISA 220
- September 25, 2019 - IAASB consultation on audits of less complex entities

The SCWG held several meetings in person or through conference calls with the international standard setters in 2019. The SCWG received both IAASB and IESBA representatives in London in March 2019 for a dedicated meeting to follow up on comment letters issued and discuss the scoping of several projects.

Topics discussed with IAASB included quality control (ISQM 1 - 2, ISA 220), group audits (ISA 600), IAASB strategy and work plan 2020-2021, identifying and assessing the risks of material

misstatement (ISA 315), as well as other topics such as audit evidence (ISA 500) and audits of less complex entities.

With respect to ethics, discussions on current IESBA workstreams were held, including on projects on non-audit services, fees, role and mindset expected of professionals, and the impact of technology on ethics for auditors.

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 quality control (ISQM 1 - 2, ISA 220), risk assessment (ISA 315), and group audits (ISA 600).

Further exchanges between the IFIAR members and the leadership of international standards setters were facilitated by the SCWG through:

- A keynote session with the chair of the IAASB ISQM 1 Task Force, presented during the IFIAR Inspection Workshop 2019 in Paris in February 2019, about the revisions envisaged for the quality management standards.
- A dedicated panel session which took place at the 2019 Plenary Meeting in Greece, in May 2019. The panel focused on current IAASB and IESBA projects, the achievements of standards setting boards during the last year and their responses to requests from IFIAR.

The SCWG also communicated the views expressed by IFIAR to the Public Interest Oversight Board (PIOB) leadership, to facilitate the PIOB monitoring of the ongoing projects of the standard setters.

## **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, JFSA/CPA AOB Japan, AFM The Netherlands, FRC United Kingdom and PCAOB United States.

In May 2019, IFIAR published the results of its 2018 Annual Inspection Findings Survey. The 2019 Survey was published in February 2020. 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. 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 2018 and 2019 Survey 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. The Global Audit Quality Working Group addresses audit quality with global assurance leadership of the largest audit firm networks.

## **Internationally Relevant Developments in Audit Markets Task Force (IRDAM TF)**

The IRDAM TF was set up after the 2019 Plenary Meeting to build on the successful work of an earlier Board sub-group that prepared a keynote panel and a break-out session on developments in audit markets at the 2019 Plenary Meeting. The IRDAM TF is led by Gerben Everts, Board Member of the Dutch AFM. Current members of the Task Force are ADAA Abu Dhabi, POBA Albania, CPAB Canada, H3C France, IAASA Ireland, CONSOB Italy, CPAAOB/JFSA Japan, FMA New Zealand, Finanstilsynet Norway, AFM the Netherlands, CMA Saudi Arabia, FRC United Kingdom and PCAOB United States.

## **Core Principles Task Force (CPTF)**

The CPTF was established in 2019 to perform a review of the IFIAR Core Principles. A key element of the review will be to ensure the Core Principles remain relevant and fit for purpose, given the evolving landscape of audit and audit oversight since they were first adopted by IFIAR in 2011. The CPTF is led by Ralf Bose of the AOB Germany. Current members of the Task Force are CVM Brazil, FSA Dubai, H3C France, AOB Germany, FAOA Switzerland, and PCAOB United States.

## Emerging Regulators Group (ERG)

The Smaller Regulators Task Force (established in 2015) transitioned to the Emerging Regulators Group in January 2019 to reflect its role as a support network to assist smaller and emerging audit regulators to address the unique challenges they face, and to provide a forum for smaller Members to identify ways IFIAR may be able to further support their needs.

Jacco Moison of the New Zealand FMA succeeded Naweed Lalani of the Dubai FSA as Chair of the ERG in April 2019. Members of the ERG during the year were Dubai FSA (until April 2019), SARAS Georgia, IAASA Ireland, FRC Mauritius, FMA New Zealand and APOA Slovenia.

In continuation of the pilot that commenced last year, the ERG observed the GAQWG meeting in London in March 2019, providing input to the discussions from the ERG perspective. In addition, during IFIAR's 2019 Plenary Meeting in Greece, the ERG and GAQWG organized a breakfast session for emerging regulators with one of the GPPC firms, providing an opportunity for dialogue on experiences and issues relevant to ERG Members.

# GOVERNANCE REPORT

## Board Report

The 2019 Plenary Meeting marked the end of the two-year term for Korea FSC/FSS, Norway FSA and Turkey CMB/POA as elected Board members. Following an election at the Plenary Meeting, the Members reappointed Turkey, and appointed Brazil CVM, Chinese Taipei FSC and Greece HAASOB to the Board. These Board members will serve for a four-year term that will end in 2023. On behalf of the Board, I would like to express our gratitude to Korea and Norway for their service and contribution to the Board during their terms.

The Board met several times throughout 2019. Some of the key governance matters discussed and agreed on at the board meetings included the following:

- Monitoring progress during the second year of the 2018-2021 Strategic Plan against the 2019-2020 Operating Plan to support delivery of the Strategic Objectives
- Engaging with leadership of each Working Group and Task Force as they executed work plans
- Considering membership applications and outreach activities
- Approval of various Board Committee matters, including HRGC and AFC Membership and Chair Appointments, and the HRGC HR & Remuneration Policy
- Approval of IFIAR Meeting Guidelines, Officer and Speaker Travel Policies, IFIAR Communications Policy and the 2020 Board Work Calendar

Key operating policies that have been developed and implemented by the Board include the 2019-2020 Operating Plan, and HRGC and AFC 2020-2021 Work Calendars.

The following table shows attendance of Board Members at Board meetings in 2019. 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>					
<u>Member</u>	<u>Att.</u>	<u>Member</u>	<u>Att.</u>	<u>Member</u>	<u>Att.</u>
Abu Dhabi (ADAA)	5/5	Germany (AOB)	5/5	Singapore (ACRA)	5/5
Australia (ASIC)	4/5	Greece (HAASOB)**	3/3	Switzerland (FAOA)	5/5
Brazil (CVM)**	3/3	Japan (JFSA/CPAEOB)	5/5	South Africa (IRBA)	5/5
Canada (CPAB)	5/5	Korea (FSC/FSS)*	1/2	Turkey (CMB/POA)	5/5
Chinese Taipei (FSC)**	3/3	Netherlands (AFM)	5/5	United Kingdom (FRC)	5/5
France (H3C)	5/5	Norway (FSA)*	2/2	United States (PCAOB)	5/5

\*Board Member until 2019 Plenary Meeting (eligible to attend 2 Board meetings in 2019)

\*\*Board Member from 2019 Plenary Meeting (eligible to attend 3 Board meetings in 2019)



**Frank Schneider**  
IFIAR Chair

## Human Resources and Governance Committee Report

At the May Board Meeting the IFIAR Board appointed Brazil and reappointed France, Germany, Japan, Singapore, Switzerland, Turkey and the UK as members of the HRGC for the 2019-2021 term. William di Cicco was reappointed as the Chair of the HRGC for the same term.

In 2019 the HRGC focused on several matters relating to human resources and governance, including continuing development of the Remuneration Framework for Secretariat staff together with consideration of a suitable benchmarking process and methodology. Another focus for the HRGC this year has been the development of the Effectiveness Review procedures for the Officers, Board, Board Committees and Working Groups/Task Forces and the Chairs/Leads of the foregoing, respectively.

The HRGC also reviewed staffing matters, which included conducting interviews of several candidates for the position of Policy Officer or Senior Policy Officer. Due to the heavy workload of the Secretariat the Board approved the hire of an additional permanent staff member; the HRGC thus conducted interviews of multiple candidates initially identified by the Executive Director. I am pleased to report that a Policy Officer was recruited and a Senior Policy Officer secondment was agreed. The new staff commenced with the Secretariat in January 2020.

The HRGC also received updates on the workload of the Secretariat, which was completed by the debrief on the 2018 year-end evaluation and the 2019 objectives and professional development setting process for the Secretariat staff and the Executive Director.

During 2020 the committee will seek to complete development of the Remuneration Framework and benchmarking exercise and recommend the same to the Board for approval. Subject to Board approval of the final Effectiveness Review process recommendation, the committee will also conduct the first Effectiveness Reviews under the new procedures developed over the course of 2019.

<u>Record of Member Attendance</u>			
<u>Member</u>	<u>Att</u>	<u>Member</u>	<u>Att</u>
France (H3C) - Chair	3/3	Singapore (ACRA)	3/3
Brazil (CVM)* <sup>1</sup>	1/2	Switzerland (FAOA)	3/3
Germany (AOB)	3/3	Turkey (CMB/POA)	2/3
Japan (JFSA/CPA/OB)	3/3	United Kingdom (FRC)* <sup>3</sup>	2/2
Korea (FSC/FSS)* <sup>2</sup>	0/0		

*\*1 Brazil was appointed on May 3, 2019 (eligible to attend 2 HRGC Meetings in 2019)*

*\*2 Korea's term ended at 2019 Plenary Meeting (eligible to attend 0 HRGC Meetings in 2019)*

*\*3 The U.K. stepped down from the HRGC prior to the final meeting of the year*

I wish to express my appreciation to the members of the committee for their involvement and fruitful participation to the works of the committee.

**William Di Cicco**  
HRGC Chair




## Audit and Finance Committee Report

At the Board Meetings in May and June the IFIAR Board appointed Chinese Taipei and Greece, and reappointed Abu Dhabi, Australia and South Africa as members of the AFC for the 2019-2021 term. Bernard Agulhas was reappointed as the Chair of the AFC for the same term.

The AFC reviewed the annual report and financial statements for the year ended 31 December 2019, to consider whether the information presented fairly represents IFIAR's activities, and for compliance with International Financial Reporting Standard 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 AFC also discussed the findings of the audit reviewed and the audit report from the external auditors and recommended the approval of the annual report to the Board and of the financial statements to the Board and IFIAR Plenary.

The AFC reviewed and accepted the Executive Director's Legal Compliance Report to the Board. 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 AFC reviewed the Risk Management Policy and updated the progress to the Board. The Committee further developed the Risk Register for recommendation to the Board, which will be regularly monitored and updated when appropriate.

<u>Record of Member Attendance</u>	
<u>Member</u>	<u>Att</u>
South Africa (IRBA) - Chair	5/5
Abu Dhabi (ADAA)	4/5
Australia (ASIC)	4/5
Canada (CPAB)*1	2/2
Chinese Taipei (FSC)*2	2/2
Greece (HAASOB)*3	1/3
Norway (FSA)*4	2/2

*\*1 Canada resigned on June 26, 2019 (eligible to attend 2 AFC Meetings in 2019)*

*\*2 Chinese Taipei was appointed on June 26, 2019 (eligible to attend 2 AFC Meetings in 2019)*

*\*3 Greece was appointed on May 3, 2019 (eligible to attend 3 AFC Meetings in 2019)*

*\*4 Norway's term ended at 2019 Plenary Meeting (eligible to attend 2 AFC Meetings in 2019)*

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.

*Bernard Peter Agulhas*

**Bernard Peter Agulhas**

AFC Chair



# FINANCIAL HIGHLIGHTS

## Financial Statements Highlights

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 Audit LLC 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.

## Member Support

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 2019 included:

- Hosting the 2019 Plenary Meeting and a Board meeting in Greece by HAASOB (April 2019)
- Hosting a Board meeting in Tokyo, Japan by JFSA/CPAFOB (January 2019)
- Hosting a Board meeting in Paris, France by H3C (October 2019)
- Hosting the 2019 Inspection Workshop in Paris, France by H3C (March 2019)
- Hosting the fourth Enforcement Workshop in Zurich, Switzerland by FAOA (June 2019)
- Hosting 2019 GAQWG meetings in London, UK by FRC and in Paris, France by H3C (March, October 2019)
- Hosting 2019 SCWG meeting in London, UK by FRC (March 2019)
- Hosting 2019 IOSWG meeting in Washington, D.C., US by PCAOB (December 2019)
- The Officers' organizational support provided by FAOA and PCAOB
- Chairing and provision of administrative support of various Working Groups, Task Forces and other work streams by CPAB, H3C, AOB, AFM, FMA, FAOA, FRC and PCAOB
- Participation on the Board by ADAA, ASIC, CVM, CPAB, FSA, FSC, FSC/FSS, H3C, AOB, HAASOB, JFSA/CPAFOB, AFM, ACRA, FAOA, IRBA, POA/CMB, FRC, and PCAOB
- Secretariat staff support provided by the JFSA/CPAFOB
- Participation of many Members in Working Groups, Task Forces and other IFIAR activities

The IFIAR Association Financial Statements were approved by the Membership in April 2020.



# STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

## 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 financial position and financial performance of IFIAR Association.

Signed on behalf of the Directors of IFIAR Association:

A handwritten signature in black ink, appearing to read 'F. Schneider', with a large, sweeping flourish extending upwards and to the right.

**Frank Schneider**

Chair of IFIAR Board and Representative Director of IFIAR Association  
February 28, 2020

# 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, 2019, 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, 2019, 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.

*Mazars Audit LLC*

February 28, 2020

Mazars Audit LLC

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, 2019

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019 JPY	2018 JPY
<b>REVENUE</b>			
Membership fees	3	131,216,566	140,319,684
Subsidies / Government grants	3	91,847,000	89,740,334
Interest income		2,786	2,018
<b>Total revenue</b>		<b>223,066,352</b>	<b>230,062,036</b>
<b>OPERATIONAL EXPENDITURE</b>			
Salaries and employee benefits	4,5	102,814,406	96,500,988
Recruitment costs		436,214	880,212
Travel expenses		20,999,232	17,409,870
Meeting expenses		1,170,119	1,039,465
Audit expenses		1,996,280	1,960,349
Information technology and communication expenses		5,503,159	5,132,985
Professional fees		4,541,036	4,618,086
Other expenses		3,642,107	2,772,328
Office supplies		1,169,868	1,328,990
Rental and maintenance expense	5	10,784,258	10,775,482
Depreciation	6	15,392,946	15,179,949
Foreign exchange loss		56,121	3,225,894
<b>Total operational expenditure</b>		<b>168,505,746</b>	<b>160,824,598</b>
<b>Operating surplus</b>		<b>54,560,606</b>	<b>69,237,438</b>

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

	Note	2019 JPY	2018 JPY
<b>ASSETS</b>			
<b>Non-current assets</b>			
Deposits	5	11,730,734	11,730,734
Property, plant and equipment	6	34,505,974	47,403,899
		46,236,708	59,134,633
<b>Current assets</b>			
Accounts and other receivables	9	111,789	1,863,823
Prepaid expenses		6,875,799	7,154,216
Cash and cash equivalents	7	321,123,957	248,237,548
		328,111,545	257,255,587
<b>Total assets</b>		<b>374,348,253</b>	<b>316,390,220</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Asset retirement obligation	5	16,571,520	16,571,520
		16,571,520	16,571,520
<b>Current liabilities</b>			
Accounts and other payables		2,598,635	1,375,540
Accruals		4,413,239	5,254,701
Deferred income	8	37,792,284	34,776,490
		44,804,158	41,406,731
<b>EQUITY</b>			
Retained surplus		312,972,575	258,411,969
<b>Total liabilities and equity</b>		<b>374,348,253</b>	<b>316,390,220</b>

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

	Total JPY
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	<b>258,411,969</b>
Balance as at December 31, 2018	258,411,969
Surplus for the year	<u>54,560,606</u>
Balance as at December 31, 2019	<b><u>312,972,575</u></b>

INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019 JPY	2018 JPY
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Total operating surplus for the year		54,560,606	69,237,438
<b>Adjustments for:</b>			
Depreciation	6	15,392,946	15,179,949
Decrease in accounts and other receivables		1,752,034	45,643
(Decrease) / Increase in accruals		(841,462)	1,416,733
Increase in deferred income	8	3,015,794	5,806,458
(Increase) in deposits	5	-	(288,000)
Increase / (Decrease) in accounts and other payables		1,223,095	(1,867,388)
Decrease / (Increase) in prepaid expenses		278,417	(1,928,656)
<b>Net cash from operating activities</b>		<b>75,381,430</b>	<b>87,602,177</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment	6	(2,495,021)	(404,012)
<b>Net cash used in investing activities</b>		<b>(2,495,021)</b>	<b>(404,012)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Contribution upon wind-up of IFIAR Verein	9	-	9,795,001
<b>Net cash from financing activities</b>		<b>-</b>	<b>9,795,001</b>
<b>Net increase in cash and cash equivalents</b>		<b>72,886,409</b>	<b>96,993,166</b>
Cash and cash equivalents at the beginning of the year		248,237,548	151,244,382
<b>Total cash and cash equivalents at end of the year</b>		<b>321,123,957</b>	<b>248,237,548</b>



INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS ASSOCIATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

NOTES TO THE FINANCIAL STATEMENTS

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**1. General information and purpose of the organization**

International Forum of Independent Audit Regulators Association (IFIAR Association) was established on January 4, 2017 in Tokyo, Japan 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 provided by, IFIAR Members are deemed as being contributed to IFIAR and are 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 Frank Schneider, Duane DesParte and William Di-Cicco.

IFIAR Association satisfies the requirements to be treated as a non-profit General Incorporated Association under the Japanese Corporation Tax Legislation. 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 and are consistent with the previous period. 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).

**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 there is reasonable assurance that the grant will be received. 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 generally depreciated on a straight-line basis over their expected useful lives. Leasehold improvements are depreciated over the shorter of the expected useful lives and the lease terms. 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 the Japan Financial Services Agency (JFSA)/ the Certified Public Accountants & Auditing Oversight Board (CPAAOB), 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. JFSA/CPAAOB will continue to provide annual contributions as long as the secretariat is based in Japan.

## 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 2019, membership fees were received from 55 (2018: 53) member jurisdictions.

Subsidies include an annual contribution of JPY 85,527,000 in each year, and a further subsidy was received in relation to a seconded staff Member since May 2018.

	2019	2018
	JPY	JPY
Membership fees	131,216,566	140,319,684
Subsidies / Government grants	91,847,000	89,740,334
Interest income	2,786	2,018
	<u>223,066,352</u>	<u>230,062,036</u>

## 4. Salaries and employee benefits

	2019	2018
	JPY	JPY
Gross salaries	71,310,949	65,971,080
Health and pension insurance	5,516,192	5,416,665
Staff welfare	21,434,417	20,743,646
Other employee benefits	4,552,848	4,369,597
<b>Total salaries and employee benefits</b>	<u>102,814,406</u>	<u>96,500,988</u>

Of which:

<b>Compensation paid to Key Management Personnel</b>	<u>35,907,108</u>	<u>37,720,551</u>
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## 5. Lease related disclosures

### a. Operating lease commitments

At year-end, total outstanding commitments for the IFIAR Association under non-cancellable operating leases were as follows:

#### Properties

	2019 JPY	2018 JPY
Payments within 1 year	15,189,456	15,069,456
Payments later than 1 year but within 5 years	9,669,456	19,338,912
<b>Total lease commitments</b>	<b>24,858,912</b>	<b>34,408,368</b>

#### Office Equipment

	2019 JPY	2018 JPY
Payments within 1 year	152,928	152,928
Payments later than 1 year but within 5 years	191,160	344,088
<b>Total lease commitments</b>	<b>344,088</b>	<b>497,016</b>

### b. Operating lease expenses

Lease payments recognized as an expense during the year amounted to JPY 15,222,384 (2018: JPY 15,222,384), as detailed below.

Statement of Comprehensive Income line item in which lease expenses are included	Leased item	2019 JPY	2018 JPY
Rental and maintenance expense	Office and photocopier	9,822,384	9,822,384
Salaries and employee benefits	Residential leases	5,400,000	5,400,000
		<b>15,222,384</b>	<b>15,222,384</b>

### c. Security deposits

Security deposits of JPY 11,730,734 (2018: JPY 11,730,734) 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 and related leasehold improvement of JPY 16,571,520 (2018: JPY 16,571,520) has been recognized in the Statement of Financial Position. 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, 2019	48,742,182	12,579,824	12,554,214	73,876,220
Additions	16,200	1,948,320	530,501	2,495,021
Cost at December 31, 2019	48,758,382	14,528,144	13,084,715	76,371,241
Accumulated depreciation at January 1, 2019	(17,059,770)	(2,201,472)	(7,211,079)	(26,472,321)
Depreciation	(9,750,600)	(1,387,872)	(4,254,474)	(15,392,946)
Accumulated depreciation at December 31, 2019	(26,810,370)	(3,589,344)	(11,465,553)	(41,865,267)
<b>Net book value at December 31, 2019</b>	<b>21,948,012</b>	<b>10,938,800</b>	<b>1,619,162</b>	<b>34,505,974</b>
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)
<b>Net book value at December 31, 2018</b>	<b>31,682,412</b>	<b>10,378,352</b>	<b>5,343,135</b>	<b>47,403,899</b>

## 7. Cash and cash equivalents

Cash is held in a current bank account denominated in JPY. There are no restrictions for the use of cash.

	2019 JPY	2018 JPY
Japanese Yen Bank Account	321,123,957	248,237,548
<b>Total cash and cash equivalents</b>	<b>321,123,957</b>	<b>248,237,548</b>

## 8. Deferred income

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

	2019 JPY	2018 JPY
Current	<u>37,792,284</u>	<u>34,776,490</u>
<b>Total deferred income</b>	<b><u>37,792,284</u></b>	<b><u>34,776,490</u></b>

## 9. Related party transactions

In 2018, the IFIAR Verein was liquidated with the remaining cash, amounting to JPY 9,795,001, transferred to IFIAR Association in accordance with the IFIAR Verein Articles of Association 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). Accounts and other receivables balances in each year relate to amounts due from related parties which were settled subsequent to each year-end. Compensation paid to Key Management Personnel is disclosed in note 4. In 2019, JPY 869,605 (2018 JPY Nil) of the operating expenses were paid to the organizations of the Chair and Vice-Chair of IFIAR as a contribution towards their 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 (IFIAR) | 監査監督機関国際フォーラム

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