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Fact Sheet and Key Takeaways
International Forum of Independent Audit Regulators
Report on 2014 Survey of Enforcement Regimes
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In 2013, the International Forum of Independent Audit Regulators (IFIAR) established the Enforcement Working Group (EWG) to promote stronger coordination in the area of enforcement, including investigations, in order to enhance investor protection and improve audit quality. The investigation of possible auditor misconduct and the enforcement of domestic regulatory standards and laws are core functions of a majority of the members of IFIAR. These functions are critical to protecting investors and other stakeholders and driving audit quality.

The EWG was charged by IFIAR to conduct a survey for the purpose of developing an understanding of the mandates, objectives, and legal authority of members' enforcement regimes, with the goal of sharing information and enhancing discussion of current and emerging enforcement issues, methodologies, and techniques. Set forth below you can find (i) background information regarding the survey; (ii) a summary of the results of the survey; and (iii) key takeaways of the trends highlighted by the survey.

Background of Survey

The report summarizes the results of a survey concerning enforcement regimes of IFIAR members conducted in 2014 (Survey). A copy of the report can be found [here](#). The Survey was designed to elicit useful information about the enforcement powers and activities conducted by an IFIAR member's organization primarily concerning audits of financial statements but also addressing other accounting services and activities.

By publishing the results of this Survey, IFIAR seeks to assist regulators in their understanding of the variety of approaches currently taken by different jurisdictions as they consider how best to implement or improve their enforcement programs within their broader legal and regulatory framework, as well as to facilitate effective oversight of cross-border audit activity that affects investors in more than one country. The management of audited entities, audit committees of audited entities, auditors, investors and other stakeholders may find the Survey helpful in enhancing their understanding as to how the enforcement function of IFIAR members works to protect investors and improve audit quality.

Thirty-two members of IFIAR submitted responses to the Survey. The questionnaire for the Survey contained seven sections and a total of 63 questions. The Survey sought information from IFIAR members concerning:

- The powers of members' enforcement programs;
- The structure of their enforcement programs;
- The handling of enforcement matters;
- The reporting of enforcement matters;
- History and trends relation to enforcement;
- Other relevant authorities; and
- Ideas for enforcement-related reforms.

Survey Results

Set forth below are some of the highlights of the results of the Survey:

The Powers of Members' Enforcement Programs

- Almost all of the respondents (97%) have the authority to investigate potential violations of audit laws.
- The most commonly available sanctions among respondents are monetary penalties, de-registration, and bans on practicing. More than half of respondents also have the authority to censure, restrict activities, and require remedial measures.
- Sixty-nine (69%) percent of respondents have enforcement authority not only over audit laws but also over non-audit related conduct that reflects on an auditor's integrity and fitness.
- Almost all of the respondents (94%) reported that they have enforcement authority over both audit firms and individual auditors, while fewer than half of the respondents (41%) have such authority over other individuals or entities associated with the audit engagement.
- Slightly more than half of the respondents (53%) reported that their enforcement authority extends to firms domiciled outside their borders.

Structure of Enforcement Programs

- Half of respondents (50%) reported that their enforcement functions are located within stand-alone public oversight authorities. While about three-quarters of respondents (78%) indicated that they distinguish between enforcement and inspection processes, approximately half (52%) stated that they maintain separate enforcement and inspection staffs.

The Handling of Enforcement Matters

- Most respondents (91%) have the authority to compel production of documents, answers to specified questions, and oral testimony. Most respondents (78%) also have the power to inspect physical premises. About two-thirds of respondents (69%) reported that they do not have the authority to resolve enforcement matters by settlement instead of full adjudication.

- Although respondents reported a variety of models for the adjudication of litigated or contested enforcement matters, two models predominate: adjudication by a court and adjudication by the board or governing body of the member's organization.
- Respondents identified a relatively consistent set of criteria in determining whether to pursue a potential matter, including materiality, investor harm, the nature of the accounting and auditing issues involved, and other public interest considerations. Many respondents also cited resource constraints as relevant.

Reporting of Enforcement Matters

- Respondents possess widely varying levels of authority and discretion to publish information about enforcement matters. Some respondents have no authority to publish specific information, while others are required to or have wide discretion to publish various types of information at various stages of the investigative process.
- About three-quarters (78%) of respondents also indicated that they publish aggregated data about their enforcement programs, typically in annual or other periodic public reports.

History and Trends

- Sixty-three (63%) percent of respondents indicated that their enforcement program was created between 2001 and 2013.
- The most frequently cited trends observed by respondents in their enforcement programs related to misstatements in financial statements, issues relating to related party transactions, revenue recognition, and provision and contingent liabilities.
- The most common trends relating to audit process issues are fair value measurement and management estimates, due care and professional skepticism, and audit documentation. Independence-related issues were another commonly cited trend regarding quality control. The most common trends relating to non-audit conduct are discreditable acts (such as tax fraud) and auditing without holding a license.
- The most commonly cited issues faced by enforcement programs are challenges relating to the principles-based nature of the ethics codes and independence rules for auditors.

Other Relevant Authorities

- Most respondents reported that they may share enforcement-related information with other domestic and foreign regulators under certain circumstances, including under multilateral or bilateral international agreements.

Ideas for Reform

- Respondents identified a number of potential ideas for reform that they have adopted or considered in their jurisdictions. A commonly cited theme was structural or organizational improvements, and the expansion of the regulator's authority, such as the ability to impose sanctions, the ability to share information with other regulators, or the ability to publicize information relating to enforcement matters.

Key Takeaways

- The responses submitted by IFIAR members to the Survey reveal a variety of approaches to the investigation and adjudication of enforcement matters. They also demonstrate the unanimous commitment to the importance of an effective enforcement program in audit regulation.
- The findings identified in the Survey should facilitate further dialogue among IFIAR members, as well as within members' own jurisdictions, concerning the most effective and efficient ways of addressing these trends and otherwise working for the protection of investors and the improvement of audit quality.
- As cross border audit activity and investigatory activity with international dimensions become more common, the results of the Survey may assist regulators in exploring ways on enhancing the sharing of information across borders.