



Comparative Study on Audit Oversight Functions

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Dr John Poon, BBS, JP
Chairman
Financial Reporting Council
29th Floor, High Block
Queensway Government Offices
66 Queensway
Hong Kong

Dear Dr Poon,

Independent consultancy services for the Financial Reporting Council (FRC): comparative study on audit oversight functions

We are delighted to present our study on how the regulators in the UK, the Netherlands, the US and Japan discharge their duties in relation to inspection, investigation and enforcement and the oversight of any delegated regulatory functions and the level of resources at their disposal.

We understand that the Hong Kong Government is in the process of legislating the reform of the local audit market to meet the IFIAR and EC requirements and indeed international best practice. As we noted in our 2016 report, the FRC will need to put in place further regulations, policies and procedures and assess the level of resources required to be able to discharge its duties to meet the detail of those requirements. Our study provides comparative information on regulators responsible for auditor oversight in the UK, the Netherlands, the US and Japan. Drawing on, primarily, publicly available information and input from the local Deloitte experts, it reflects the following areas:

- overview of the legislative framework and system of audit oversight, including oversight of delegated regulatory functions
- funding arrangements and costs
- scope and powers of the regulatory functions, organisational structures, including the number of people and their qualifications and operational features of each of the inspections and enforcement and investigation functions to establish how each regulator discharge their duties
- approach to third country auditors.

It also features a comparative set of metrics to provide further background to the resources available to, and required by, each of the regulators. We note that due to the notable differences in market sizes and the regulators' remit direct comparisons are limited in certain areas.

Finally, by way of background, the data for the four jurisdictions is gathered using a question set provided to Deloitte by the FRC. We note that system of audit oversight in Japan has unique features and as a result of this, direct comparisons between Japan and the other jurisdictions are less meaningful.

Yours sincerely,



David Barnes
Deloitte LLP

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1. Executive Summary

1 Executive summary

Introduction

This report provides a comparative study on the level of resources, including funding, and operational procedures of the regulators responsible for auditor oversight in the UK, US, Netherlands and Japan.

All information is from publicly available sources, supplemented by Deloitte's knowledge and experience of the regulatory frameworks in those four jurisdictions. Except for the meeting we had with the Financial Reporting Council (FRC) in the UK and supplementary publicly available information provided by the Public Company Accounting Oversight Board (PCAOB), we have not received any non-public information from the regulators. We have focused our study on the questions set out in our engagement letter with the Hong Kong FRC and the information gaps between these are presented at the end of the Executive Summary.

Overview of the legislative framework and system of audit oversight

Each jurisdiction has adopted different organisational structures and allocation of oversight responsibilities. Direct comparisons between jurisdictions regarding financial information, operational organisation or governance structure are limited due to the disparity of information publicly available as well as differences in market sizes and regulators' remit.

- **Range of responsibilities** - in the Netherlands, the Financial Markets Authority (AFM) has responsibility for supervising the operation and conduct of the entire financial market, in addition to oversight responsibilities of the audit profession. With regards to the oversight of the audit market, the AFM and the Royal Netherlands Institute of Chartered Accountants (NBA) share responsibility for the inspection, investigation and discipline of auditors. On one particular area, which is monitoring implementation of the quality measures introduced by the NBA's 2014 thematic review 'in the public interest', both the AFM and NBA have responsibilities over the audit market (AFM on the licensed firms and NBA on the entire audit profession).
- **Range of regulatory bodies** - compared to the UK, US and Netherlands, Japan stands out in its approach to the system of audit oversight. The Japanese Institute of Certified Public Accountants (JICPA) undertakes audit quality control reviews and conduct investigative and disciplinary proceedings into the conduct of Certified Public Accountants (CPAs) and audit firms, with oversight provided by the Certified Public Accountants and Auditing Oversight Board (CPAAOB) and the Financial Services Agency of Japan (FSA). The CPAAOB, which operates within the FSA, monitors the inspections conducted by the JICPA by off-site monitoring of the JICPA's quality control review systems and the results of its inspections and by on-site inspections, if deemed necessary for public interest or investor protection. The FSA has the ultimate oversight responsibility over the CPAs and the JICPA, in addition to its responsibilities for supervising the operation and conduct of the Japan's financial markets. As a result of this structure, direct comparisons between Japan and the other jurisdictions are less meaningful. We also note that certain aspects of the oversight regime may evolve in Japan in due course (e.g. consideration of Audit Firm Governance Code by the FSA).
- **Delegation** - the approach taken to the delegation of regulatory functions and oversight of those functions is different for each jurisdiction. There is no delegation of regulatory activities in the US. In the UK, the Professional Oversight team fulfils the statutory responsibilities for the FRC over the Recognised Supervisory Bodies (RSBs) and Recognised Qualifying Bodies (RQBs) and third country auditors. In Netherlands, the AFM has delegated certain regulatory functions to the NBA and Samenwerkende Registeraccountants en Accountants-Administratieconsulenten, network of independent audit firms (SRA).

Overview of the legislative framework and system of audit oversight (cont'd)

The following table provides a summary of the oversight responsibilities of the respective regulators in each of the four jurisdictions:

Oversight Body /Function	UK - Financial Reporting Council (FRC)	Netherlands - Financial Markets Authority (AFM)	US - Public Company Accounting Oversight Board (PCAOB)	Japan – Financial Services Agency (FSA), Certified Public Accountants and Auditing Oversight Board (CPAAOB, (which is an arm of FSA) and the Japanese Institute of Certified Public Accountants (JICPA))
Inspection	<ul style="list-style-type: none"> PIEs¹, Large Alternative Investment Market (AIM) or NEX Exchange Growth Market companies Lloyd's syndicates²– FRC Non-PIEs – delegated to Recognised Supervisory Body (RSBs) with FRC oversight 	<ul style="list-style-type: none"> PIEs¹ – AFM Non-PIE legally required audits³ – delegated to the NBA and the SRA, with AFM oversight Non-legally required audits – delegated to the NBA and to the SRA (for small and medium practices) 	PCAOB - registered public accounting firms	<p>JICPA – legal authority to conduct inspections, with CPAAOB oversight, of audit firms and Certified Public Accountants (CPAs) which audit:</p> <ul style="list-style-type: none"> listed entities certain large non-public companies and non-public financial institutions other entities which are required by relevant laws and regulations to have their financial statements audited by CPAs <p>CPAAOB – authority to examine JICPA's quality control review reports and carry out its own inspections, if necessary, as part of its oversight responsibilities over the same group of audited entities set out above under JICPA's inspection scope. In practice the CPAAOB conducts on-site inspections for at least major audit firms.</p>
Investigation	Similar to 'Inspection'	AFM – audit firms and individual board members of the audit firms	<ul style="list-style-type: none"> PCAOB - registered public accounting firms and associated persons⁴ Securities Exchange Commission (SEC) - auditors of companies publicly listed in the US and of issuers⁵ and brokers and dealers⁶ State Boards of Accountancy - accountants and accounting firms licensed in their respective jurisdictions 	<p>JICPA – legal authority to carry out investigations of audit firms and CPAs.</p> <p>FSA may also carry out investigations.</p>

¹ Updated 2014 Statutory Audit Directive (SAD) definition of PIE (Article 2 (13) of SAD): (a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC; (b) credit institutions as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council, other than those referred to in Article 2 of that Directive; (c) insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC; or (d) entities designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

² Under Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR 2016) as the competent authority with ultimate responsibility for the performance and oversight of the inspection, the FRC cannot delegate the inspection of audits of PIEs and it chooses to retain such responsibility ('reclaim') for the audits of large AIM or NEX Exchange Growth Market companies (i.e. such companies that are incorporated in the UK with a market capitalization of more than €200m as defined in paragraph 5.47 of the FRC Ethical Standard) and Lloyd's syndicates.

³ The most common legally required audits under Dutch law are when a company or institution meets two out of three criteria:

- Revenue over € 12,0 million
- Balance sheet over € 6,0 million
- An average of 50 employees or more

⁴ Any individual proprietor, partner, shareholder, principal, accountant, or professional employee of a public accounting firm.

⁵ Issuer, as defined in Section 3 of the Exchange Act, means the securities of which are registered under Section 12 of that Act, or that is required to file reports under Section 15(d) of that Act, or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933, and that it has not withdrawn.

⁶ The US Department of Justice (DOJ) can also investigate violations of federal law (both criminal and civil), although it often defers to the SEC civil matters pertaining to potential violations of federal securities laws.

Oversight Body /Function	UK - Financial Reporting Council (FRC)	Netherlands - Financial Markets Authority (AFM)	US - Public Company Accounting Oversight Board (PCAOB)	Japan – Financial Services Agency (FSA), Certified Public Accountants and Auditing Oversight Board (CPAFOB, (which is an arm of FSA) and the Japanese Institute of Certified Public Accountants (JICPA))
Enforcement	Similar to 'Investigation'	AFM – audit firms and individual board members of the audit firms Disciplinary Court for Auditors – individual auditors other than board members of the audit firms	Similar to 'Investigation'	JICPA and FSA (Corporate Accounting and Disclosure Division) – each of these bodies has its own enforcement responsibilities
Registration	Delegated to RSBs with FRC oversight ⁷ This responsibility also includes authorisation of statutory auditors and audit firms.	AFM – grants licences to audit firms for statutory audits of: <ul style="list-style-type: none"> • Legally required audits including PIEs • Legally required audits excluding PIEs • NBA – all accounting professionals (Accountant-Administratieconsulent AA) and Registered Accountants (RA) must be registered with the NBA 	PCAOB	Auditors of listed entities - JICPA
Continuing Professional Education	Delegated to RSBs with FRC oversight	NBA	State Boards of Accountancy	JICPA
Standard setting	FRC	<ul style="list-style-type: none"> • Auditing - NBA • Financial Reporting - Raad voor de Jaarverslaggeving (Dutch Accounting Standard Board (DASB)) • Ethics - NBA 	<ul style="list-style-type: none"> • Auditing & Assurance – PCAOB (issuers and brokers and dealers registered with the SEC) / American Institute of Certified Public Accountants (AICPA) (non-public) • Financial reporting – Financial Accounting Standards Board (FASB) / SEC • Ethics – PCAOB / AICPA / SEC 	<ul style="list-style-type: none"> • Auditing - the Business Accounting Council within the FSA • Financial reporting and ethics both FSA (legal framework) and JICPA

Funding

Transparency of costs

For the UK and US the information on actual and budgeted costs is publicly available for key regulatory functions, including inspections, investigations and enforcement. In its financial results, the AFM provides one number for 'supervision' which includes inspections, investigations as well as the supervision of companies' financial reporting, and hence is not fully comparable to the other jurisdictions. In Japan neither the CPAFOB nor the JICPA publish information about their budget, costs or sources of funding.

Transparency of sources of funding, including government funding

The level of funding from government was withdrawn in the UK and the Netherlands and does not exist for the US. In the UK and Netherlands, funding is obtained from a combination of direct levies on companies and on the audit firms themselves amongst other contributions from the market. The PCAOB is funded primarily through annual fees assessed in proportion of market capitalisation (for public companies) and net capital located in and outside of the

⁷ The FRC has delegated the task of approving and registering individuals and firms to the RSBs however retained the responsibility of determination of the eligibility for appointment criteria by agreement with the RSBs ([Eligibility Criteria](#)).

US (for brokers and dealers). At the other end of the spectrum, the Japanese FSA's budget, including CPAAOB's expenses, is funded by the national budget. Professional bodies and companies do not contribute directly.

The UK is the only jurisdiction where part of the funding is obtained from levies on the professional bodies, of which the audit firms are members. In the UK, the Consultative Committee of Accountancy Bodies (CCAB) pay these costs, and these are then passed on to their members, such that the large audit firms, in particular, end up paying sizeable fees to those bodies and indirectly to the FRC. Details of these indirect payments is not publicly available.

Reserves policy

In their budget proposals, the UK and the Netherlands make reference to maintaining a certain level of reserves to be able to deliver regulatory responsibilities effectively. In the UK the FRC's aim over the period of the current three year strategy is to establish reserves equal to six months operating costs. The FRC also holds a corporate reporting review legal cost fund and an actuarial case cost fund of £2.0m each for unforeseen disciplinary costs. The AFM on the other hand reflects a €1.1m increase in its 2016 budgeted general expenses to establish the reserves required to 'increase the professionalism of the organisation'. However no information is publicly available for any reserves or provisions in relation to enforcement activities. In its 2015/16 annual report, the AFM noted that the surplus arising from actual funding (including the fines) and costs are normally offset in the levies for ongoing supervision in the following year. The PCAOB does not have a separately designated reserves in relation to enforcement activities. It has however unrestricted net assets of \$136.6m at the end of 2016, which constitute its total reserves.

Inspections

Remit of inspections, including definition of PIE

- The regulatory regimes for inspections in all four jurisdictions cover auditors of listed entities at a minimum, with additional groups of companies in scope in each country.
- In the UK and Netherlands, the FRC and the AFM, have oversight responsibility for the PIEs which cannot be delegated to RSBs in light of the EU SAD. Equally, the PCAOB also does not delegate its inspection responsibilities of issuers and non-issuer broker and dealers registered with the Securities Exchange Commission (SEC).

Operational features

- Section 2.2.2 focuses on the features of the inspection functions across the four jurisdictions and describes the approach taken by each regulator in fulfilling its regulatory responsibilities. There are significant similarities in the mechanics with an ever increasing trend towards rigour, independence, transparency and the sharing of information between national regulators. Some key points to note include:
 - Consistent approach to rigour and allocation of resources when selecting audit files for inspection with a risk-based approach considered by the four regulators.
 - Common among the UK, US and Netherlands is that file selection does not involve a random or representative sample of all audits undertaken by each firm. The PCAOB is currently working to incorporate randomisation into its risk-based selection process, which it believes would enable the PCAOB to conclude on the state of audit quality, identify audit quality trends, and inform standard setting activities.
 - The objectives of the audit file reviews are to focus on common areas and evidence of audit work undertaken. Inspection findings focus on the sufficiency and adequacy of the audit procedures performed and of the audit evidence obtained and do not mean that the financial statements do not present a true and fair view.
 - Two-way communication prevails throughout the inspection process with the focus on document reviews, interviews, responding to informal and formal queries and reporting.
 - None of the jurisdictions provide overall grading of firms but the UK and Netherlands have a grading system established for individual audits. The US does not have a grading system and the basis of 'measure' is formed on the deficiencies reported. Japan does not have a grading system.
 - All the regulators monitor the audit firms' system of quality control as part of their inspections with similar areas of focus such as tone at the top, independence and ethics and audit quality monitoring.

We noted in our 2016 report that the European Audit Inspection Group (EAIG) has developed a Common Audit Inspection Methodology (CAIM) and this is now used by inspectors in the UK and the Netherlands in performing their reviews. The common methodology is publicly available, however each member state can also add on procedures and these are not publicly available.

- Quality control procedures broadly include independent review of a selection of review reports for the UK and Netherlands, with a moderation panel established for assessment of the findings in the UK. The US has a specific department, Office of Internal Oversight and Performance Assurance (IOPA) to internally examine the programs and operations of the PCAOB and to provide independent challenge to the efficiency, effectiveness and integrity of these activities. No information is publicly available for Japan in this regard.
- The focus of the PCAOB's Division of Registration and Inspections is on the global network firms with its Global Networks Program and a pool of dedicated inspectors focusing on the six largest US audit firms and the non-US members of their international networks. Inspectors are familiar with the audit approaches of the global network firms, auditing software, tools and practice aids. This global approach also allows the PCAOB to identify common deficiencies across the networks. Inspection teams for a global network firm generally comprise six to ten inspectors, but some could have more.

Transparency of reporting and stakeholder engagement

- There is an ever increasing trend towards transparency.
- All regulators publish public reports annually on their inspection activities with varying degree of details. The FRC issued in July 2016 its first annual report specifically on the quality of audits in which it reported aggregated gradings of all its inspections and a strategic target for improvement of audit quality with 90% of FTSE350 audits to be assessed as good or requiring limited improvements by 2019.
- The FRC publishes annually a public report on each of the major firms setting out the key areas where it believes improvements are required, including the aggregate gradings for the audit files reviewed. Similarly the PCAOB issues two-part reports on each audit firm. Part I, publicly available, reports the audit deficiencies identified (without identifying the companies inspected). Part II, issued privately, identifies quality control criticisms. Part II is not made public initially but if a firm fails to satisfactorily address any of the quality control criticisms within 12 months, portions of the formerly private Part II of the report discussing the particular criticism(s) are also made publicly available.
- Regulators in the UK, Netherlands and Japan provide private reports on individual audits to the audit firms. In the UK the audit firms are expected to provide copies of these reports to the directors of the audited entities concerned and confirm to the FRC that they have done so. Additionally copies of these reports are made available to the Audit Committee Chair of the audited entity. Audit Committees are encouraged to report in the entity's annual report if their audit has been subject to an inspection and to discuss issues arising and the auditor's response, but they are not permitted to publish the individual grade.
- Requesting audit firms to undertake a root cause analysis and considering this analysis as part of the inspections program is a common feature in the UK, Netherlands, US and Japan.
- The Dutch and Japanese regulators publish publicly available 'case reports' which summarise inspection findings from across the board with a view to promote audit quality and provide tools for audit firms to benchmark themselves against the findings and to improve their systems of quality control to address common industry-wide problems ('self-remediation'). This is a move towards increased transparency for both the audit firms and the users of the financial statements and emphasises stakeholder engagement. The CPAAOB, for example, also holds lectures on inspection results and on its activities.
- Thematic reviews and reports are becoming a feature of inspections functions. The FRC in the UK aims to publish three reports each fiscal year. The NBA in the Netherlands published in October 2014 its 'In the Public Interest' report focusing on the governance and culture in the audit firms. In Japan, the CPAAOB publishes in-depth analysis of the results of individual off-site monitoring and inspections across audit firms to identify industry-wide issues. The PCAOB publishes general reports that are not firm-specific but provide information and analysis concerning specific audit issues or results from inspections under Rule 4010.

Investigation and enforcement

Scope of disciplinary schemes

- In the UK, the FRC has investigative and disciplinary authority over statutory auditors or statutory audit firms in relation to matters related to PIEs, large AIM companies and matters that are 'reclaimed' from the RSBs. There is one framework to set out the arrangements, the Audit Enforcement Procedure (AEP) (effective June 2016). Similarly in the US, the PCAOB has investigative responsibility in connection with audit firms registered with it. The focus of the disciplinary authority in these jurisdictions is on 'public interest' with the consensus that high profile listed companies are of public interest, as is confidence in the largest audit firms. In the US, the SEC also has investigative authority with respect to auditors of issuers and brokers and dealers registered with the SEC and the Boards of Accountancy in each US State generally have investigative authority with respect to accountants and accounting firms that are licensed in their respective jurisdictions.
- In the Netherlands, investigative and disciplinary powers are vested in different bodies for audit firms (and their board members) and for individual auditors. The AFM has the authority to carry out investigations of all audit firms and it can impose fines on them if it is of the view that the audit firm did not comply with the Audit Firm Supervision Act (Wta) or the decree on the Supervision of Audit Firms (Bta), in other words on the basis of breach of duty of care. The audit firms can appeal the fines at a court of law. On the other hand, anybody who has an interest (shareholder, AFM, public) can file a complaint against individual auditors to the Accountantskamer (Disciplinary Court for Auditors). This body is independent from the AFM and any sanctions imposed by it could be appealed at the 'College van Beroep voor het Bedrijfsleven' (CBb), a committee that deals with appeals for businesses.
- In Japan, the segregation of responsibilities among different regulatory bodies is less clear and both the JICPA and the FSA appear to have such responsibility for audit firms and CPAs. The CPAAOB, under the CPA Act, does not perform investigations, but it can make recommendations for the FSA to investigate based upon the result of the JICPA's or its own inspections.
- Threshold for enforcement action - the UK, US and Japan apply similar thresholds of 'breach of relevant laws and regulations' with no quantification by reference to the seriousness of a breach. Whilst such thresholds are possibly wide-ranging, in practice regulators will apply their authority strategically, focusing their resources on serious audit deficiencies. In the UK for example, under the new AEP, case examiners may resolve matters through constructive engagement with the respondent rather than referring the allegation to the Conduct Committee for formal investigation. The AFM in the Netherlands, has a higher threshold (breach of duty of care) which results in fewer investigations. Based on the outcome of its inspections the AFM can impose monetary fines in the event of a breach of duty of care although the qualitative or quantitative nature of the findings leading to fines are not defined.

Operational features

- The four jurisdictions have generally adopted a quasi-legal approach to disciplinary processes, with recognition of the right to a fair hearing and appeal. The process from the decision to investigate up to and including appeal are set out in section 2.3.2. Some key features include:

Key departments and number of people in each department

- Each jurisdiction established a different disciplinary structure with different complexities. The FRC provides publicly details on the composition, nomination process, responsibilities and skills and qualifications (where available) and independence considerations of the principal bodies within the investigation and enforcement functions. In the other jurisdictions, such information is mostly limited to number of people.

Conduct of hearings

- Open to the public? Generally yes in the UK, Netherlands and Japan; no in the US.
- Admissibility of evidence and burden of proof:
 - UK: Less formal than hearings in Court (evidence can be submitted that would not be admissible in Court)
 - UK/US: Burden of proving any disputed facts resting on the regulator (US: burden of proof on respondent when raising an affirmative defence)
 - For the Netherlands and Japan the hearings are similar to civil court hearings and procedures.

- Expert witnesses – experts may be called on in all jurisdictions.
- Relevant experience and knowledge of tribunal members – one accountant in the UK; information is not publicly available in other jurisdictions.

Appeal

- There is a right of appeal in all jurisdictions. In the UK, respondents may appeal a final decision notice by the Disciplinary Tribunal to the Appeal Tribunal on grounds of error in law, procedural irregularity, new evidence that could not reasonably have been available at the time of the original case or sanction manifestly unreasonable. Appeal Tribunal is a separate tribunal within the FRC, which is drawn from a panel maintained by a 'convener' (i.e. a senior individual independent of the investigation process). In the UK, further appeal is only possible by Judicial Review. In Netherlands, under the legal framework of Audit Firm Supervision Act (Wta) and General Administrative Law, the appeals by the audit firms against orders from administrative authorities is only possible by a Judicial Review. The individual auditors, on the other hand, could appeal against the order of the Disciplinary Committee to an independent body, namely College van Beroep voor het Bedrijfsleven. In the US, appeal of the PCAOB's decision can be made to the SEC and an additional appeal to the US Court of Appeals for the District of Columbia Circuit is also available following a decision by the SEC. In Japan, there is a right of appeal against the JICPA's decisions and respondents can file a lawsuit to rescind a decision by the FSA or Prime Minister, when it is not possible to make an appeal to the FSA directly.

Sanctions

- Broad range of sanctions in all four jurisdictions – ranging from actions to prevent future recurrence (e.g. training, engagement of a third party to design policies to achieve compliance with the rules or to observe and report on the firm's compliance with the rules), warnings, reprimands, temporary or permanent revocation of registration, repayment of clients fees and financial penalties (unlimited in the UK or limited in the US and the Netherlands).
- Payment of legal fees in the US, each party generally pays their own; in the UK respondents will pay the FRC's costs including tribunal costs if they are found against.
- In the US, in April 2013 the PCAOB announced that benefits may be available to firms and individuals who offer extraordinary cooperation in PCAOB investigations. Extraordinary cooperation is voluntary and timely action beyond compliance with legal or regulatory obligations, including self-reporting of rule violations before they come to a regulator's attention, taking remedial action and providing substantial assistance to the PCAOB's investigation. This could result in reduced charges or sanctions and in exceptional cases no sanction at all. Extraordinary cooperation may also be noted in announcements of PCAOB disciplinary actions.

Duration

Cases can take years to complete. The UK has publicly recognised the need to reduce the time period and has indicated its aim to conclude investigations within 2 years going forward. Similarly, the PCAOB published in its 2016-2020 Strategic Plan its aim to resolve 66% of investigations within three years of starting a formal investigation.

Transparency

- The publication of regulators' findings and actions contributes to transparency, public confidence in the enforcement arrangements and aims to deter against inadequate execution of statutory audits.
- Transparency varies across jurisdictions.
- There is a need to balance transparency with the potential impact publication may have on the companies whose statutory auditors have been the subject of an inspection or investigation (e.g. share price, shareholders' interest). In the UK, the FRC may at its discretion publicise the commencement of investigations. Such investigations may take several years to conclude and may result in no case being pursued or no enforcement action taken against the audit firm. In the US by contrast, unless the PCAOB finds good cause to make them public and all parties consent (to date this has never occurred), the PCAOB is prohibited from publicly disclosing any allegations and proceeding until the case is appealed to the SEC or the opportunity to appeal has lapsed. The Dutch and Japanese regulators provide a short public statement at the end of the investigation process.

- The UK, the US and Japan generally name individual audit partners as well as audit firms unless there is a strong reason for not doing so. The AFM only names audit firms.

Fairness and natural justice

In all jurisdictions a certain degree of segregation of duties is achieved. In the UK, decisions to investigate and sanctions are taken by different parts of the same regulatory body. In the Netherlands, the same department undertakes inspections and investigations of the audit firms however the Executive Board of the AFM decides whether a respondent is liable for a fine and an independent Penal Fines Officer is responsible for setting the fines. In the US there are rules covering the participation of staff involved in different stages of the investigation and enforcement proceedings.

Approach to third country auditors⁸

The PCAOB applies exactly the same regime to overseas auditors of issuers as it does to domestic registrants and it has entered into bilateral agreements with many jurisdictions around the world to perform PCAOB inspections of registered firms in those countries. The EU has a third country auditor regime applicable to auditors of non-EEA incorporated EEA listed entities – either by direct regulation or local regulation under an equivalent audit regime. IFIAR has no particular requirements as it does not cover the geographic scope of regulation, only the form of regulation once an audit is in scope. In Japan, the CPAAOB has been engaging with IFIAR and also with the audit oversight authorities from various jurisdictions to build bilateral cooperative relationships including the establishment of a framework for exchanging information on audit supervisory activities to facilitate its own examination and inspection activities.

⁸ Third-country audit entity / auditor mean, respectively, an entity regardless of its legal form / a natural person that carries out audits of the annual or consolidated financial statements of a company incorporated in a third country (non-EU country), other than an entity / person registered as an audit firm / statutory auditor in any EU Member State.

Comparative metrics table

Information on the following key metrics have been drawn on publicly available information. It is important to note that the metrics presented below should be considered together with the footnotes in their entirety and the comparison will only be meaningful when the caveats set out previously in the Executive Summary and scope and responsibility definitions set out at section 2 are fully taken into account:

Metrics	UK	Netherlands	US
Inspection			
Number of PIEs ⁹	Approximately 1,900 ¹⁰ Listed entities only – 1,059 ¹¹	Approximately 1,100 ¹²	8,780 ¹³
Number of firms undertaking audits of PIEs	50 ¹⁴	10 – legally required audits, including PIEs ¹⁵	532 ¹⁶
Number of audit firms with only one PIE audit client	18 ¹⁷	Not publicly available ¹⁸	350 ¹⁹
Number of PIE engagements reviewed	<i>PIEs (113)</i> ²⁰ : 95 – Four largest networks of firms • Four largest networks of firms • Other large • Small and medium	40 – Four largest networks of firms ²¹	320 – annually inspected firms ²² 460 – triennially inspected firms ²²
Frequency of inspection	Four largest networks of firms, BDO and GT – annual All others – every one to three years, could be extended to six years	PIE licensed audit firms – every three years ²³ All others ²³ – every six years	Firms that issue audit reports for more than 100 issuers ²² – annual Firms that issue audit reports for 100 or fewer issuers ²² – at least once every three years
Number of staff	35 ²⁴ Further breakdown between professional and support staff is not publicly available.	49 ²⁵ Further breakdown between professional and support staff is not publicly available.	More than 60 percent of the 856 PCAOB staff work in the Division of Registration and Inspections, all but a small number of whom are professional accountants.

⁹ Defined in Hong Kong as listed entities only. Unless stated otherwise, the information for the other jurisdictions is collected for the audited entities within the scope of direct inspection responsibility (not delegated) for each of the regulators in the UK, Netherlands and US, as defined on page 3.

¹⁰ In its *Developments in Audit 2015/16 An Overview* report, the FRC notes that from June 2016, approximately 1,900 entities are within its scope of inspection across approximately 50 audit firms. There were nine audit firms inspected directly by the AQR for the 2015/16 cycle.

¹¹ Total number of companies that have shares admitted to trading on the London Stock Exchange as at 28 March 2017.

¹² Number of audited entities defined as PIE in Netherlands.

¹³ Number of issuers invoiced by the PCAOB as stated in the PCAOB's 2016 Annual Report

¹⁴ Approximate number for the 2017/18 inspection cycle, increased from nine for the 2015/16 inspection cycle as explained on page 18.

¹⁵ As of 24 March 2017, as per the registered audit firms list on the AFM website.

¹⁶ According to the PCAOB's 2016 Annual Report, there was a total of 2,013 firms, including US firms and non-US firms, registered with the PCAOB and subject to inspection. Of these, 1,481 firms did not issue 'issuer audit reports'; however, it is not clear how many of those registered firms played a substantial role in the audit of an issuer. The number of accounting firms within the PCAOB inspection scope (firms that could be actively inspected) is derived as the difference between 2,013 and 1,481.

¹⁷ According to the FRC's *Key Facts and Trends in the Accountancy Profession* report published in June 2016, based on the voluntary declarations made by 41 audit firms, 18 firms have one PIE audit client for the year ended 2015. This list provides a good estimate of the metric stated however does not present the total number. It is also important to note that PIE is defined as entities governed by the law of a member state whose transferable securities (equity and debt) are admitted to trading on a regulated market in the EEA, credit institutions and insurance undertakings.

¹⁸ Review of the transparency reports of the audit firms that have license to audit PIEs indicated that all of such firms have more than one PIE audited entity.

¹⁹ According to the PCAOB's 2016 Annual Report there are 350 US and Non-US firms that audit between 1-5 issuers. There is no other figure available publicly for the number of firms that audit only one issuer.

²⁰ Source: FRC's *Developments in Audit 2015/16* report, tables on audits inspected by each audit firm in the AQR's scope and audits inspected by type of entity for the 2015/16 cycle. The audits of the four largest networks of firms include six listed Crown Dependency companies audited by stand-alone Crown Dependency audit firms (specifically KPMG Channel Islands Limited). Further breakdowns are available in the AQR's individual firm reports published in May 2016.

²¹ In the AFM's second inspection cycle, which covered the four largest networks of firms (for 2012/13 audits), 40 audit files were selected (at each of the audit firms four PIEs and six legally required audits (non-PIEs)). In 2013, the AFM completed a thematic review of non-PIE licensed audit firms and inspected 50 non-PIE audit firms (out of a total of approximately 447 audit firms) and 63 audit files.

²² According to the PCAOB's 2016 Annual Report: a) there were 10 audit firms that audit more than 100 issuers (annually inspected) and the PCAOB inspected portions of 320 audits undertaken by these firms; b) there were 188 audit firms that audit 100 or less issuers (triennially inspected) and the PCAOB inspected portions of 460 audits undertaken by these firms.

²³ The list of audit firms (10 firms) with a PIE licence is available on the AFM website and includes Deloitte, EY, KPMG, PwC, GT, BDO, Mazars, SMA Accountants N.V. and accon avm controlepraktijk B.V. All others represent the audit firms that audit legally required audits, excluding PIEs.

²⁴ The AQR consists of approximately 35 professional and support staff. Inspections at the four largest networks of firms would typically involve around 5 inspectors on average.

²⁵ The Audit and Reporting Quality department employ 49 full-time equivalent staff. The department supervises both audit quality and financial reporting and also has responsibility over both inspections and investigations.

Comparative metrics table (cont'd)

Metrics	UK	Netherlands	US
<p>Inspections on four largest networks of firms</p> <ul style="list-style-type: none"> Number of staff on four largest networks of firms (including SQC review) Length of inspection time (including SQC review) 	<ul style="list-style-type: none"> 5²⁴ Pertaining to 2015/16 inspection cycle, the inspection was conducted in the period: Deloitte – Mar 15 - Jan 16 KPMG – Feb 15 – Jan 16 EY – Feb 15 – Jan 16 PwC – Feb 15 – Jan 16 BDO – Mar 15 - Jan 16 GT - Dec 14 – Dec 15 Typically fieldwork related to each audit file review lasts two to three weeks. All reports issued in May 2016. 	<ul style="list-style-type: none"> Not publicly available For an inspection cycle, the AFM will inspect audit files and system of quality control throughout the year at certain times (e.g. in January, May and October). Typically fieldwork related to each audit file lasts two weeks. 	<ul style="list-style-type: none"> 6 to 10 (or could be more) inspectors on a global network firm²⁶ Pertaining to 2015 inspections, staff conducted primary procedures during: Deloitte – Oct 14 - Apr 16 KPMG – Nov 14 – July 16 EY – Nov 14 – June 16 PwC – Mar 15 – Mar 16 Typically fieldwork related to audit file review at each office visited lasts two to three weeks. All reports issued in September – October 2016.
Cost of function	£8.8m ²⁸	Not publicly available ²⁷	\$140.7m ²⁸
Enforcement			
<p>Number of staff</p> <ul style="list-style-type: none"> Professional Support 	<p>Number of key individuals within the investigation and enforcement functions are:</p> <p>Case examiner – at least one</p> <p>Executive Counsel</p> <p>Case Management Committee – up to 20 members</p> <p>Enforcement Committee Panel – up to nine members</p> <p>Disciplinary Tribunal – three</p> <p>Appeal Tribunal – five</p> <p>Further details are at section 3.1.4.</p> <p>Further breakdown between professional and support staff is not publicly available.</p>	<p>Penal Fines Officer – at least one</p> <p>Disciplinary Court for Auditors – 24 members²⁹</p>	<p>More than 60 individuals work in the Division of Enforcement and Investigations, most of whom are professionals (both lawyers and accountants).³⁰</p>
Cost of function	£6.8m ²⁸	Not publicly available ^{27 29}	\$22.1m ²⁸
Recipient of fines	<p>Under the Audit Enforcement Procedure, for cases against audit partners and firms initiated on or after 17 June 2016, fines are received and retained by the FRC.</p> <p>Under the Accountancy Scheme, for cases initiated against audit partners and firms before 17 June 2016 and for all cases on misconduct of members in business (e.g. CFOs), the fines are passed on to the RSBs, which provide the funding to the FRC to investigate the cases.</p>	<p>Up to €2.5m is recorded as revenue in the financial statements once they have been irrevocably established and it is probable that the penalty fine will be received by the AFM; any excess over this amount is appropriated to the State.</p>	<p>All monetary penalties collected by the PCAOB must be used to fund merit scholarships for undergraduate and graduate students in accredited accounting degree programs.³¹</p>

²⁶ For operational purposes in administering the PCAOB Inspection program, registered firms that audit issuers are grouped into two programs; a) Global network firms program focusing on the six largest U.S. firms and the non-U.S. members of the international networks with which they are affiliated; b) Non-affiliated firms program to carry out inspections of other firms.

²⁷ According to its 2015 annual report, total cost of the supervision of the audit market is €14.4m that reflects the cost of supervision, inspection and investigation responsibilities of the regulator.

²⁸ UK: 2016/17 outturn. US: 2016 actuals from PCAOB's Annual Report.

²⁹ The enforcement process is established differently in the Netherlands, compared to the UK and US. Penal Fines Officer (separate and independent from the Audit and Reporting Quality Department) sets the level of fines (be it fines to the audit firms following inspections on the basis of breach of duty of care or administrative fines to the market participants). Disciplinary Court for Auditors is fully independent from the AFM and is part of the justice system in the Netherlands that sanctions individual auditors.

³⁰ Number cited publicly by officials of the Division.

³¹ Source: Section 109(c)(2) of the Sarbanes Oxley Act (SOX) as noted in the PCAOB's 2016 annual report (section on Net Civil Monetary Penalties and Scholarship Payments).

Metrics	UK	Netherlands	US
Oversight			
Number of third country auditors registered	108 ³²	16 ³³	900 ³⁴
Number of staff • Professional • Support	Not publicly available	The Monitoring Board of the NBA consists of eight members and it listed 70 audit professionals as inspectors in 2015.	US does not delegate regulatory functions
Cost of function	£1.7m ²⁸	Costs of oversight by NBA approximately €1.8m which are fully paid for by the firms under inspection.	US does not delegate regulatory functions

Information gaps

There is no information publicly available for any of the jurisdictions (unless stated otherwise) in the following areas:

- Cost of the central functions supporting the inspection, investigation and enforcement regulatory functions, except for certain information available for the US provided in section 3.3.1.
- Infrastructure and set up costs (costs associated with setting up each function, such as IT, property or lease costs, administrative functions), except for certain information available for the US provided in section 3.3.1.
- Budget and funding requirements per regulatory function (Japan only)
- Skills and qualifications of the inspections team (Japan only)
- Standard or electronic work programmes used during the inspection process (over and above limited information provided in section 2.2.2)
- Quality control procedures for inspection, investigation and enforcement sections (limited overview information is available for the UK, US and Netherlands; no information publicly available for Japan on this matter).
- Skills and qualifications, including independence and nomination details of the people in decision-making investigation and enforcement roles (except for the UK). Therefore, as noted before, further details on the fairness and natural justice needs to be discussed with the respective regulators.
- Publication or announcements of investigations and sanctions (limited information available for the US, Netherlands and Japan).
- Number of cases dealt with by the disciplinary body, statistics on annual settlement, number of appeals and duration (available for the UK, certain information available for the US and Netherlands; no information from Japan).

³² As at 31 March 2016, the total population of Third Country Auditors (TCA) is 108 TCAs with 205 issuers with UK traded securities across 45 countries.

³³ Information available publicly on the AFM website <https://www.afm.nl/nl/professionals/registers/alle-huidige-registers.aspx>

³⁴ PCAOB's 2016 Annual Report notes that 900 non-US firms in 89 jurisdictions are registered with the PCAOB.

2. Key features of audit oversight responsibilities

2 Key features of audit oversight responsibilities

Analysis of key features of audit oversight responsibilities

This section sets out a comparison by jurisdiction of the key features of audit oversight responsibilities in respect of funding and budget, inspection, investigation and enforcement responsibilities, oversight responsibilities over delegated functions and approach to the third country auditors.

2.1 Funding and budget

2.1.1 Focus area: Cost per function

Years related to	UK		Netherlands		US		Japan
	2016/17 'Revised' Budget ³⁵	2016/17 Outturn	2017/18 Budget	2015 Actuals	2015 Actuals ³⁶	2016 Actuals ³⁶	2017 Budget ³⁶
Inspections	£7.3m	£8.8m	£7.7m	Not publicly available ³⁷	\$141.8m ³⁸	\$140.7m ³⁸	\$133.8m ³⁸
Enforcement and investigations	£5.0m	£4.0m	£5.0m	Not publicly available	\$22.1m	\$22.1m	\$20.9m
	£2.9m	£2.3m	£3.4m				
Core operating costs	£18.3m	£16.2m	£19.2m	Not publicly available	\$86.2m	\$86.9m	\$113.8m
Total	£33.5m	£31.3m	£35.3m	€86.6m³⁹	\$250.1m	\$249.7m	\$268.5m

³⁵ The 'revised' 2016/17 budget presented in the FRC's 2017/18 budget indicates an allocation of £2.0m of overall 'core operating costs' to inspections (i.e. increasing the £5.3m presented in the Final 2016/17 Budget and Plan to £7.3m) and an allocation of £2.9m of those costs to enforcement core costs.

³⁶ 2015 and 2016 actuals as per PCAOB's 2016 Annual Report. 2017 budget figures as per PCAOB's 2017 Budget by Division/Office.

³⁷ Total costs for the overall supervision of the audit profession is reported as €14.4m. This includes costs associated with the Audit and Reporting Quality department, which undertakes inspections and investigations of the audit firms as well as the supervision of companies' financial reporting.

³⁸ Total costs for inspection and registration. Per 2017 Budget, the costs for inspections and registration are \$132.5m and \$1.3m, respectively.

³⁹ Includes employee expenses of €65.8m and IT related costs of €5.2m.

2.1.2 Focus area: Funding models

	UK	Netherlands	US	Japan
Overall	<p>The FRC is funded primarily via levies it charges to:</p> <ul style="list-style-type: none"> the professional bodies (of which the audit and accounting firms are members) the preparers of accounts (with minimum levies, banding scale and discounts granted based on the type of listing, the size of private entities as well as organisations in the public sector) insurance levy that applies to life and general insurance companies (equivalent to 1.1% of the fees charged by the FCA and the PRA) pensions levy that applies to pension schemes with 1,000 or more members (£2.95 per 100 members). <p>Funding from the professional bodies is expected to contribute to £17.3m in 2017/18 (2016/17 'revised' budget: £17.3m), of which £7.3m (2016/17 'revised' budget: £7.4m) relates to inspections and £5.0m (2016/17 revised budget: £5.0m) to enforcement. The accountancy profession's funding is paid by the Consultative Committee of Accountancy Bodies (CCAB), whose members are ACCA, CAI, CIPFA, ICAEW and ICAS. The costs are passed on to the professional bodies which in turn pass those costs on to their members, with the large audit firms paying sizeable fees to those bodies (and indirectly to the FRC). Details of the recharge mechanism is not publicly available.</p> <p>Under the Audit Enforcement Procedure, for cases against audit partners and firms initiated on or after 17 June 2016, fines are received and retained by the FRC.</p> <p>Under the Accountancy Scheme, for cases initiated against audit partners and firms before 17 June 2016 and for all cases on misconduct of members in business (e.g. CFOs), the fines are passed on to the RSBs, which provide the funding to the FRC to investigate the cases.</p> <p>Government funding ceased as from June 2016. Further details are provided in section 3.1.1.</p>	<p>The AFM has oversight responsibility for the supervision of the audit market and operation and conduct of the entire financial market (savings, investment, insurance and loans – including market abuse, public bids and offerings and financial reporting). The primary sources of funding for the whole of the AFM (including supervision of the audit profession) are:</p> <ul style="list-style-type: none"> levies from all companies under supervision allocated across 16 categories of institutions (approximately 9,900 institutions in 2015) according to percentage (fixed for five years), although these are subject to change if the supervisory legislation or composition of a supervisory category changes substantially levies from market contribution categories such as: <ul style="list-style-type: none"> audit firms advisers and intermediaries banks and clearing institutions managers of collective instrument schemes and UCITS but not NBA or SRA; contributions for the performance of specific services, such as the granting of a license or an exemption for each type of service. levies imposed by the AFM (including for the supervision of the financial markets, not only the supervision of audit firms) also constitute a source of income. As of 1 January 2015, Article 7 of the Law on Funding of Financial Supervision (Wbft) requires that fines in excess of a threshold of €2.5m imposed by the AFM be distributed to the State. <p>Government funding ceased at the start of 2015.</p>	<p>The PCAOB is funded primarily through:</p> <ul style="list-style-type: none"> accounting support fee from issuers in proportion to their market capitalisation and from SEC-registered brokers and dealers based on their net capital located in and outside of the United States (99%) registration fees and annual fees from each registered public accounting firm (around 1%). 	<p>FSA / CPAAQB: the FSA's budget including CPAAQB's expenses is funded by the national budget. Professional bodies and companies do not pay directly. JICPA: Funded through levies from audit firms and fees on membership, statutory and specified audit services rendered by members calculated on specific percentages. Further details on the sources of funding is not publicly available.</p>

2.2 Key features of inspection responsibilities

2.2.1 Focus area: Scope of inspections

	UK	Netherlands	US	Japan
	<p>Oversight responsibility for statutory audits by law under <i>Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR 2016)</i> of:</p> <ul style="list-style-type: none"> PIEs (specifically in the UK, audits of entities with securities admitted to trading on an EEA regulated market, banks, building societies and insurance companies (which are required to comply with Solvency 2 Act in the UK)). <p>Oversight responsibility for statutory audits FRC reclaims under <i>SATCAR 2016</i></p> <ul style="list-style-type: none"> AIM or NEX Exchange Growth Market companies incorporated in the UK, other than Small and Medium Enterprise (SME) listed entities. Lloyd's syndicates. <p>Contractual responsibility, <i>under separate agreements with relevant regulatory bodies for:</i></p> <ul style="list-style-type: none"> Entities incorporated in Jersey, Guernsey or the Isle of Man whose securities are traded on a regulated market in the EEA. Local authorities and the National Health Service (Local Public Audits) under Public Sector Audit Appointments requirements. Third Country Auditors from countries where the European Commission has determined that the system of auditor oversight is not 'Equivalent' or 'Transitional' to that required within the EU. <p>Delegated responsibility to RSBs, <i>pursuant to the Statutory Auditors (Amendment of CA 2006 and Delegation of Functions etc.) Order 2012</i> regarding:</p> <ul style="list-style-type: none"> Audits of UK incorporated companies and certain other entities which do not have any securities listed on the main market of the London Stock Exchange and are not otherwise defined as being within the scope of the Audit Quality Review (AQR) Team's work. 	<p>Oversight responsibility for statutory audits, <i>pursuant to Audit Firms Supervision Act (Wta)</i> of:</p> <ul style="list-style-type: none"> PIEs (definition broadly same as the EU legislation definition although there is continuing debate on broadening the definition of PIE, to include potentially housing associations and/or pension funds). Legally required audits (agreements in place with the NBA to monitor audit quality of non-PIE legally required audits). <p>Delegated to RSBs, <i>pursuant to Wta</i>:</p> <ul style="list-style-type: none"> Non-legally required audits – delegated to the NBA. Supervision of members of the SRA network (independent audit firms) – delegated to the SRA. 	<p>Oversight responsibility for audits, <i>pursuant to auditor oversight legislation Sarbanes-Oxley Act of 2002 (the Act), The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank)</i> of:</p> <ul style="list-style-type: none"> Issuers Non-issuer brokers and dealers registered with the SEC (broker-dealers) (under temporary inspection program). <p>The PCAOB can also inspect a registered firm that does not issue audit report, but that plays a substantial role in issuer audits by performing work used by another firm in an audit.</p> <p>The PCAOB inspection program only evaluates registered public accounting firms with respect to its issuer audit practice and with respect to its non-issuer brokers and dealer audits. All AICPA member firms are required to undergo peer review of the rest of their auditing and accounting practice in order to satisfy AICPA membership, federal regulatory (e.g. Generally Accepted Government Auditing Standards) and/or state licensing requirements. Peer reviews are conducted by other accounting firms (rather than AICPA staff). The AICPA's peer review program is available at http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/Pages/default.aspx.</p>	<p>Legal authority to conduct inspections by JICPA, <i>pursuant to the JICPA Constitution</i>, with oversight responsibility by the CPAAOB, <i>pursuant to the CPA Act</i> of:</p> <ul style="list-style-type: none"> listed entities certain large non-public companies and non-public financial institutions, as defined in Article 24-2 of CPA Act⁴⁰ other entities which are required by relevant laws and regulations to have their financial statements audited by CPAs. <p>The CPAAOB discharges its oversight responsibility by:</p> <ul style="list-style-type: none"> Reviewing every three years the JICPA's Quality Control Review Report which summarises the results of its inspections of CPAs and individual audit firms and: ascertaining that the JICPA's quality control review systems are operating appropriately monitoring that audits are performed in accordance with the relevant laws and regulations focusing on reviewing the establishment and management of the quality control systems of audit firms. Conducting off-site monitoring by further enhancing and upgrading the system for collecting and analysing information through the utilisation of reports on the JICPA's quality control reviews and exchange of views with the JICPA and other relevant domestic organisations as well as overseas audit supervisory authorities. Performing its own inspections of the JICPA, audit firms or audited companies if deemed necessary in the light of public interest or investor protection. <p>Making recommendations to the FSA for administrative action on audit firms or on the JICPA, based on inspection results, if it considers necessary.</p>

⁴⁰ 'Large company' is defined in Article 24-2 of the CPA Act as:

- A company with accounting auditors (excluding one specified by a Cabinet Order by taking into consideration the amount of capital, the total liabilities, and any other matters).
- A person who needs to receive audit attestation pursuant to the provisions of Article 193-2(1) or (2) of the Financial Instruments and Exchange Act (excluding one specified by a Cabinet Order).
- A bank prescribed in Article 2(1) of the Banking Act (Act No. 59 of 1981).
- A long-term credit bank prescribed in Article 2 of the Long-Term Credit Bank Act (Act No. 187 of 1952).
- An insurance company prescribed in Article 2(2) of the Insurance Business Act.
- A person categorised by a Cabinet Order as one equivalent to any of those listed in the preceding items.

2.2.2 Focus area: Operational features of inspection function

	UK	Netherlands	US	Japan
Name of the regulatory body (refer to section 3 for details of the governance and operational structure)	<p>The Audit Quality Review (AQR) team of the FRC monitors the quality of the audit work of those UK audit firms that audit entities within its scope.</p> <p>Its leader, the Audit Quality Review Director, reports to the Executive Director of Audit and Actuarial Regulation who sits on the Executive.</p>	<p>The department of Audit and Reporting Quality of the AFM supervises both audit quality and financial reporting.</p> <p>The department is led by one head and several managers. In the AFM's organisation structure, the department of Audit and Reporting Quality operates under the supervision of the Executive Board, which in turn operates under the supervision of the Supervisory Council.</p>	<p>The Division of Registration and Inspections of the PCAOB carries out the PCAOB inspection functions.</p> <p>The division is led by a Director and five Deputy Directors.</p> <p>The organisation chart of the Division of Registration and Inspection is provided at section 3.3.2.</p>	<p>JICPA: the Quality Control Team, carries out the inspection functions on audit firms in its scope.</p> <p>It reports to the Quality Control Committee which is then overseen by the Quality Control Oversight Body. This body's main responsibility is to monitor the effectiveness and independence of the JICPA's review system.</p> <p>CPA AOB: The Office of Monitoring and Inspections carries out the oversight responsibilities.</p> <p>It sits under the Executive Bureau of the CPA AOB, led by the Secretary-General of the Executive Bureau.</p>
Number of people in inspection team, skills and qualifications	<p>The AQR consists of approximately 35 professional and support staff. The inspection teams have extensive expertise. Typical competency requirement for the role of audit inspector includes, amongst others, to be member of the ICAEW, ACCA, ICAS or ICAI with at least six years post qualification experience and experience at a senior manager level or above in an audit practice.</p> <p>Each inspection is led by an inspection leader / senior inspector who is supported by a number of inspectors. Inspections at the four largest networks of firms would typically involve around five inspectors on average.</p>	<p>49 full-time equivalent staff work in the department of Audit and Reporting Quality. There is one manager responsible for financial reporting and one for audit quality.</p> <p>The inspection team usually consists of two members per engagement supervised by the inspection leader / supervision officer.</p> <p>The members of the inspection team usually have experience (5-10 years) in audit, often with a background at one of the larger audit firms.</p>	<p>More than 60 percent of the 856 PCAOB staff work in registration and inspections⁴¹. For operational purposes in administering the PCAOB Inspection program, registered firms that audit issuers are grouped into two programs:</p> <ul style="list-style-type: none"> Global Network Firms Program – focuses on the six largest US firms and the non-US members of their international networks. Non-Affiliated Firms Program - inspections of other firms. <p>The PCAOB has a Global Inspection Leader and a pool of dedicated inspectors for all global network firm inspections. Inspectors are familiar with the audit approach of the relevant global network firm, auditing software and tools and practice aids.</p> <p>This global approach also allows the PCAOB to identify common deficiencies across the network. Inspection teams for a global network firm generally comprise of 6 to 10 inspectors, but some could have more.</p> <p>The size of the team for a non-affiliated global network firm depends on the size of the firm and the engagement.</p> <p>Inspectors are expected to be experienced auditors (generally with more than 6 years of experience as an auditor of public companies).</p>	<p>The Quality Control Team of the JICPA consists of full-time reviewers including one chief executive reviewer, four deputy chief reviewers, 16 senior reviewers and six staff reviewers as of 31 March 2013.</p> <p>The Office of Monitoring and Inspections of CPA AOB consists of 42 staff members, including seven chief inspectors and 26 inspectors as of 31 March 2015.</p> <p>Information on skills and qualifications of the staff in these bodies is not publicly available.</p>

⁴¹ Source: 2016 PCAOB Annual Report

	UK	Netherlands	US	Japan
Training	No information publicly available on professional training of the inspectors.	No information publicly available on professional training of the inspectors.	The PCAOB has a Training Director. A robust professional training program is provided to inspectors in accounting and auditing, law, and other fields to fulfil its commitment to maintaining a highly-qualified staff in order to achieve the PCAOB's statutory mandates (at least annual training and various trainings throughout the year on an as-needed basis).	No information publicly available on professional training of the inspectors.
Number of audit firms subject to inspection	The number of firms which audit entities within AQR scope is approximately 50 for 2017/18. The increase from nine firms inspected previously under the old regulatory framework reflects the wider scope of PIEs and retained audits subject to direct AQR inspection which were previously monitored by the RSBs.	10 audit firms are able to perform Dutch PIE audits and legally required audits (March 2017). 317 audit firms are able to perform legally required audits (March 2017). ⁴²	At least 532 ⁴³ public accounting firms were within the PCAOB's active inspection scope as at 31 December 2016. The actual number of firms that the PCAOB regularly inspects fluctuates since certain registered firms cease to issue audit reports while other firms will begin to issue audit reports for the first time.	214 audit firms subject to regular quality control review (for the year ended 31 March 2015) ⁴⁴ . There were 28,286 registered CPAs for the same period. The number of audit firms subject to special quality control review ⁴⁵ was 148 as at 31 March 2015.
Review frequency	Annual inspection of all large firms (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC). Other firms are generally inspected every one to three years, however the cycle can be extended to six years. Going forwards the FRC intends to refocus its inspections to cover FTSE 100 every four years, FTSE 250 excluding investment trusts every five years and FTSE 250 investment trusts every seven years.	Every three years for major audit firms that audit legally required audits, including PIEs ⁴⁶ . The AFM's third cycle of inspections was ongoing in January 2017. Every six years for audit firms that audit legally required audits, excluding PIEs.	Annual inspection: Firms that issue audit reports for more than 100 issuers. Firms that issue audit reports for 100 or fewer issuers: At least once every three years Firms that have not issued an audit report in two consecutive years: The PCAOB may, at its discretion forego, an inspection. Firms that play a substantial role: At a minimum, the PCAOB inspects 5% of these each year.	JICPA inspections: Every two years for major audit firms (firms that audit at least 100 listed companies or that employ at least 1,000 full-time auditors). Every two or three years for second-tier audit firms (those that are not the major audit firms yet issue audit reports on a relatively large number of listed companies). As required (or every three years or less) for smaller audit firms, joint firms or an individual firm, based on the results of risk assessment of the JICPA's reports on quality control reviews. CPAABO: The inspection cycle is the same as the JICPA inspection cycle. In practice the CPAABO conducts inspections at least for the major audit firms every two years.

⁴² In order to conduct statutory audits, an audit firm must have obtained a licence from the AFM: a PIE licence if the audit firm only conducts other statutory audits.

⁴³ According to the PCAOB's 2016 Annual Report, there was a total of 2,013 firms, including US firms and non-US firms, registered with the PCAOB and subject to inspection. Of these, 1,481 firms did not issue 'issuer audit reports'; however, it is not clear how many of those registered firms played a substantial role in the audit of an issuer. We have included the number of accounting firms within the PCAOB inspection scope (firms that could be actively inspected) as the difference between 2,013 and 1,481.

⁴⁴ Since April 2007, all firms which audit listed companies are required to register with the Centre of Listed Company Audit Firms and to publish a description of their systems of quality control to enhance investor confidence. Special quality control reviews focus on the quality control systems of the audit firms and are undertaken when a need arises on the basis of public trust. The decision to undertake special reviews is made by the Quality Control Committee and instructed by the Chairperson within the JICPA.

⁴⁶ In its *Supervision in times of change (Agenda 2016-18)* document the AFM notes that auditors of PIEs are responsible for 66% of the statutory audits performed in the Netherlands.

	UK	Netherlands	US	Japan
Number of audit files reviewed	<p>The AQR Team inspects between 20 and 30 engagements for each of the four largest networks of firms and in excess of 150 audits on average in total annually.</p> <p>In its 2015/16 cycle, the FRC inspected 137 audits (inclusive of 18 public sector audit reviews), across 13 UK and Channel Island firms and six third country firms. Of the 137 audits, 113 of them were pursuant to FRC's direct oversight responsibility and 24 of them (18 public sector and 6 third country auditors) were under contractual agreements.</p>	<p>In the AFM's second inspection cycle of the major firm – for 2012/13 audits – 40 audit files were selected.</p> <p>At each of the four largest networks of firms, the AFM selected four legally required audits of PIEs and six audits of non-PIEs. In the PIE segment, the AFM selected at least one health insurer and two listed companies (AEX and ASX). In the non-PIE segment, the AFM selected at least one pension fund, one public or semi-public entity and one large non-PIE. In 2013, the AFM completed a thematic review of non-PIE audit firms. In this review the AFM inspected 50 non-PIE audit firms out of a total of circa 447 audit firms in 2013 and 63 audit files.</p>	<p>Number of audit engagement reviews for annually / triennially inspected firms (including non-US firms):</p> <p>2007 - 461 / 574 2008 - 425 / 472 2009 - 350 / 730 2010 - 350 / 600 2011 - 340 / 485 2012 - 290 / 620 2013 - 315 / 550 2014 - 310 / 470 2015 - 320 / 490 2016 - 320 / 460</p> <p>The PCAOB has conducted inspections both within the US and in 47 jurisdictions outside the US.</p>	<p>JICPA: In the year to 31 March 2015, the JICPA performed 83 reviews as part of its regular Quality Control Review (57 on audit firms and 26 on individual CPAs⁴⁷).</p> <p>In addition, in the year to 31 March 2015 the JICPA performed 67 follow-up reviews (57 audit firms and 10 CPAs). Follow-up reviews are those to assess the status of improvement measures from previous reviews and out of these, 60 were reported to the CPAAOB and resulted in improvement measures imposed by the JICPA.</p> <p>CPAAOB: <i>a. Desk top monitoring</i> The CPAAOB reviewed 48 reports issued by the JICPA on audit firms for a 'focused verification' of the firms' system of audit quality control and 10 reports for an industry-wide 'fact finding' (from a total of 89 reviews conducted by the JICPA) in the year to 31 March 2014.</p> <p><i>b. Inspection of audit firms</i> As of March 2015, the JICPA reported to the CPAAOB 57 cases out of the 83 reviews.</p> <p>After examining these 57 cases, in the year to 31 March 2015, the CPAAOB conducted 9 inspections against audit firms. The number of inspections decreased from 15 in the previous year due to limited resources.</p>
Audit file reviews – criteria for audit file selection	<p>Risk-based approach, including features such as:</p> <ul style="list-style-type: none"> focus on priority sectors determined annually around 70 FTSE350 audits selected each year the number and selection criteria of audit engagements reflect the risk and size profile of the audit clients and do not solely focus on coverage of responsible individuals 	<p>As observed from the second cycle of the inspection of the major audit firms, a risk-based approach is adopted, where the aim is to ensure a coverage of industries and audit features such as:</p> <ul style="list-style-type: none"> various external auditors distribution of audits across organisational elements of the audit firm, for example across branches and business units involvement of Engagement Quality Controls Reviews 	<p>Largest accounting firms Risk-based approach; PCAOB has a variety of tools to identify audits that may pose difficult or complex issues. Risk factors include:</p> <ul style="list-style-type: none"> the nature of the company, including its industry and market capitalisation audit issues likely to be encountered whether the company has significant operations in emerging markets. <p>As a result, inspections do not involve a random⁴⁸ or representative sample of a firm's issuer practice.</p>	<p>JICPA: Information is not publicly available. CPAAOB: Risk-based approach to discharge its oversight responsibilities:</p> <ul style="list-style-type: none"> Desktop monitoring - review of the JICPA's Quality Control Review Report and other reports, if deemed necessary, that focus on: <ul style="list-style-type: none"> audit firms with a wide range of deficiencies identified by the JICPA in their inspections

⁴⁷CPAs refer to individuals or small accounting firms run by individual CPAs and JICPA's regular quality control reviews entail the same procedures as they would for the audit firms.

⁴⁸The PCAOB is currently working to incorporate randomisation into its risk-based selection process which it believes would enable the PCAOB to conclude on the state of audit quality, identify audit quality trends, and inform standard setting activities.

UK

- the selection is made independently of the audit firm review team which has limited insight into the selection criteria.

Netherlands

- internal quality reviews
 - engagements assessed as higher risk by the audit firm.
- As a result, inspections do not involve a random or representative sample of all the legally required audits performed by an audit firm.
- The findings do, however, answer the question as to whether the audit firms provide adequate assurance over the quality of legally required audits.

US

Factors specific to the inspected firm are considered, such as the type and range of its issuer engagements, the results of prior PCAOB inspections, findings from the firm's internal risk management and inspections processes and consideration of assignments and inspection history of the partners who audit issuers.

Small accounting firms

May review the audits of all issuers.

Otherwise:

- focus on audits of companies with the largest market capitalisations
- if several partners lead issuer audits, the PCAOB will try, over time, to inspect at least one audit performed by each partner
- consideration of audit risk (e.g. when a small, US-based firm performs an overseas audit that requires knowledge of a foreign language or of local business practices, the engagement may be more likely to be inspected).

Japan

- common industry specific audit issues, mainly found in small and mid-sized audit firms (these focus areas are provided in detail in section 3.4.3).
- appropriateness of the JICPA's quality control review system.
 - On-site inspections - based on the results of the risk assessment.

Audit file reviews – objectives of the review

The aims and features of the audit file reviews are to:

- monitor compliance with the regulatory framework for auditing, including the Auditing Standards, Ethical Standards and Quality Control Standards for auditors issued by the FRC and other requirements under the Audit Regulations issued by the relevant professional bodies.
 - focus on some common areas such as engagement acceptance, independence considerations, reporting to those charged with governance and appropriateness of procedures over financial statement disclosures. For example, the AQR in 2016/17 paid particular attention to the quality of first year audits, revenue recognition policies, tax provisioning and the audit of IT controls.
- Also in selecting which aspects of an audit to inspect, the AQR Team takes account of those areas identified to be of higher risk by the auditors and Audit Committees, its knowledge and experience of audits of similar entities and the significance of an area in the

As observed from the second cycle of the inspection of the major audit firms, key features of audit file reviews included:

- selection of two material focus areas based on the nature and size of the activities of the audit client such as revenue, inventory, long-term contracts, intangible assets or certain industry specific procedures or balances.
- evaluating whether the external auditor has obtained sufficient appropriate audit evidence with respect to the focus areas selected by the AFM.

The AFM did not assess the entire audit of the financial statements. Where the external auditor failed to obtain sufficient appropriate audit evidence with respect to a material item in the financial statements, the AFM considers that it has also failed to obtain sufficient appropriate audit evidence in order to substantiate his opinion with regard to the financial statements as a whole. In that case, the AFM classifies the conduct of the legally required audit as '**inadequate**'. A legally required audit

The inspectors' goal is to analyse how the audit was performed and to answer key questions, such as:

- whether the firm followed the procedures required under the PCAOB's auditing standards.
- whether the firm identified any areas in which the financial statements did not conform to GAAP in a material respect.
- how the firm handled potential adjustments to the financial statements.
- whether there is any indication that the firm was not independent, as required under SEC and PCAOB rules.
- if the work papers do not indicate that the auditor performed a particular procedure that the inspectors believe was required, they will give the firm an opportunity to describe any work that was performed, but not documented.

A key feature of the audit file review is that it typically does not involve reviewing all aspects of the audits selected for review. The inspector selects specific portions of each audit for review and only information on those areas are provided to the inspector. The inspected firm is not allowed to influence the selections. Inspections also include,

JICPA: Reviews the sufficiency and adequacy of the audit procedures performed and of the audit evidence obtained. They do not determine whether the audit opinion issued was appropriate.

CPAAOB: Case Report from the results of the inspections provides the CPAAOB's inspection focus areas. The link to this report is provided in Appendix 2.

context of the audited financial statements. The rationale for including each area of audit work (or excluding any area of focus listed in the auditors' report) is documented as part of the planning process for each audit inspected.

- monitor the adequacy of the oversight of, and involvement in, group audits of UK audit firms with the UK audit partner as leader of the group engagement taking overall responsibility for the work.

The focus of inspections is on how selected aspects of a particular audit were performed. They are not designed to assess whether the information being audited was correctly reported. When an audit is rated as 'significant improvements required', it does not necessarily mean that an inappropriate audit opinion was issued, the financial statements failed to show a true and fair view or that any elements of the financial statements were not properly prepared.

conducted 'inadequately' does not mean that the audited financial statements do not represent a true and fair view but that at the time the auditor issued its audit opinion, it had not obtained sufficient appropriate audit evidence in order to be able to substantiate its opinion.

Audit file reviews process

The process of an audit file inspection followed by the AQR team for each review, from selection to reporting, is set out in section 3.1.3.

The inspection process includes document reviews, interviews, responding to formal queries and reporting.

The cycle in the four largest networks of firms usually begins in February/March with reviews concluding in December/January. The public reports are issued in the following May. In recent cycles the AQR Team has pre-notified a number of engagements subject to review and this has been done for the 2017 reviews during 2016.

The timing for completion of a review can vary significantly. There is generally a timeframe of two months' notice or more between the selection notification and the opening meeting/start of the file review. Typically there are two to three weeks of review by the AQR Team inspector, during which time informal queries would be discussed with the audit engagement

where applicable, audits of internal control over financial reporting (ICFR). Accordingly, a PCAOB inspection report should not be understood to provide any assurance that the firm's audit work, or the relevant issuers' financial statements or reporting on internal control, are free from any deficiencies not specifically described in an inspection report.

Also in its Part I reporting, the PCAOB notes that certain of the deficiencies identified may be of such significance that the auditor may have issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance and to document audit evidence about whether the financial statements were free from material misstatement and/or the issuer maintained effective ICFR. However, the PCAOB warns that inclusion of a deficiency in Part I does not necessarily mean that the financial statements were materially misstated or that there are undisclosed material weaknesses in ICFR. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

There is a customised process for each firm.

PCAOB inspector teams are generally dedicated to one firm for each calendar cycle and are often recurring inspectors for that firm year over year. For the largest firms inspected every year, the PCAOB typically makes 50-55 issuer engagement selections and generally conducts fieldwork between April and November.

A typical timeline is as follows:

- July: PCAOB requests information on the issuer audit clients, substantial role and referred work engagements and partner assignments.
- September: Information requested in July provided to the PCAOB.
- March - September: PCAOB selects and notifies the Firm of the selected engagements.

PCAOB fieldwork related to engagement reviews lasts one to two weeks at each office visited.

JICPA: Inspections are carried out by document reviews and interviews. A month's written notice is issued to the audit firms prior to the start of the inspection process.

CPAAOB: Information is not publicly available.

	UK	Netherlands	US	Japan
	<p>team. At the end of the scheduled period of review the formal queries would be issued.</p>		<p>For each audit selected, the inspection team meets with the audit engagement team and examines the firm's work papers. On-going over the year: The PCAOB conducts work regarding the Firm's system of quality control.</p>	
Audit file reviews – grading	<p>No overall grading of firms. Individual audits are however graded by the AQR team and the summarised results included in the public report. Individual ratings are given to audit committees of inspected clients on a confidential basis. These reports include AQR's assessment of the quality of the audit work inspected using one of four audit quality categories as follows:</p> <ul style="list-style-type: none"> • Good (category 1) • Limited improvements required (category 2A) • Improvements required (category 2B) • Significant improvements required (category 3). 	<p>No overall grading of firms. Individual audits are graded 'adequate' or 'inadequate'. Within these gradings:</p> <ul style="list-style-type: none"> • Category 1 (adequate) means no serious shortcomings • Category 2 (inadequate) means inadequate procedures conducted regarding specific items • Category 3 (inadequate) means some audit procedures conducted; however very basic audit techniques either not or incorrectly applied • Category 4 (inadequate) means no or very few audit procedures conducted, mainly administrative and compilation work only. 	<p>No overall grading of firms or individual audits, the basis of 'measure' is the reporting on deficiencies as explained in detail in the 'Firm specific reviews – objective and process' heading.</p>	<p>No overall grading of firms or individual audits.</p>
Firm specific reviews – objective and process	<p>The AQR team also performs a review of the firms' system of quality control. This review covers a wide range of areas including but not limited to:</p> <ul style="list-style-type: none"> • Tone at the top • Transparency reports • Independence and ethics • Performance evaluation, training and guidance • Client risk assessment and acceptance/continuation • Consultation and review • Audit quality monitoring • Talent management • Audit methodology <p>There has been an increase in the level of review and challenge from the AQR Team in this area.</p> <p>The FRC has recently completed the European Common Audit Inspection Methodology (CAIM) based on common practice in the performance of inspections; the CAIM intends to provide a comprehensive list of procedures to be implemented by independent audit regulators. This list has been split into three sections, one that will be performed</p>	<p>As part of its regular (three or six year cycles) inspection process the AFM also reviews the firms' system of quality control. The AFM requested as part of its 2015 review information on inter/national policies as well as information on:</p> <ul style="list-style-type: none"> • Tone at the top • Ethics and independence • Client acceptance and continuance • Partner matters • Methodology • Training • Consultation • Engagement quality control review • Audit documentation and data security • Internal monitoring • Complaints and allegations. <p>The review, similar to the UK's, is, to a certain extent, aligned with the CAIM. Each country will use this methodology and add procedures based on national requirements. The additional procedures in the Netherlands are not publicly available.</p>	<p>The PCAOB performs an annual review of the audit firm's system of quality control, i.e. a review of certain of the firm's practices, policies and processes related to audit quality, which constitute a part of the firm's quality control system. The inspection team customises its procedures for each review, bearing in mind the firm's structure, procedures performed in prior inspections, past and current inspection observations, an assessment of risk related to each area, and other factors.</p> <p>The areas generally considered for review include:</p> <ul style="list-style-type: none"> • management structure and processes, including the tone at the top • practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions • policies and procedures around client acceptance and continuance, including the application of the firm's risk-rating system • processes related to the firm's use of audit work that the firm's foreign affiliates perform on the foreign operations of the firm's US issuer audits 	<p>The areas generally considered by the Quality Control Team for the review of the firms' system of quality control include:</p> <ul style="list-style-type: none"> • independence, integrity, confidentiality and professional behaviour • whether necessary skills and competence are attained and maintained through CPE • assignment policies (e.g. partner rotation) • independent engagement quality control review • client acceptance and retention • monitoring is adequately provided. <p>CPA AOB: The common focus areas for the reviews of the firms' system of quality control are:</p> <ul style="list-style-type: none"> • Quality control in line with the size and the business profile of audit firm, in particular: <ul style="list-style-type: none"> – Business strategies and their dynamic review in response to the changes in surrounding environment

	UK	Netherlands	US	Japan
Inspection process documentation, use of standard or electronic programmes	<p>each year and two which will be required to be completed in alternate years.</p> <p>This list of procedures has been published on the European Audit Inspection Group (EAIG)'s website: https://www.eaigweb.org/index.php?id=4</p> <p>The FRC's firm-specific inspection work programme is aligned, to a certain extent, with the CAIM; however country specific procedures are implemented during the inspections and these are not publicly available.</p> <p>The process of firm-specific inspection followed by the AQR team for each review, from selection to reporting, is set out in section 3.1.3.</p>	<p>The firm-specific reviews are part of the AFM's regular three or six year inspection cycles. The process followed is, therefore, very similar to that of the audit file reviews.</p>	<ul style="list-style-type: none"> the firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, and processes for responding to defects or potential defects in quality control. <p>The inspections staff focus on identifying the 'root causes' of audit deficiencies through analysis of known deficiencies identified in selected audits at the six largest U.S. firms included in the Global Network Firm inspection program, as well as evaluating the results of the firms' root cause analyses. This analysis is expanding to include the non-U.S. members of the global networks.</p> <p>Further description of procedures applied in these areas are reported in section 3.3.3.</p>	<ul style="list-style-type: none"> Initiatives taken by senior management for audit quality (tone at the top) Human resource management, including staff recruitment, training and assignment according to risk profiles of audit engagements Incentive mechanism, including performance evaluation and compensation policies Measures for consistency of audit quality across the engagements. <ul style="list-style-type: none"> Understanding and evaluation of the risk profiles of audit engagements in determining acceptance and continuance of audit engagements and in planning and executing audit procedures.
	<p>The FRC uses a tailored, off the shelf software platform to document inspections. Additionally as noted previously, it has recently completed the European Common Audit Inspection Methodology (CAIM) which provides a comprehensive list of procedures to its reviewers and certain elements of these procedures have been made public.</p>	<p>No information publicly available.</p>	<p>No information publicly available.</p>	<p>JICPA: The standards and procedures for quality control review are established and revised in a timely manner to maintain the proper level of quality control review. These standards and procedures are distributed to all members of the JICPA to promote their full dissemination; however they are not publicly available.</p>
Thematic reviews or stakeholder engagement	<p>Public thematic review reports</p> <p>In addition to its annual programme of audit reviews, the AQR Team undertakes thematic reviews each year.</p> <p>The AQR team reviews firms' policies and procedures in respect of a specific aspect of auditing, and their application in practice, enabling it to make comparisons between firms with a view to identifying both good practice and areas for improvement. Recent reviews include 'Firms' audit quality monitoring' (January 2016), 'Engagement Quality Control Reviews' (February 2016), 'Root cause Analysis' (September 2016), 'The use of data analytics in the audit of financial statements' (January 2017) and 'Firms' audit quality control procedures and other audit quality initiatives' (March 2017). The FRC publishes three thematic review reports each financial year.</p>	<p>Public thematic review reports</p> <p>In the Netherlands, the AFM conducted two in-depth thematic reviews as a result of public concerns arising in the financial and audit markets:</p> <ul style="list-style-type: none"> a review of the quality of the audits of housing corporations (2012) – the review found the quality of these audits to be adequate a review called 'In the public interest'. In October 2014, following the AFM inspection findings on the four largest networks of firms, the NBA concluded that fundamental changes were needed in the governance, structure, processes, conduct and culture in accountancy firms in order to realise substantive improvements in quality. In this 'In the public interest' report, 53 measures to improve audit quality 	<p>The PCAOB issues general reports that are not firm-specific but provide information and analysis concerning specific audit issues or a summary and analysis of results from inspections of a specified category of firms over a particular period.</p> <p>For example, it issued a general report in October 2015, focusing on registered audit firms' implementation of and compliance with certain auditing standards related to the auditor's assessment of and response to risk in an audit.</p> <p>In 2015, the PCAOB also issued its first staff inspection brief, highlighting the objectives, focus and scope of its 2015 inspections. The staff inspection brief contains additional information on the Global Network Firm and Non-Affiliate Firm Inspection Programs; issuer industry sector and market capitalisation demographics; and inspection focus data for issuer audits inspected covering inspection</p>	<p>CPA AOB: Stakeholder engagement – private and public</p> <p>Based on the results of its monitoring activities, the CPA AOB promotes stakeholder engagement through:</p> <ul style="list-style-type: none"> identifying deficiencies and weaknesses regarding the firms' audit quality and analyse their root causes through interactive discussion with each firm collaborating with the JICPA towards enhancing its quality control review inspection reports to the JICPA for reference publishing 'Case Report from Audit Firm Inspection Results' which provides in-depth analysis of the results of inspections to identify industry-wide issues. This report is used to outreach to the audit profession and to other stakeholders for audit quality and

	UK	Netherlands	US	Japan
	<p>The selection of themes may be informed by findings from the AQR Team's audit file reviews as well as by the review of relevant firm guidance, policy, procedures or tools.</p> <p>The AQR Team expects all firms to take appropriate action to address the findings from its thematic reviews which apply to them.</p>	<p>and the independence of auditors were published, which include:</p> <ul style="list-style-type: none"> - robust governance - business model based on quality remuneration based on the right incentives - quality monitoring and improvement - a learning profession - measuring culture and communication - effective reporting & audit chain. <p>In addition to the monitoring by the NBA, the AFM was asked to monitor the implementation of the measures for the audit firms with a PIE license. In 2016 the AFM inspected the design and implementation of the 53 measures at audit firms using a dashboard system. In 2017 the AFM is expected to inspect the operation effectiveness of the measures implemented by the audit firms.</p> <p>The status of the implementation is publicly available through the monitoring website: https://toekomst.nba.nl/</p> <p>The AFM also reported on the status of the implementation of the measures at https://www.afm.nl/~/profmedia/files/rapporten/engels/dashboard-2015-change-improvement-measures.ashx</p>	<p>cycles 2011 through 2014. This practice continued in 2016. Therefore the PCAOB does publicly share what 'themes' it may be focusing on in its inspections, but does not perform separate thematic reviews.</p> <p>In April 2016, the PCAOB issued a report focusing on the firms' implementation of and compliance with PCAOB rules and auditing standards on communications with audit committees.</p>	<p>communicate the examples of deficiencies and weaknesses identified through the inspections as well as best practices</p> <ul style="list-style-type: none"> • actively reaching out to relevant stakeholders for audit quality including FSA, JICPA, the stock exchanges, investors, International Forum of Independent Audit Regulators (IFIAR) and international networks of the audit firms.
Quality control procedures	<p>We understand that the following quality control procedures are in place within the AQR team:</p> <ul style="list-style-type: none"> • Inspection Leader supervises the team of reviewers at each of the big firms and reviews all the file review reports. • Inspection Director sits across two or three big firms and would typically also review higher risk reports or reports with low grading. • These reviews are followed by internal risk based moderation panels ('Quality Control Panel'). • A proportion of the draft reports, typically those which are identified as higher risk are reviewed by the Audit Quality Review Committee. 	<p>Based on our own experience we have noticed the following quality control procedures:</p> <ul style="list-style-type: none"> • Inspection Leader supervises the team of reviewers and reviews all the file review reports. Inspection leader is present during the inspection period and will attend some of the detailed meetings. • Manager who also reviews the report and is present at some of the meetings. • The facts/findings and the conclusion of those findings are orally presented to the firm before writing a draft report. 	<p>As explained in further detail in section 3.2.3, the Office of Internal Oversight and Performance Assurance (IOPA) within the PCAOB performs internal examinations of the programs and operations of the PCAOB and, in so doing, helps ensure the efficiency, effectiveness, and integrity of those activities. The IOPA conducts annual and special performance and quality assurance reviews as well as inquiries into the PCAOB's functions and programs. One of the IOPA's goals is to help ensure that the PCAOB conducts programs and operations to protect and promote the public interest in the integrity of issuer audits. Following a review, the IOPA usually issues a report to the board that includes recommendations. These reports are available on the PCAOB's website.</p>	<p>No information publicly available.</p>

A cold review of file reviews is conducted periodically.

Annual report (or equivalent)

The FRC issued its first annual report on the quality of audit in the UK. Developments in Audit 2015/16 in July 2016.

The report provides an overview of the FRC's activities with respect to audit including an overview of the aggregated gradings across the listed market. The FRC's strategy includes a target for continuous improvement such that at least 90% of FTSE 350 audits will be assessed as good or requiring limited improvements by 2019 within its monitoring programme. An update report was published in February 2017 on the summary of developments since July 2016. In this report, the FRC announced that, it is publishing the list of entities reviewed in its current cycle of inspection (2016/17) for the first time and that it expects to publish further details of audits reviewed by the AQR on a quarterly basis on its website.

The information on particular quality control procedures with regards to the inspections is not publicly available.

The PCAOB issues annual reports on its activities with regards to its four primary responsibilities, registration, inspections, establishment of standards and enforcement and its financial activities, including its financial statements and auditor's report on the financial statements and internal control over financial reporting.

The **JICPA's** Quality Control Committee publishes an annual summary of its activities including the number of reviews conducted, focused themes and action plans of the JICPA. This report is available in Japanese.

The **CPA AOB** publishes an annual report (last published in July 2016, for the year ended 31 March 2016) which includes information about its activities for that year, such as measures taken and the number of inspections conducted. This report is available in English.

Transparency of firm-specific reporting

Major firm reports

Public

In each individual firm report, the AQR team sets out the key areas where it believes improvements are required to safeguard and enhance audit quality and safeguard auditor independence. The firm is asked to perform root cause analysis in respect of the key findings and provide a response setting out the action it has taken or will be taking in each of these areas.

The AQR Team exercises judgement in determining those findings to include in its public report on each inspection, taking into account their relative significance in relation to audit quality, in the context of both the individual inspection and any areas of particular focus in its overall inspection programme for the year. Where appropriate, the AQR Team comments on themes arising or issues of a similar nature identified across more than one audit.

Results of the inspection on the quality of statutory audits at the four largest networks of firms (September 2014)

Publicly available report, first of its kind, published by the AFM following the completion of its second-cycle review of major audit firms.

The report presents:

- the objective, scope and progress of the inspections carried out at the four largest networks of firms and the principal findings and conclusions at each firm, including the firms' responses
- the AFM's recommendations and considerations.

Results of the inspection on the quality of non-PIE statutory audits (November 2013)

Publicly available

Please also see (in English):

<https://www.afm.nl/en/professionals/nieuws/2013/nov/onderzoek-niet-oob>

PCAOB Firm Assessment reports

Combination

Part I – public and does not identify the companies whose audits were inspected; describes deficiencies observed by the PCAOB (or confirms that no deficiencies were observed) and provides references to specific paragraphs of the auditing standards that relate to those deficiencies.

Since 2015 (or prior as applicable), inspection reports for the largest firms include:

- aggregate counts of the audit opinions affected
- a summary of the most frequently identified audit deficiencies
- information about industries inspected and findings by industry
- a section describing the inspection process (the PCAOB does not disclose specific inspection procedures, and this description is therefore fairly high level)
- any written response from the inspected firm to the draft inspection report.

Audit firm reports

Private

The JICPA issues a written report to the Chief Executive of each of the audit firm with the results of the review, its findings and recommendations, after deliberations of the Quality Control Committee. The firms must respond in writing.

Case Report from Audit Firm

Inspection Results

Publicly available report, revised and published annually by the CPA AOB to report inspection standpoints, summarised inspection results (summary of deficiencies, analysis of their causes, and commendable efforts), and actions to be taken by audit firms. It does not refer to specific firms' inspections but provides an overall view.

The most recent report (July 2016) includes a root cause analysis of the issues identified in previous inspections.

The aim of the report is to:

UK

Reports on individual audits

Private

- The AQR team also issues confidential reports on individual audits reviewed to the relevant audit firms together with the Audit Committee Chair for each company.
- Individual reports sent to the relevant firm include a schedule of other findings, which comprises only minor matters. It is private to the relevant audit firm and is not sent to the Audit Committee Chair.
- Audit committees are encouraged to report in the entity's annual report if their audit has been subject to AQR inspection; they are also encouraged to discuss issues arising and the auditor's response, but are not permitted to publish the individual grade.

Netherlands

And the reports (in English)

[On NBA firms](#) and [On SRA firms](#)

Audit firm reports

Private

- At the end of the 2013/2014 review cycle, each largest four network firm received a report stating the AFM's preliminary conclusions and findings. The AFM requested:
- remediation measures to be taken for 'inadequate' audits, which included auditors gathering audit evidence to substantiate the opinion after the facts
 - a root cause analysis to be conducted for these audits with a view that four largest networks of firms should be able to take more targeted improvement measures and prevent quality shortcomings in future
 - a statement of measures to be taken in order to maintain and improve the quality of legally required audits in the short term and in future.

The final report for each of the four largest networks of firms assessed the responses to these requests and set out the final outcome of the inspection.

US

Part II (initially private, may be made public after 12 months) – this contains the PCAOB's views on areas in which a firm should improve the quality controls over its audit practice. Part II may include the inspection team's observations about the firm's system of quality control as a result of the deficiencies identified during the inspection of audit engagements as well as observations related to the firm's management and monitoring processes related to audit quality control. If a firm fails to satisfactorily address any of the quality control criticisms within 12 months, portions of the formerly private Part II of the report discussing the particular criticism(s) are also made publicly available. The PCAOB reports its results of an inspection for a firm as a whole. The performance of individuals within a firm is not separately identified. Further details on firm-specific reporting is included in section 3.3.3.

Japan

- Promote voluntary efforts of the audit firms to benchmark (therefore improve and maintain) their audit quality to that expected from the CPAAQB
- Provide reference material to preparers and users of the financial statements.

2.3 Key features of the investigations and enforcement responsibilities

2.3.1 Focus area: regulatory bodies, scope and powers

	UK	Netherlands	US	Japan
Scope and powers	<p>Through the independent arrangements required by the Companies Act 2006 (CA06), the FRC investigates allegations in relation to statutory audit matters which have not been delegated to the RSBs:</p> <ul style="list-style-type: none"> Public Interest Entities (PIEs); ATM companies with a market capitalisation in excess of €200m; and Investigations which the FRC may reclaim from the RSBs from time to time ('reclaimed matters'). <p>Framework</p> <p>The FRC's Audit Enforcement Procedure (AEP) is effective from 17 June 2016 and superseded the Accountancy Scheme for statutory auditors and statutory audit firms. The AEP only covers statutory auditor or statutory audit firms. The Accountancy Scheme remains in place for members in business and preparers of the financial statements (e.g. the CFO). Deloitte has little experience of how the AEP will apply in practice as this is a new scheme. The information in the remainder of the 'Investigation and Enforcement' section pertains specifically to the AEP, unless specified otherwise.</p>	<p>Under the Audit Firms Supervision Act (Wta), the AFM has the authority to investigate and impose sanctions against audit firms and individual board members of the audit firms (imposing fines and/or removal from board position).</p> <p>To bring actions against individual auditors other than board members of the audit firms, complaints must be filed by anyone with an interest (e.g. the AFM, companies or by individuals) at the Accountantskamer, an independent Disciplinary Court for Auditors (Court of Law).</p> <p>Preparers of the financial statements (e.g. CFO) can be 'named and shamed' by the AFM in the press.</p> <p>The information in the remainder of the 'Investigation and Enforcement' section pertains specifically to the AFM, unless specified otherwise.</p>	<p>Under the Sarbanes-Oxley Act of 2002, the PCAOB has statutory authority to initiate informal and formal inquiries and investigations and take disciplinary actions with regards to audit firms registered with the PCAOB and persons associated with them.</p> <p>The SEC and Boards of Accountancy in each US state also have investigative and enforcement authority⁴⁹. The US Department of Justice (DOJ) can also investigate violations of federal law (both criminal and civil), although it often defers to the SEC in civil matters pertaining to potential violations of federal securities laws.</p> <p>The PCAOB cannot pursue disciplinary actions against the preparers of the financial statements (e.g. CFOs), however the SEC and US DOJ can and do.</p> <p>The information in the remainder of the 'Investigation and Enforcement' section pertains specifically to the PCAOB.</p>	<p>JICPA carries out investigations as part of its individual engagement reviews and disciplinary actions.</p> <p>CPAAOB: Under the CPA Act, the CPAAOB does not perform investigations, but it can make recommendations for the FSA to investigate based upon the result of the JICPA's or its own inspections.</p> <p>FSA: If deemed necessary, the FSA may conduct investigations into alleged violation of the CPA Act. The purpose of the investigation is to determine whether the allegations are subject to sanctions before the hearing procedures conclude.</p>
Principal decision making bodies / number of people, skills and qualifications	<p>Principal decision making bodies and key responsibilities:</p> <ul style="list-style-type: none"> Conduct Committee (decision to investigate) Executive Counsel (oversees investigations and concludes whether a respondent is liable for enforcement action) Case Management Committee (advise on the handling of cases / the Conduct Committee may delegate some of its decisions to the Case Management Committee) 	<p>The Audit & Reporting Quality department within the AFM has responsibility over both inspections and investigations. It consists of 49 full time employees. There is one manager responsible for financial reporting and one responsible for audit quality.</p> <p>The AFM's Penal Fines Officer, separate and independent from the Audit & Reporting Quality department, sets the level of fines. Based on our own experience there is more than one officer.</p> <p>The Disciplinary Court for Auditors consists of judges together with auditors and / or experts in the field of work</p>	<p>The Division of Enforcement and Investigations of the PCAOB has responsibility for disciplinary matters. It comprises the following senior staff:</p> <ul style="list-style-type: none"> 1 Director 2 Deputy Director, Attorneys 1 Deputy Director, Chief Trial Counsel 1 Deputy Chief Trial Counsel 2 Deputy Director, Accountants 1 Senior Adviser, Legal, Policy & Strategy 1 Regional Associate Director <p>More than 60 individuals work in the Division of Enforcement and Investigations, most of whom are</p>	<p>JICPA</p> <p>Information collected through various measures is first reviewed by the Audit Practice and Review Committee, which had 15 members as at 31 March 2015, including eight executive directors; four directors and three members of the JICPA, appointed by the Chairman and President of the JICPA.</p> <p>Investigative Committee investigates cases referred from Audit Practice and Review Committee and consists of 10 members and includes Executive Board members and Council members.</p>

⁴⁹ SEC: Auditors of companies publicly listed in the US and of issuers and broker and dealers (under the Securities Act 1933 as amended and the Securities Act 1934 as amended). The Boards of Accountancy in each US state: Accountants and accounting firms licensed in their respective jurisdictions (state specific legislation).

UK

- Enforcement Committee (when respondents do not accept the Executive Counsel's conclusion, the Enforcement Committee either dismisses the case or concurs with the Executive Counsel)
 - Cases are referred for Tribunal Hearings when respondents do not accept the recommendation of the Enforcement Committee.
- Details about the composition, nomination process, responsibilities and skills and qualification (where publicly available) and independence considerations of the principal bodies within the investigation and enforcement functions are set out in section 3.1.4.

Netherlands

performed by auditors. These auditors and / or experts play an important role in the technical assessment of a case. This court is fully independent from the AFM and is part of the justice system in the Netherlands. As noted before, the information in the remainder of the 'Investigation and Enforcement' section pertains specifically to the AFM but not to the Disciplinary Court for Auditors for which there is not much publicly available information.

The Disciplinary Court has 24 members and is led by a chairman and vice chairman. It has 11 juridical members from different courtrooms in the country and 11 members from the audit practice.

Finally in its role as the supervisor of the financial services industry, the AFM can impose administrative fines to offenders outside of the audit profession. Some information can be found on the website of the AFM: <https://www.afm.nl/en/over-afm/werkzaamheden/maatregelen/boete>

Threshold for disciplinary action

AEP (for audit firms/auditors): breach of the relevant requirement with no quantification by reference to the seriousness of a breach.

Accountancy Scheme (for members in business): misconduct

As a result of the new AEP excluding members in business from its scope, members in business are still disciplined under the Accountancy Scheme. This results in different disciplinary processes being applied to audit firms/statutory auditors and members in business for the same matter.

US

professionals (both lawyers and accountants). Further details about the composition, nomination process, responsibilities and skills and qualification and independence considerations of the principal bodies within the investigation and enforcement functions are not publicly available.

Disciplinary Committee determines sanctions to be imposed and consists of seven members: five CPAs and two highly experienced individuals from outside the profession.

FSA: The **head of FSA** makes decisions based on reports from CPAOB or the **Corporate Accounting and Disclosure Division** of FSA may conduct investigation as to alleged violation of the CPA Act before issuing administrative measures.

Japan

Omission or violation of:

- any provision of the Act
- the Rules of the PCAOB
- the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants (including the rules of the Commission)
- professional standards.

No quantification by reference to the seriousness of a breach.

Violation of laws or regulations, or breaches of the JICPA Constitution and Regulations.

No quantification by reference to the seriousness of the violation.

2.3.2 Focus area: investigation and disciplinary proceedings

	UK	Netherlands	US	Japan
Investigations	<p>Decision to investigate</p> <p>A Case Examiner, upon receipt of information, determines whether there is a risk that an audit firm/auditor may have breached a relevant requirement, and if appropriate, refers the matter to the Conduct Committee to take a decision on whether to commence an investigation under the AEP. They may use specialists or take legal advice to assist them.</p> <p>For more minor breaches the Case Examiner may decide to enter into constructive engagement with the audit firm to ensure that any breaches have been adequately addressed. Constructive engagement may take any form, including written advice, warning letters or discussion or correspondence with the respondent aimed at ensuring that the possible breach is not repeated.</p> <p>The Conduct Committee is responsible for considering the results of an enquiry and determining the appropriate outcome which may include:</p> <ul style="list-style-type: none"> referring the allegation for investigation by the Executive Counsel; referring the matter back to the Case Examiner to resolve using constructive engagement. <p>Investigations</p> <p>Investigations are conducted by the Executive Counsel within the Enforcement Division. Under the new AEP, the Executive Counsel, in addition to requesting the provision of information, documents, attendance at interviews, may enter auditors' premises at 2 days' notice and require documents to be produced by the audit client (not just the audit firm).</p> <p>Interim orders</p> <p>The Case Examiner can also refer at his discretion an allegation for consideration of an interim order to the Enforcement Committee. Interim orders can be determined by the Enforcement Committee or the Tribunal at any stage before issuing a final decision notice. They impose restrictions on the respondent pending the</p>	<p>Audit firms</p> <p>Decision to investigate</p> <p>The Audit & Reporting Quality department examines and considers the severity of matters brought to its attention (e.g. complaints or sudden incidents such as bankruptcy raising questions about the role of the auditors).</p> <p>Depending on the number or severity of these matters, the AFM will consider whether to start a formal investigation. Investigations are generally only started when urgent action is needed to prevent threats to the confidence of the financial services market.</p> <p>The AFM can also start an investigation based on specific themes, for example the audits of housing corporations in 2012, details of which are included in the 'Inspections' section.</p> <p>Investigations (relating to the inspection results or in-depth thematic reviews as a result of public concerns arising on the financial and audit markets)</p> <p>Investigations are conducted by one or more supervisors. We understand that the supervisors often ask the audit firm to perform its own investigation as well as a root cause analysis, take corrective measures and implement safeguards. Based on the findings, the AFM decides whether to impose certain measures.</p> <p>Transparency</p> <p>The AFM has a statutory duty of confidentiality and therefore cannot provide information about a complainant to the respondent.</p> <p>An audit firm has to disclose investigations in their annual Transparency Report.</p> <p>Enforcement</p> <p>Results of investigations may lead to enforcement. The Executive Board of the AFM decides whether a respondent is liable for a fine and the independent Penal Fines Officer is responsible for setting the fines. The AFM can only impose a fine on an audit firm if it is of the view that the audit firm</p>	<p>Informal inquiry</p> <p>The Director of Enforcement and Investigations may start an informal inquiry and request documents, information or testimony from, or an interview with, any person to determine whether there has been an omission or violation of any of:</p> <ul style="list-style-type: none"> any provision of the Act the Rules of the PCAOB the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants (including the rules of the Commission) professional standards. <p>Investigations can be initiated as a result of any information that comes to the attention of the PCAOB; for example, PCAOB inspections, restatements, tips, whistle-blowers, reading of public information such as analyst reports, the PCAOB's risk assessment process, and referrals from other regulators.</p> <p>Decision to start of formal investigation</p> <p>The PCAOB uses its investigative authority to identify serious audit deficiencies that pose risks to investors. Generally speaking, the PCAOB investigates:</p> <ul style="list-style-type: none"> failures in connection with audits performed by registered public accounting firms failures to follow standards on quality control, auditing and other standards of the PCAOB auditor's failures to comply with its rules, including failure to cooperate with inspections and investigations. <p>The PCAOB issues an order of formal investigation upon recommendation from the Director of Enforcement and Investigations or the Director of Registration and Inspections or upon its own accord.</p> <p>The PCAOB is not required to prepare a report at the conclusion of an investigation. We understand, however, that the</p>	<p>JICPA</p> <p>Decision to investigate</p> <p>The JICPA may consider to investigate a CPA or an audit firm based on a complaint received from anyone in relation to the statutory audits pursuant to Financial Instruments and Exchange Act or Companies Act, statutory audits for schools and certain not-for-profit organisations or based on information collected through news articles, whistle-blowing information, inspection results or inquiries of audit firms and CPAs in relation to matters that came to its attention.</p> <p>Information received is first reviewed by the Audit Practice and Review Committee which then:</p> <ul style="list-style-type: none"> considers whether to investigate the performance of audit engagements and appropriateness of the auditors' opinions, and provide the Chairman and President of the JICPA with its opinion on recommendations or instructions to be issued to the CPAs or audit firms as appropriate determines whether or not further examination of the matter by the Investigative Committee is necessary, and request the Chairman and President to further examine the matter concerned where appropriate reports to the Chairman and President any significant matters in terms of the quality control system of an audit firm identified during investigations. <p>Investigations</p> <p>When the Chairman and President of the JICPA requests the Investigative Committee to investigate matters further based on the determination of the Audit Practice and Review Committee, the Investigative Committee starts its own investigation to determine whether there is any violation of laws or regulations, or breaches of the JICPA Constitution and Regulations and whether to recommend sanction to the Chairman and President. It</p>

UK

outcome of the FRC's investigation or proceedings.

Decision to start disciplinary proceedings

When the Executive Counsel considers that a respondent is liable for enforcement action, he issues a decision notice to the respondent outlining:

- reason for the adverse findings
- proposed sanction
- contribution to the Executive Counsel's costs
- invitation for the respondent to provide a written agreement to all or part of the decision notice.

The Executive Counsel refers the case to the Enforcement Committee where the respondent fails to respond within the specified time, does not agree with the decision notice or fails to comply with a final decision notice and the allegation is therefore re-opened or when it considers that an interim order should be considered. The notice of referral to the Enforcement Committee provides the respondent with copies of any document not previously provided which may be considered relevant and invites the respondent to provide further documentation on the allegation and/or the recommended sanction. The Enforcement Committee meets in private and does not hear oral evidence to consider the documentation and representations made by the parties. It may grant extension, adjourn for further enquiries of the parties to be conducted or invite the parties to make oral submissions before deciding whether the respondent is liable for enforcement action and issue a decision notice.

Where the respondent rejects the decision notice, the matter is referred by the Chair of the Enforcement Committee to a Tribunal hearing.

Netherlands

did not comply with the Audit Firm Supervision Act (Wfta) or the decree on the Supervision of Audit Firms (Bta). If the AFM believes that the work of an individual auditor was of a poor standard it can initiate disciplinary procedure by filing a procedure at the Court of Law.

Individual auditors**Decision to start disciplinary proceedings on individual auditors**

Under the legal framework Wet tuchtrechtspraak accountants (Wtra), the AFM (as well as companies and individuals) has the possibility to file disciplinary complaint against individual auditors. The complaint information includes contact details and information of the timing of the conduct, when it was noticed and whether a complaint against the audit firm itself was filed. Upon receipt of a written complaint the Accountantskamer's (Disciplinary Court for Auditors) first priority is to see whether or not the claim meets all relevant requirements. If that is not the case, the Accountantskamer can provide the complainant with the opportunity to supplement the complaint within a certain period. The auditor shall thereafter be given the opportunity to respond to this in writing within 4 weeks. It is possible that the Disciplinary Court for Auditors can give the plaintiff the opportunity to respond and, finally, give the auditor a last opportunity to respond. After written responses have been provided, the parties are called for a public hearing to be heard in each other's presence. For this, witnesses and experts may be called. After the final conclusion of the hearing, oral judgment can be done immediately. Usually a written statement follows.

Further information, in Dutch, is available at:

<http://www.accountantskamer.nl/index.php/procesreglement/procesreglement-2015>

US

Enforcement staff typically prepares internal memos documenting its recommended resolution of a matter and that such memos are not provided to the respondent.

Decision to start disciplinary proceedings

The PCAOB issues an order to start disciplinary proceedings and the PCAOB's Secretary assigns a Hearing Officer to preside over the proceedings. Further details on considerations for investigation process are included in section 3.3.4.

Japan

also investigates cases relating to ethical matters.

Decision to start disciplinary proceedings

When the Chairman and President of the JICPA requests the Disciplinary Committee to review matters based on the determination of the Investigative Committee, it starts its own investigation as to whether there is any violation of laws or regulations, or breaches of the JICPA Constitution and Regulations, and determines sanctions to be imposed.

FSA

Decisions to investigate are made based on the CPAAOB's recommendation following the result of inspections. Also, if deemed necessary, the Corporate Accounting and Disclosure Division of the FSA may conduct investigation as to alleged violation of the CPA Act before issuing administrative measures.

	UK	Netherlands	US	Japan
Hearings/ Experts/ Evidence	<p>Hearings</p> <ul style="list-style-type: none"> Disciplinary Tribunal composed of 3 members with a majority of non-accountants: the chair, always a lawyer, and a lay person and an accountant or actuary (refer to section 3.1.4 for further details). Hearings are open to the public except where not in the interest of justice. Less formal than hearings in Court (evidence can be submitted that would not be admissible in Court). Respondents have the right to be represented. Civil standard of proof with burden of proof resting on the Executive Counsel. <p>Witnesses and evidence</p> <ul style="list-style-type: none"> Parties can call a witness subject to providing the other party with a written statement of the evidence provided by the witness. Witnesses may be called and asked to give oral evidence. They may be cross-examined. The FRC is silent on compelling individuals to provide witness statement. <p>Decisions</p> <p>By a majority vote. No member of the Tribunal may abstain from a vote.</p> <p>Sanctions</p> <p>Determined by the Tribunal.</p>	<p>For individual auditors</p> <p>Hearings</p> <ul style="list-style-type: none"> Before the Accountantskamer (Disciplinary Court for Auditors) which works independently from the AFM. Open to the public. The Disciplinary Court for Auditors consists of judges together with auditors and / or experts in the field of work performed by auditors. These auditors and / or experts play an important role in the technical assessment of a case. Are similar to civil standard – as it is a (normal) court of law. <p>Witnesses and evidence</p> <p>Witnesses and experts may be called and cross-examined.</p> <p>Decisions</p> <p>The decision by the Disciplinary Court for Auditors is public and in writing. A statement shall state the grounds and conditions on which the decision is based and any disciplinary measure imposed.</p> <p>Sanctions</p> <p>Determined by the Disciplinary Court for Auditors.</p>	<p>Hearings</p> <ul style="list-style-type: none"> Hearings can be conducted in person before a PCAOB Hearing Officer (who is an attorney) or, in some circumstances, may consist solely of the submission of written materials. Hearings are not open to the public unless ordered by the PCAOB for good cause shown and with consent of the parties. Hearings before a PCAOB Hearing Officer are in many respects similar to a trial before a judge in a state or federal court. Administrator assigned to the proceeding by the Office of the Hearing Officer. Respondents have the right to be represented. Burden of proof resting on the interested division in a disciplinary proceeding and on the respondent when raising an affirmative defence. <p>Witnesses and evidence</p> <p>Each party may call witnesses, and may cross-examine the other party's witnesses. A party may request the issuance of an accounting board demand (to a registered firm or any associated person) or an accounting board request (to any other person) for testimony or the production of documents. Failure by a registered public accounting firm or associated person to comply with an accounting board demand or request can result in separate disciplinary proceedings for non-cooperation.</p> <p>Upon the application of any party, the PCAOB may also seek issuance by the SEC of a subpoena to require the testimony of, and the production of, any document in the possession of, any person, including any client of a registered public accounting firm, that the PCAOB considers relevant or material to an investigation.</p> <p>Decisions</p> <p>The Hearing Officer prepares an initial decision including findings of fact, conclusions of law and if appropriate, sanctions, which is filed with the PCAOB's secretary and shared with all parties.</p>	<p>JICPA</p> <p>Hearings</p> <ul style="list-style-type: none"> Open to the public, but the respondent may apply to make the hearing non-public. Similar to civil court hearings in Japan. Burden of proof rests on the JICPA. Right of representation. <p>Evidence</p> <p>Respondents in question are subject to inquiry and are required to report and submit necessary materials to the Disciplinary Committee.</p> <p>Witnesses</p> <p>Witnesses may be called and cross-examined.</p> <p>Sanctions</p> <p>Determined by the Disciplinary Committee for the respondents.</p> <p>FSA</p> <p>Hearings:</p> <p>Before a panel of three hearing examiners (or by a single hearing examiner for simple cases) nominated by the Prime Minister. Hearing examiners should not have participated in a previous investigation concerning the case.</p> <p>Witnesses and evidence</p> <p>A hearing examiner may order a person with relevant knowledge and experience to give an expert opinion.</p> <p>Decisions and sanctions</p> <p>The hearing examiner submits his draft decision to the Prime Minister or the head of FSA who renders a final decision ordering the respondent to pay a fine.</p>

<p>If neither party seeks review by the PCAOB of the initial decision within prescribed time limits, the initial decision becomes the PCAOB's final decision.</p> <p>Sanctions Imposed by the PCAOB. Further details on considerations for hearings and decision making process are included in section 3.3.4.</p>			
<p>Appeal</p> <p>Respondents may appeal interim orders, final decisions notices by the Enforcement Committee (to the Tribunal) or a final decision notice by the Tribunal (to the Appeal Tribunal).</p> <p>Grounds for appeals: a Tribunal decision is wrong in law, unfair due to procedural irregularity, irrational, made in the absence of significant and relevant new evidence which would not have been adduced previously or in relation to sanction manifestly unreasonable. Further appeal is only possible by judicial review.</p> <p>Appeal Tribunals are composed of 5 members with a majority of non-accountants: the chair (a lawyer and generally a former judge or Queen's Counsel), a maximum of two accountants / actuaries and at least one lay person, plus another lay person or a lawyer.</p> <p>Decisions By a majority vote. No member of the Appeal Tribunal may abstain from a vote.</p>	<p>For individual auditors Appeal against an order of the Disciplinary Committee can be lodged with the committee that deals with appeals for businesses the 'College van Beroep voor het Bedrijfsleven' (Cbb).</p> <p>For audit firms The legal framework for the Supervision of the AFM is the Audit Firm Supervision Act (Wta) and the General Administrative Law Act (Awb). The Awb contains provisions for objecting to or appealing against orders from administrative authorities to protect respondents' interests. The administrative court does a full judicial review of the alleged offence and of the severity of the sentence.</p>	<p>JICPA: When the respondent is not satisfied with the decision of the Disciplinary Committee, it is entitled to appeal to the Appeals Committee of the JICPA. The Appeals Committee may refer the case back to the Disciplinary Committee.</p> <p>The Appeals Committee consists of five members, including three CPAs and two members outside of the profession. None of them are members of the Disciplinary Committee and are expected to make an impartial decision.</p> <p>FSA: The Administrative Appeal Act (Article 5 and 6) and the Administrative Case Litigation Act generally gives the right of appeal and litigation. According to the CPA Act, Article 34 – 63(1), respondents can file a lawsuit to rescind a decision by the FSA or Prime Minister, when it is not possible to make an appeal to FSA directly.</p>	
<p>Sanctions</p> <p>Under previous disciplinary scheme: reprimand and fines only. Under the new AEP: the Executive Counsel, the Enforcement Committee and the Tribunal can impose a range of sanctions. Examples include: actions to prevent future recurrence (e.g. training), repayment of client fees, temporary or permanent prohibition to perform statutory audits, temporary exclusion as a member of one or more RSB, unlimited financial penalty.</p> <p>The Tribunal can order the payment of all or part of the investigation and disciplinary hearing costs but it cannot order compensation to be paid to victims of the misconduct.</p>	<p>Individual auditors The Disciplinary Court for Auditors may impose the following sanctions on individuals:</p> <ul style="list-style-type: none"> • warnings • reprimands • fines of up to €7,600 • temporary or permanent exclusions. <p>Audit Firms The AFM imposed in 2016 large fines on the four largest networks of firms ranging between €0.8m and €2.2m as a result of their 2014 inspection findings, including in several instances, a lack of sufficient appropriate audit evidence. The AFM has a variety of monitoring measures, ranging from informal influence</p>	<p>JICPA: Disciplinary sanctions imposed by the JICPA include:</p> <ul style="list-style-type: none"> • reprimands • suspensions of member rights for a certain period • withdrawal recommendation from membership • requests to the FSA to revoke the CPA's qualification or to order the dissolution of the audit firm and other sanctions stated in the CPA Act. <p>JICPA sanctions do not include fines or penalties. Those are determined by the FSA if deemed appropriate.</p>	

	UK	Netherlands	US	Japan
	<p>If the Disciplinary Tribunal dismisses the complaint, it can order the FRC to pay all or part of the legal costs of the respondent if it is satisfied that the FRC behaved unreasonably in bringing or pursuing the complaint. We understand this has never happened.</p> <p>Publication is generally part of the sanction.</p>	<p>to enforcement measures such as fines and revocation of licences. The AFM uses these measures on the basis of effectiveness. Experience has shown that the AFM considers a combination of measures to be the most effective.</p> <p>Formal measures</p> <ul style="list-style-type: none"> • Report to the public prosecutor • Disciplinary complaint • Administrative fine with publication • Re-evaluation of the suitability of members of the Board of audit firms • Revoke licence • Public warning • Silent curator (member of the AFM to become member of the audit firm's board) • Restriction on licence <p>Other Measures</p> <ul style="list-style-type: none"> • Conversation on misconduct • Publishing research report • Publishing guidance • Round table discussions • Publishing dashboard scores • Benchmarking results • Self-assessment • (Informal) interview with the Supervisory Board • (Informal) interview with the Executive Board • Naming and shaming of the audit firm or company under investigation • Newspaper interview <p>Fines may be imposed together with other measures.</p>	<p>a natural person / US\$2,000,000 for any other person) and a penalty under the Act (limited to US\$750,000 for a natural person / US\$15,000,000 for any other person).</p> <p>Each party generally pays its own legal fees.</p> <p>Further sanctions may be imposed by the PCAOB where an audit firm or person associated with it have failed to comply with the PCAOB's demand, has given false testimony or has failed to cooperate in an investigation. The SEC may also sanction auditors.</p> <p>Since 2013 benefits, such as reduced charges or sanctions and in exceptional cases no sanction at all, may be available to firms and individuals who offer extraordinary cooperation in PCAOB investigations, including self-reporting of rule violations, taking remedial action and providing substantial assistance to a PCAOB's investigation. Extraordinary cooperation may also be noted in announcements of PCAOB disciplinary action.</p> <p>Further details on sanctions are included in section 3.3.4.</p>	<p>FSA:</p> <p>The Corporate Accounting and Disclosure Division of FSA may take administrative measures as follows:</p> <p><i>Against the JICPA:</i> Under the circumstances set out the Regulatory Orders of the CPA Act, such as violation of laws, the Prime Minister may, if he/she finds it necessary for securing the fair operation of the JICPA, order it to take certain measures for improvement.</p> <p><i>Against CPAs:</i> Disciplinary sanctions include reprimand, suspension of services for not more than two years, and cancellation of registration.</p> <p><i>Against audit firms:</i> Sanctions include: Administrative instruction: When an audit firm violated the CPA Act or an order based on the Act, or where operation of the services provided by an audit corporation are found to be grossly inappropriate and if it is found necessary for securing the fair operation of the services.</p> <p>Reprimand, improvement orders, up to two years suspension, dissolution, prohibition from having a partner(s) who is found to be largely responsible when an audit firm:</p> <ul style="list-style-type: none"> • has a partner who has intentionally or in negligence attested financial documents containing false matters, mistakes or omissions as those containing no false matters, mistakes or omissions • has violated this Act or an order based on this Act or when its operation is found to be grossly inappropriate • fails to implement an instruction from the FSA.

2.3.3 Focus area: statistics on the number of cases being dealt with, settled or appealed

	UK ⁵⁰	Netherlands	US	Japan																				
<p>Type of and number of cases usually dealt with by the disciplinary body</p> <p>About 20 cases were under investigation by the FRC at any time during the last 3 years. As at 21 November 2016, there were 16 live cases relating to statutory audits and 7 relating to non-audit work. The number of new audit related complaints received by the four RSBs decreased from 182 in 2013 to 120 in 2015.</p>	<p>No information publicly available about the number of investigations handled each year, except for:</p> <p>Individual auditors 164 complaints in 2011 based on information from the Accountantskamer 2011 annual report.</p> <p>Audit Firms Fines imposed by the AFM (including for the supervision of the financial markets, not only the supervision of audit firms):</p> <table border="1"> <thead> <tr> <th></th> <th>2015</th> <th>2014</th> <th>2013</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td># of fines</td> <td>17</td> <td>31</td> <td>20</td> <td>22</td> </tr> <tr> <td>Total fines</td> <td>€9.6m</td> <td>€7.3m</td> <td>€5.8m</td> <td>€1.1m</td> </tr> <tr> <td>Av. fines</td> <td>€0.6m</td> <td>€0.2m</td> <td>€0.3m</td> <td>€0.05m</td> </tr> </tbody> </table> <p>The higher number of cases with fines imposed in 2014 was due to generally smaller cases requiring fewer resources and simpler processes to handle. More serious offenses were committed by larger companies in 2015 resulting in fewer cases handled at a time and larger fines imposed, with the highest fine at €2.0 million.</p> <p>Fines are reported as revenue in the AFM's financial statements.</p> <p>The decrease in the total number of formal enforcement measures in 2015 (52 compared to 106 in 2014) is largely attributable to lower penalties and more public warnings.</p> <p>The number of informal enforcement measures rose to 575 in 2015 compared with 471 in 2014.</p>		2015	2014	2013	2012	# of fines	17	31	20	22	Total fines	€9.6m	€7.3m	€5.8m	€1.1m	Av. fines	€0.6m	€0.2m	€0.3m	€0.05m	<p>No information publicly available about the number of investigations handled each year.</p>	<p>No information publicly available about the number of investigations handled each year.</p>	<p>No information publicly available about the number of investigation handled each year.</p>
	2015	2014	2013	2012																				
# of fines	17	31	20	22																				
Total fines	€9.6m	€7.3m	€5.8m	€1.1m																				
Av. fines	€0.6m	€0.2m	€0.3m	€0.05m																				
<p>Statistics on annual settlement</p> <p>Over the last five years, 14 cases involving statutory audits have been concluded:</p> <ul style="list-style-type: none"> seven cases were not pursued six cases resulted in admission of misconduct one case was contested and resulted in a finding of misconduct by the Tribunal. <p>The sanctions on the seven cases that resulted in admission of misconduct</p>	<p>No information publicly available.</p>	<p>No information publicly available. 54 settled disciplinary orders, including an order imposing the largest monetary penalty imposed by the Board to one of the audit firms.</p> <p>In 2015, the PCAOB also issued its first order in which a settling respondent admitted to a disciplinary order's facts, findings and violations. All prior PCAOB settled orders have noted that the settling</p>	<p>No information publicly available.</p>	<p>No information publicly available.</p>																				

⁵⁰ All the cases referred below were investigated under the previous Accountancy Scheme. We do not know whether the number of cases would increase or decrease under the AEP.

	UK ⁵⁰	Netherlands	US	Japan
	included severe reprimand, reprimand, exclusion for three years and monetary fines (often reprimands and fines were issued together).		respondents neither admitted nor denied the PCAOB's findings. Also in 2015, the PCAOB determined for the first time not to commence disciplinary action against an audit firm based on credit given for the firm's extraordinary cooperation with the PCAOB.	
Number of disciplinary orders appealed and their outcome	Of the 29 past cases publicly disclosed on the FRC's website, only one of them has been considered by the Appeal Tribunal which imposed a fine and a severe reprimand on the audit firm and the member.	No information publicly available.	The PCAOB made public in 2016 the final outcomes of five adjudicated disciplinary proceedings, which included significant civil penalty charges against audit firms and partners, in addition to other sanctions to audit partners. In 2016, SEC sustained the PCAOB's findings of violations of auditing standards and the imposition of sanctions against a former partner of one of the four largest networks of firms. The matter was the first PCAOB disciplinary proceeding against such audit partner to proceed through an appeal to the SEC.	No information publicly available.
Duration	Disciplinary cases can take years to reach a conclusion: <ul style="list-style-type: none"> for the seven cases not pursued, the investigation announcement dates ranged from 2008-2013 and the conclusion dates from 2012-2015 for the six cases resulting in admission of misconduct, the investigation announcement dates ranged from 2006-2013 and conclusion dates from 2011-2016. Going forward, the FRC aims to conclude investigations within 2 years.	No information publicly available.	Although the PCAOB does not publicly provide details regarding how long an investigation takes, the PCAOB's 2016-2020 Strategic Plan indicates that it is aiming to resolve 66% of investigations within three years of starting a formal investigation (actual percentages in 2015 and 2016 were 86% and 72% respectively).	No information publicly available.

2.3.4 Focus area: Publication

	UK ⁵¹	Netherlands	US	Japan
Announcements	<p>Mandatory announcements (SATCAR 2016):</p> <p>Transparency is provided for in the AEP at various stages of the disciplinary process. All final decision notices made by the Conduct Committee, the Executive Counsel and the Tribunals or interim orders made by the Enforcement Committee or the Tribunals are made public unless the Conduct Committee considers that publication would not be in the public interest.</p> <p>Discretionary announcements:</p> <ul style="list-style-type: none"> actions relating to the commencement or outcome of investigations where a sanction has not been imposed; decision to accept undertakings from a person in place of a sanction; acceptance of or declining a referral for investigation under the AEP from another regulatory body; other decisions and actions which the FRC considers appropriate in all the circumstances to publish. <p>Factors to consider when exercising the FRC's discretion to publish:</p> <ul style="list-style-type: none"> level of public interest; public confidence in audit regulation; whether it is right in all circumstances to publish a discretionary announcement; fairness upon respondent and legitimate purpose of publication; requirements under the Freedom Of Information Act to publish or release such information. <p>Where no sanction is imposed, the Conduct Committee should usually publish the outcome of that investigation unless there is a good reason not to.</p>	<p>Disciplinary Court for Auditors do not make public or mandatory announcements on the disciplinary cases.</p>	<p>Under the Sarbanes-Oxley Act of 2002, if the PCAOB imposes a disciplinary sanction, it shall report the sanction to:</p> <ul style="list-style-type: none"> the SEC; any appropriate State regulatory authority or any non-US accountancy licensing board with which such firm or person is licensed or certified; and the public (once any stay on the imposition of such sanction has been lifted). <p>When litigation is initiated, the PCAOB is prohibited from publicly disclosing allegations and proceedings unless it finds good cause to make them public and all parties consent to open them to the public. To date, no party has provided such consent. Even after the PCAOB's hearing officer issues an initial ruling that the alleged violations occurred, and the PCAOB has acted on an appeal, if any, the matter may still remain undisclosed to the public at least until the case is appealed to the SEC or the opportunity for a SEC review has passed. As at 31 December 2016, PCAOB disciplinary proceedings involving formal allegations of misconduct involving 14 firms and individual auditors were pending but could not be publicly disclosed due to statutory restriction.</p> <p>If the PCAOB reaches a settlement with registered accounting firms or their associated persons regarding a disciplinary proceeding, that proceeding is published on the PCAOB website and made public.</p>	<p>Disclosure by the JICPA, pursuant to the JICPA Constitution for its members only</p> <p>Disclosure by the CPAAOB, pursuant to the CPA Act, on its website.</p>
Content and identification of individuals	<ul style="list-style-type: none"> Description of findings and sanctions Identification of individuals (unless it is considered disproportionate, it would jeopardise the stability of financial markets or an ongoing criminal 	<ul style="list-style-type: none"> Description of the sanction and basis for imposition Name of the sanctioned firm Such other information as deemed appropriate. 	<ul style="list-style-type: none"> Description of the sanction and basis for imposition Name of the sanctioned person Such other information as the PCAOB deems appropriate. 	<p>JICPA: Disclosure for JICPA members only. FSA/CPAAOB:</p> <ul style="list-style-type: none"> Brief description of violation of laws Name of audit firm and sanctioned person

⁵¹ Full details of the FRC's 'Publication Policy - Audit Enforcement Procedure' can be found at <https://www.frc.org.uk/FRC-Documents/FRC-Governance-and-Legal/Publications-Policy-Audit-Enforcement-Procedure.pdf>

	UK ⁵¹	Netherlands	US	Japan
	<p>investigation; or it would cause disproportionate damage to any institution or individual).</p> <ul style="list-style-type: none"> • Third parties are usually anonymised, unless considered fair and necessary and complies with applicable data protection law. • The FRC considers the risk of releasing price sensitive information and where it is price sensitive, the FRC normally makes a simultaneous announcement to the market and carefully considers the precise timing of the announcement. 		<p>There are no limitations on publicly disclosing the name of the individuals.</p> <ul style="list-style-type: none"> • Amount of the fine. 	
Timing	<p>As soon as reasonably practicable immediately after the person sanctioned has been informed of the decision. Generally three days advance notice of publication unless urgent publication is necessary to safeguard the public interest.</p> <p>Announcements remain available on the FRC's website for five years from the date of an appeal or from the date an appeal should have been lodged.</p>	<p>No publicly available information.</p>	<p>No publicly available information.</p>	<p>No publicly available information.</p>
Format	<p>Generally short statements on the FRC's website.</p>	<p>Short public statement on website of https://www.rechtspraak.nl/.</p>	<p>Generally press releases, and publicly available opinions, orders, and other final PCAOB actions imposing sanctions in contested disciplinary proceedings and SEC actions on review of those sanctions are also available on the PCAOB's site.</p>	<p>Short public statement on the FSA website.</p>

2.3.5 Focus area: Fairness, natural justice and quality control

	UK	Netherlands	US	Japan
Fairness and natural justice / segregation between inspection, investigation and enforcement	<p>A certain degree of segregation of duties is achieved whereby key decisions such as the decision to investigate or whether a respondent is liable for disciplinary actions are taken by separate bodies within the FRC.</p> <p>Some interdependencies can be noted between the different decision making bodies. Refer to section 3.1.4 for segregation and interdependencies.</p>	<p>The Audit & Quality Reporting department and the Penal Fines Officer are two separate departments within the AFM.</p> <p>A certain degree of segregation of duties is achieved whereby key decisions such as the decision to investigate or whether a respondent is liable for disciplinary actions are taken by those separate bodies within the AFM.</p>	<p>The staff of the Division of Enforcement and Investigations may not participate or advise in the decision in any proceeding in which the Division of Enforcement and Investigations is the interested division, except as a witness or counsel in the proceeding.</p> <p>Any other employee or agent of the PCAOB engaged in the performance of investigative or prosecutorial functions for the PCAOB in a proceeding may not, in that proceeding or one that is related, participate or advise in the decision except as a witness or counsel in the proceeding.</p> <p>Hearing officer</p> <p>The Hearing Officer is employed by the PCAOB but is independent of the Division of Enforcement and Investigations and all other PCAOB Divisions responsible for initiating and conducting proceedings before the PCAOB. The Hearing Officer serves as an impartial initial adjudicator of disciplinary charges and certain proceedings involving registration applications.</p> <p>A hearing officer may not be responsible for or subject to the supervision or direction of an employee or agent engaged in the performance of investigative or prosecuting functions for the PCAOB.</p>	<p>JICPA</p> <p>The structures for investigation and disciplinary measure are independent of the Chairman and President of the JICPA, Deputy Presidents, Executive Board and the Council.</p> <p>None of the members of the Appeals Committee are members of the Disciplinary Committee and are expected to make an impartial decision.</p> <p>A certain degree of segregation of duties is achieved whereby key decisions such as the decision to investigate or whether a respondent is liable for disciplinary actions are taken by those separate bodies within JICPA.</p> <p>CPA AOB: Under the CPA Act, the CPA AOB does not perform investigations, but it can make recommendations for the FSA to investigate based upon the result of the JICPA's or its own inspections.</p> <p>FSA: If deemed necessary, the FSA may conduct investigations into alleged violation of the CPA Act.</p>
Quality control	<p>No information publicly available. We expect that this is addressed by having different bodies involved at the different stages of the process.</p>	<p>No information publicly available. We expect that this is addressed by having different bodies involved at the different stages of the process.</p>	<p>No information publicly available regarding quality control over the investigation and enforcement functions.</p> <p>As noted in sections 2.2.2 and 3.3.2, the Office of Internal Oversight and Performance Assurance performs internal examinations of the programs and operations of the PCAOB.</p>	<p>Monitoring within the JICPA: The Audit Practice Monitoring Board was established to ensure the objectivity and transparency of the JICPA's monitoring activities of the audit profession. The duties of the Board are:</p> <ul style="list-style-type: none"> to review the activities of the JICPA's Audit Practice and Review Committee, the Special Investigative Committee on Auditing Issues, the Disciplinary Committee and the Appeals Committee to make recommendations to the above committees based on the reviews to make recommendations to the Chairman and president as to whether the JICPA should publish the outlines of cases investigated by the above committees or not. <p>The Board holds meetings at quarterly intervals and makes recommendations to improve the monitoring function of the JICPA as necessary.</p> <p>The Board consists of a member appointed by the JICPA Chairman and President, and five individuals (with industry or academic experience with accounting</p>

knowledge) outside of the audit profession such as industry, the stock exchange and academia.

2.4 Key features of the oversight responsibility over delegated functions – per country analysis

Overview: The approach taken to the delegation of regulatory functions and oversight of those functions is different for each jurisdiction. We have presented below the approaches taken by the UK and Netherlands regulators. There is no delegation of regulatory activities in the US.

2.4.1 UK

The Professional Oversight team, which sits in the executive structure of the FRC, fulfils the responsibilities set out in the table below. The Professional Oversight director reports to the Audit and Actuarial Regulation Executive Director within the FRC's executive committee structure as illustrated in section 3.1.2. In addition by agreement with the Institute and Faculty of Actuaries (IFoA), the team exercises independent oversight of the regulation by the IFoA of its members and similarly, by agreement with the chartered accountancy bodies, it exercises independent oversight of the regulation of the accountancy profession.

There is no information publicly available regarding the number of individuals in the Professional Oversight team, their skills, qualifications and competencies.

The FRC's statutory responsibilities for oversight of the regulation of statutory auditors

Ensuring that the FRC, as Competent Authority, is satisfied that:

- each RSB should continue to be recognised as an RSB for the purpose of statutory audit; and
- each RSB has the necessary arrangements in place to meet the requirements of the Delegation Agreement.

Delegation Agreements signed with the RSBs (at [Delegation Agreements](#)) set out, amongst other things:

- conditions of delegation
- duties of the parties
- registration of statutory auditors and statutory audit firms conditions
- continuing professional development conditions
- audit monitoring conditions
- enforcement conditions
- the requirements for the RSB to be subject to reporting, monitoring and inspection by the FRC.

How are these responsibilities discharged?

- Assessing periodically that the RSBs continue to meet the requirements for recognition in the Companies Act 2006, Schedule 10 as amended by SATCAR 2016 (which could be found at [Schedule 10 requirements](#)).
- Assessing periodically that each RSB carries out the key Regulatory Tasks delegated to it by the FRC as Competent Authority in accordance with the requirements of the Delegation Agreement.

The following are both RSBs and Recognised Qualifying Bodies (RQBs):

- Association of Chartered Certified Accountants (ACCA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Chartered Accountants Ireland (CAI)
- Institute of Chartered Accountants of Scotland (ICAS).

In addition to the RSBs and RQBs noted above, Association of International Accountants (AIA) is an RQB.

In 2015/16 the FRC carried out its annual monitoring visits to each RSB to test how the RSBs have applied regulatory requirements in practice in one or more specific areas.

Appendix of FRC's 2015/16 annual report, section (i) ([FRC Annual Report and Accounts 2015/16](#)), provides the report of the FRC to the Secretary of State to discharge of its responsibilities in overseeing RSBs and RQBs. The report includes detailed information on:

- approach to and process of monitoring visits
- focus areas based on risk-based approach
- overall results pertinent to all RSBs and RQBs as well as findings and recommendations for individual bodies
- its principal conclusions (that the FRC sees no reason at present to withdraw recognition from any recognised body; however suggests some recommendations).

The FRC's statutory responsibilities for oversight of the regulation of statutory auditors **How are these responsibilities discharged?**

In 2016/17 the FRC will continue its statutory oversight of the regulation of auditors by the RSBs amending its approach where necessary to reflect its new responsibilities as the Competent Authority.

Independent oversight of the audit qualification awarded by the Recognised Qualifying Bodies (RQBs) for the purpose of statutory audit.

- Assessing periodically that the qualifications offered by RQBs continue to meet the requirements of the Companies Act 2006, [Schedule 11 requirements](#).
- Recognising professional bodies to act as RSBs and/or to offer a recognised professional qualification for statutory auditors (RQB).

As noted above, Appendix of FRC's 2015/16 annual report, section (i) provides the report of the FRC to the Secretary of State to discharge of its responsibilities in overseeing RSBs and RQBs. In addition to the annual monitoring activities discussed in detail in its annual report, the FRC also undertook a thematic review of the practical training of auditors and is in the process of updating the existing framework in this area.

In 2016/17 the FRC will continue its statutory oversight of the RQBs, with a focus on the education and training of auditors.

Regulation and monitoring of the local audit reporting and recognition of RSBs and RQBs for local audit purposes under the Local Audit and Accountability Act (effective from 1 April 2016). Currently ICAEW and ICAS have been recognised as RSB and Chartered Institute of Public Finance and Accountancy (CIPFA) as a RQB for local audit.

Appendix of FRC's 2015/16 annual report, section (ii) provides the report of the FRC to the Secretary of State to discharge of its oversight responsibility of local audits.

Independent supervision of Auditors General in respect of the exercise of their function as statutory auditors (further details at Independent supervision of the Auditors General)

Appendix of FRC's 2015/16 annual report, section (iii) provides the report of the FRC as the Independent Supervisor of Auditors General.

The receipt of notifications of changes of auditor from companies and statutory auditors in respect of public interest companies (further details are at Notification of change of auditor).

Powers to make binding Statutory Regulations in specific areas under SATCAR 2016 as explained in the FRC Statutory Regulations.

The FRC has made four legal instruments; to issue regulations for statutory auditors on the requirement to publish transparency reports; to issue regulations for the keeping of the register of the persons eligible for appointment as the statutory auditor; to issue regulations prescribing the theoretical knowledge of subjects required in relation to an examination and to issue regulations prescribing periodical fees to be paid by amongst others third country auditors.

2.4.2 Netherlands

The AFM is solely responsible for the licensing and supervision of audit firms that undertake statutory audits. It has, pursuant to Section 48 of the Audit Firm Supervision Act (Wfta), entered into arrangements to delegate the inspection of firms that perform non-PIE legally required audits to the NBA and the inspection of firms that perform other audits to the SRA. Under these delegation arrangements, the NBA and the SRA are obliged to immediately inform the AFM when they obtain information on serious violations of the Audit Firms Supervision Act or regulations issued thereto. The AFM retains the right to carry out its own inspections on firms that do statutory audits other than those of PIEs.

A summary of respective responsibilities:

	AFM	NBA	SRA
Inspection of audit firms that undertake PIE audits Non-PIE legally required audits – delegated to NBA with AFM oversight		Inspection of audit firms that undertake not legally required audits Delegated by the AFM: Non-PIE legally required audits	Supervision of members of the SRA network (independent audit firms) Delegated by the AFM: Non-PIE legally required audits - small and medium practices
Supervision of the financial reporting of Dutch PIEs		Registration of Register Accountants (Chartered Accountants)	-
Can impose fines on audit firms	Cannot impose fines on audit firms	Cannot impose fines on audit firms	Cannot impose fines on audit firms
Can file a complaint on the work of individual auditors at a Court of Law	Can file a complaint on the work of individual auditors at a Court of Law and can sanction individual auditors (removal from the register), only after the verdict from the Court of Law		Cannot sanction individual auditors

Institute of Chartered Accountants (NBA)

The Royal Dutch Institute of Chartered Accountants (NBA) is the organisation established by law which is responsible for the promotion of good professional practice of its members (Chartered Accountants and Accounting Consultants). Membership of the Royal NBA is mandatory for all auditors. The NBA is governed by public law, appointed by the government to represent the general interests of the chartered accountants and accounting consultants, and is bound by law to ensure that the professions are practised properly. The supervision of good professional practice and the enforcement of the laws and regulations applicable to auditors contribute to this aim. The compliance monitoring and enforcement of applicable laws within the audit profession is regulated through disciplinary jurisdiction and by periodic quality assessments performed by the Board of Trustees.

Monitoring Board of the NBA

The Monitoring Board (Raad voor Toezicht (RvT), Commission Quality Assurance)⁵² of the NBA is responsible for quality assurance (i.e. inspection) of all other audit and assurance engagements, other than statutory audits. NBA then granted accreditation to specific bodies that perform quality assurance for their members (such as small and medium practices (SRA)).

⁵² The RvT consists of an independent chairman and deputy chairman from the Court and five members of the audit profession.

As noted before, NBA has been delegated to perform quality assurance on statutory audits of non-PIEs by the AFM. The RvT, on behalf of the NBA, monitors through periodic quality assessments in audit firms. Each audit firm or department is reviewed at least once every six years, but on the basis of risk indicators, this can be more frequent. In these reviews it is determined whether the quality control system of the audit firms and departments meets the requirements of the Wta. There are three possible conclusions:

- the system meets the requirements
- the system does not meet the requirements in key areas
- the system does not meet the requirements.

If it is determined that the system does not meet quality control requirements in key areas, the audit firm or the audit department needs to draft an improvement plan approved by the RvT, after which a reassessment will take place, in principle after a year. If the reassessment again gives a negative result the RvT can issue a recommendation to the board of the NBA to bring a disciplinary action to the Disciplinary Court for Auditors against the responsible auditor(s).

In those cases where the system does not meet the requirements, the RvT shall immediately make a recommendation to the board of the NBA to bring a disciplinary action to the Audit Court against the responsible auditor(s).

The RvT may, if warranted, conduct a thematic study on a specific aspect of the profession or at the request of the NBA Board, set up an incident investigation into alleged deficiencies in the work of an individual auditor. An incident investigation focuses on whether the acts of the individual auditor are worthy of a complaint. Based on the results of an incident investigation the RvT advises the Board of the NBA on whether or not disciplinary actions should be taken against the individual auditor(s) covered by the investigation.

Samenwerkende Registeraccountants en Accountants-Administratieconsulenten (SRA)

The SRA is a network of 370 independent SME audit firms with a total of 900 offices throughout the Netherlands. The SRA provides the affiliated offices knowledge, resources and support. The SRA has also signed an agreement with the AFM for the supervision of these audit firms. The basis for the agreement is Article 48 of the Wta which states that the financial regulator's monitoring makes use of existing quality management systems. When conducting inspections the AFM takes into account the results of inspections performed by the SRA.

2.5 Approach to third country auditors

	UK	Netherlands	US	Japan
<p>Registration and regulation</p> <p>Pursuant to the Act and SATCAR, the FRC has oversight responsibility of the regulation of 'third country auditors' (TCAs), which are non-EU auditors of companies incorporated outside the European Economic Area (EEA) that have issued securities admitted to trading on UK regulated markets, principally on the main market of the London Stock Exchange (UK market-traded companies). The regulatory regime governing TCAs aims to establish a level of oversight similar to that required of the audits of listed companies incorporated within the EU.</p> <p>Registration</p> <p>The FRC is able to:</p> <ul style="list-style-type: none"> • Register or refuse to register a TCA if the TCA has made an application • Ask the TCA to provide certain information or notify the FRC in writing of certain matters at specified times and periods • Remove a TCA from the Register. <p>The Directive requires Member States to maintain a publicly available register of all auditors and audit firms registered as TCAs (Register). Following registration, the FRC requires TCAs to renew their status as a TCA on an annual basis, confirming and, where required, providing evidence to confirm continuing compliance with the Act and Regulations.</p> <p>In seeking to register and/or become equivalent, statutory auditors of PIEs are required to publish an Audit Transparency Report (there is no derogation from this requirement for equivalence).</p>	<p>A third-country audit firm must register with the AFM. The 'Third-Country Audit Entities Register' is for auditors and audit firms of companies incorporated outside the European Union and European Economic Area whose transferable securities are admitted to trading on a regulated market. The register contains information on third-country audit firms who have applied for registration with the AFM and whose application has been granted or is still in process. Audit firms are held self-responsible for the accuracy of the information provided.</p> <p>The AFM does not yet monitor the audits undertaken by TCAs, but focuses on the request/revocation of permission.</p> <p>Audit firms approved in other EU member states</p> <p>An audit firm approved in another EU member state to perform legally required audits in the Netherlands must register with the AFM before it can perform legally required audits in the Netherlands.</p> <p>After registration with the AFM an audit firm may only perform:</p> <ul style="list-style-type: none"> • legally required audits in the Netherlands that are allowed in the Member State of approval • legally required audits of PIEs in the Netherlands if they are allowed to perform legally required audits of PIEs in the Member State of approval • legally required audits of non-PIEs in the Netherlands if they are allowed to perform legally required audits of non-PIEs in the Member State of approval. 	<p>Non-US accounting firms</p> <p>The PCAOB's inspection program also covers non-US accounting firms that audit, or participate in audits of, US issuers. These firms may audit non-US companies that have issued US-traded securities or non-US subsidiaries of US-based companies. Such firms are subject to the same inspection requirements as US registered public accounting firms, and the PCAOB has entered into agreements with many jurisdictions around the world that permit the PCAOB to perform PCAOB inspections of registered firms in those countries.</p> <p>Inspections of non-US PCAOB registered firms have generally been carried out in two ways:</p> <ul style="list-style-type: none"> • PCAOB-only inspections, where the PCAOB conducts the inspection on its own in coordination with the home country regulator; and • Joint inspection - Inspections conducted jointly with the home country regulator. <p>Under a cooperative framework for non-US inspections that was adopted by the PCAOB, it may rely, to a degree deemed appropriate by it, on inspection work performed by the home country regulator. The PCAOB views cross-border cooperation as fundamental to strengthening audit quality globally. Further details, including timeline and features of joint inspections, are included in section 3.3.6.</p>	<p>When auditing the financial statements of foreign companies under the Financial Instruments and Exchange Act, foreign audit firms shall notify the Prime Minister (who shall delegate his/her authority to the Commissioner of the Financial Services Agency under the CPA Act) in advance. As of 31 March 2016, 88 audit firms from 31 countries made such notifications.</p> <p>The FSA and the CPAAOB published in September 2009 a basic framework in relation to the monitoring of the quality of audit by a non-Japanese audit firm. In 2010 the CPAAOB also published the 'Basic Guidelines on Information Requirements and Inspection on Foreign Audit Firms' to establish basic procedures and points to be considered regarding inspections and information gathering from foreign audit firms. Key features of the basic framework are detailed in section 3.4.6.</p>	

The processes which the FRC will usually follow when exercising these powers are set out at 'Third Country Auditor Register Procedures'. In November 2016, the FRC published its consultation on Third country auditor de-registration procedures.

Regulation

The FRC is required to undertake inspections of TCAs from countries where the European Commission has determined that the system of auditor oversight is not 'Equivalent' or 'Transitional' to that required within the EU (known as 'Article 45' TCAs). If the system of auditor oversight in those jurisdictions is assessed as being equivalent to that in the EU, then the FRC does not carry out additional monitoring in respect of those audits.

The table on page 45 illustrates the breakdown of the number of TCAs with number of issuers in the UK.

International Agreements and Collaboration

The FRC has entered into agreements with the following overseas regulators on the cooperation and exchange of information related to the oversight of auditors.

- US
- Switzerland
- Japan
- Canada

The FRC and the PCAOB can perform joint inspections within the UK.

The AFM has entered into an agreement with the PCAOB on cooperation and exchange of information related to the oversight of auditors.

Since 2011, the AFM and the PCAOB can perform joint inspections within the Netherlands. The AFM was also granted authorisation by the State Secretary of Security and Justice to provide personal data to the PCAOB. This was necessary in order to be able to provide confidential information to the American supervisor.

As noted above, the PCAOB's inspection program also covers non-US accounting firms that audit, or participate in audits of, US issuers.

The CPAAOB has been engaging with IFIAR and also with the audit oversight authorities from various jurisdictions to build bilateral cooperative relationships including the establishment of a framework for exchanging information on audit supervisory activities to facilitate its own examination and inspection activities. Overseas authorities which have a framework for exchanging information with Japan are:

- The US Public Company Accounting Oversight Board (PCAOB)
- The Canadian Public Accountability Board (CPAB)
- The Audit Oversight Board of Malaysia (AOB)
- The Netherlands Authority for the Financial Markets (AFM)
- The Commission de Surveillance du Secteur Financier (CSSF)
- The U.K. Financial Reporting Council (FRC)

The following table illustrates the breakdown of the number of TCAs with number of issuers in the UK:

As at 31 March 2016, the number of:	Total population (including those from 'equivalent' and 'transitional' countries)	Article 45 TCAs (not 'equivalent' and 'transitional')
TCAs	108	45
Issuers with UK traded securities across 45 Countries	205 (across 45 countries)	61 (across 24 countries)

In the year to 31 March 2016, the FRC's third year of inspections of TCAs, it completed inspections of selected aspects of six audits at six TCAs: two in India and one in each of Israel, Zambia, Chile and Nigeria. Two of the audits were categorised as 'limited improvements required', one was categorised as 'improvements required' and three were categorised as 'significant improvements required'.

3. Further details per jurisdiction

3 Further details per jurisdiction

3.1 UK

3.1.1 Funding and budget

Annual planning and budget setting process

The FRC produces an annual budget and plan which gives an analysis of its planned activity, associated costs and sources of funding. It invites stakeholders to comment through a public consultation on the draft and issues a final document thereafter.

Budget and sources of funding for responsibility areas

In its Plan & Budget and Levies 2017/18 (published on 29 March 2017), the FRC provided key elements of the budget aligned to the FRC's new regulatory responsibilities as the competent authority, as follows:

	2016/17 Budget (revised)(*) £m	2016/17 Outturn £m	2017/18 Budget £m
Budget – Regulatory activities			
Corporate governance and reporting	10.4	8.7	11.0
Actuarial standards and regulation	2.4	2.3	2.6
Sub-total	12.8	11.0	13.6
Audit and assurance regulation	12.8	13.5	13.3
<i>Audit quality review</i>	7.3	8.8	7.7
<i>Audit and assurance standards</i>	1.9	1.7	1.9
<i>Professional oversight</i>	1.8	1.6	1.9
<i>Central costs</i>	1.8	1.4	1.8
Enforcement	7.9	6.8	8.4
<i>Enforcement core costs</i>	2.9	2.8	3.4
<i>Audit and accountancy case costs</i>	5.0	4.0	5.0
Sub-total	20.7	20.3	21.7
Changes in reserves	1.1	2.0	0.7
Overall total	34.6	33.3	36.0

(*) This allocation was not available in the FRC's final Budget & Plan and Levies 2016/17 (published April 2016).

Source of funding

In its Plan & Budget and Levies 2017/18 (published on 29 March 2017), the FRC provided its proposed allocation of funding requirements as contributions from:

	2016/17 Budget (revised) ^(*) £m	2017/18 Budget £m
Funded by		
Audit and accountancy funding groups	17.3	17.3
RSB contribution to AQR funding	6.3	6.5
Other AQR income	1.1	0.8
Contributions to standards and oversight	4.1	4.2
CIMA	0.8	0.8
Case costs	5.0	5.0
Preparers levy	14.1	14.8
Actuarial funding groups	2.8	3.0
Publications other income	0.4	0.5
Unspent prior year (forecast)	-	0.4
Overall total	34.6	36.0

(*) This allocation was not available in the FRC's final Budget & Plan and Levies 2016/17 (published April 2016).

Reserves and recognition of fines

The FRC aims to maintain an appropriate level of reserves to be able to deliver regulatory responsibilities effectively, particularly given the voluntary nature of the significant portion of the funding. The FRC's aim over the period of the current three year strategy is to establish reserves equal to six months operating costs.

The most uncertain and variable element of the costs are the enforcement case costs. Upon conclusion of the cases:

Recognition of cost awards and fines / framework	Accountancy scheme ⁵³ and Auditor regulatory sanctions procedure ⁵⁴	Audit Enforcement Procedures and Auditor regulatory sanctions procedure ⁵⁵
Financial penalties (fines)	Received by the relevant professional body.	Received and retained by the FRC.
FRC costs recovered from a sanctioned member in business, audit firm or audit partner	FRC shows a reduction in their costs as they recharge these to the relevant professional body, who in turn recover from the	FRC shows as income as they bear costs and recover directly from the sanctioned member, firm or partner.

⁵³ Misconduct of members in business – all cases. Misconduct by audit partners and firms for the cases initiated before 17 June 2016.

⁵⁴ Breach of regulations by audit partners and firms that does not constitute misconduct – cases initiated before 17 June 2016.

⁵⁵ Cases against audit partners and firms initiated on or after 17 June 2016.

Recognition of cost awards and fines / framework	Accountancy schemes ⁵³ and Auditor regulatory sanctions procedure ⁵⁴	Audit Enforcement Procedures and Auditor regulatory sanctions procedure ⁵⁵
FRC costs and costs of the relevant member, audit firm or audit partner in cases where there is no eventual sanction (financial or otherwise)	sanctioned member, firm or partner.	FRC recovers these from relevant professional body unless a tribunal concludes that no reasonable person would have pursued a particular case, in which case the tribunal may make a costs order against the FRC. In the event that the tribunal made such an order, the FRC would not be able to recover the relevant costs directly from the professional bodies and these costs would have to be met from other sources or from reserves.

In its Plan & Budget and Levy 2017/18, the FRC proposed to maintain similar level of funds for the next two years. These primarily relate to other functions of the FRC – corporate reporting review and actuarial cases – where the costs of cases not proceeded with may fall to the FRC. Given that the only circumstance in which the FRC suffers costs (its own and those of the relevant member in business, audit firm or audit partner) in an audit case is when a tribunal concludes that no reasonable person would have pursued the case, it is unlikely that the FRC will eventually suffer any burden; if such a burden did arise, it would be met out of their general reserves – and in future would be recovered from higher levies on auditors, professional bodies and audited entities.

The following table sets out the current and forecast level of reserves, for litigation and operational funds:

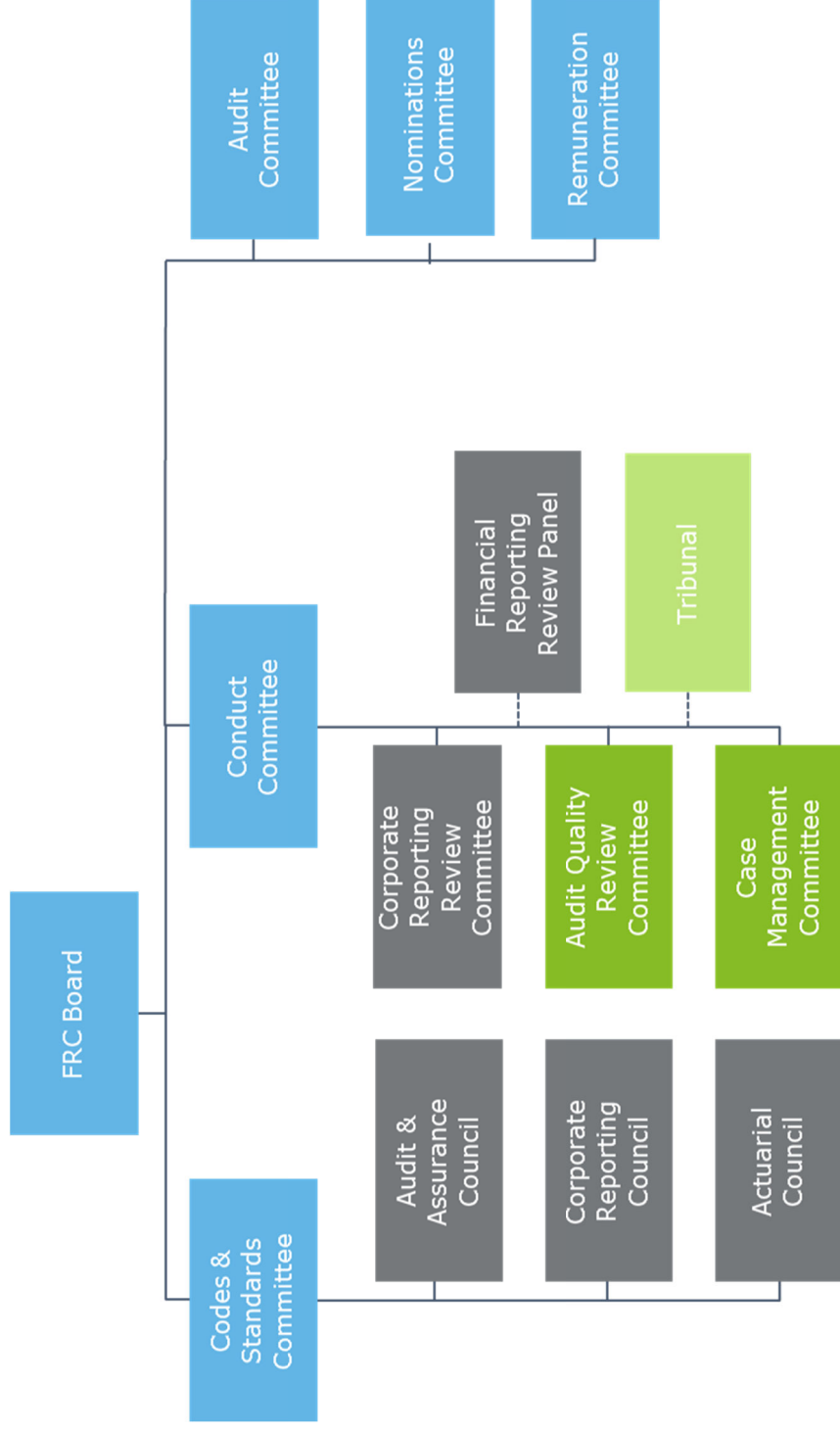
FRC reserves	Corporate reporting review legal cost fund £m	Actuarial case cost fund £m	General reserve £m	Total £m
Opening balance (1 April 2016)	2.0	2.0	3.5	7.5
Addition during 2016/17 (forecast)	-	-	2.0	2.0
Balance (end March 2017)	2.0	2.0	5.5	9.5
Proposed addition during 2017/18	-	-	0.7	0.7
Forecast balance (end March 2018)	2.0	2.0	6.2	10.2

Fines receivable and case costs awards in respect of *actuarial disciplinary* cases are retained and included within revenue in the period in which the fines and case costs become due and collectable and there is no change to this process.

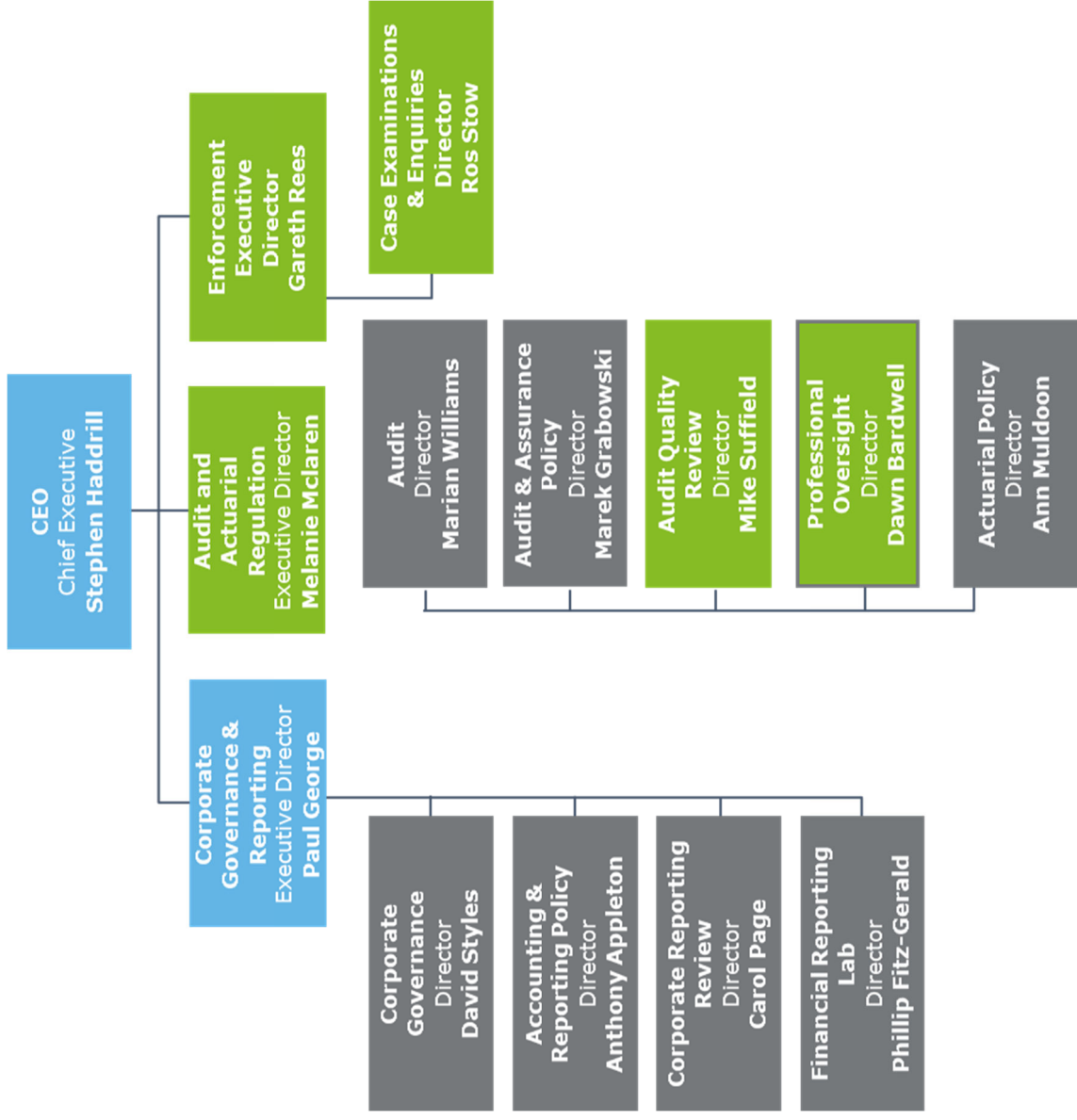
3.1.2 Governing bodies and executive organisation structures

Governing bodies

The Board is supported by three governance committees (Audit Committee, Nominations Committee and Remuneration Committee) and by two business committees (Codes & Standards Committee and Conduct Committee). The Codes & Standards Committee is supported by three Councils which advise on Corporate Reporting, Audit & Assurance and Actuarial matters. The Corporate Reporting Review Committee, AQR Committee and the Case Management Committee support the Conduct Committee and have specific responsibilities as set out in the FRC’s monitoring, review and disciplinary procedures. The Financial Reporting Review Panel and the disciplinary Tribunal Panel are maintained pursuant to the Conduct Committee Operating procedures and the FRC’s Disciplinary Schemes.



Executive bodies in relation to regulatory functions



3.1.3 Inspection

Regulatory body

- Audit Quality Review team, led by Audit Quality Review Director, reports to Executive Director of Audit.
- Audit Quality Review Committee is one of the three committees supporting the Conduct Committee of the FRC Board.

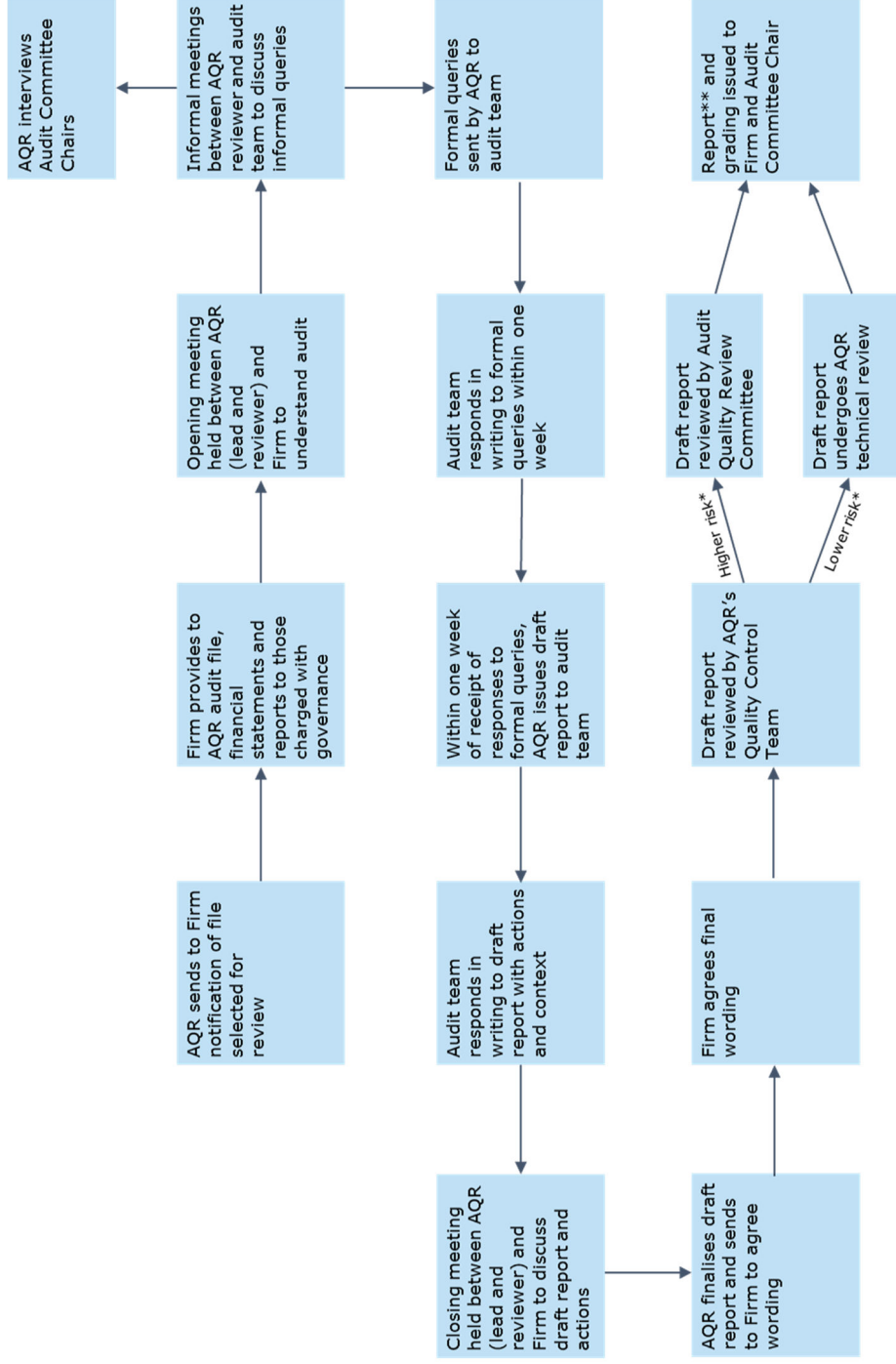
Name of the body or key individuals	Number of key individuals, their nomination process, organisational details, including the number of people, skills, qualifications and competencies	Independence considerations
<p>Audit Quality Review Committee To ensure the consistency and quality of the FRC's monitoring work</p>	<ul style="list-style-type: none"> • Number and nomination process – Appointed by the Conduct Committee (Chair is appointed by the FRC Board) and comprises: <ul style="list-style-type: none"> – Up to 5 members, including but not limited to other members of the Conduct Committee (CC) – Executive Director of Audit and Actuarial Regulation • Quorum – 3 members • Frequency of meetings – as required • Reporting responsibilities - The AQR Committee Chair reports to the CC on its activities at CC meetings no less than 4 times a year. 	<p>No member of the AQR Committee shall be a practising auditor or an officer of any of the accountancy professional bodies.</p>

The responsibilities of the Audit Quality Review (AQR) Committee include:

- Providing advice to the AQR Executive (director of AQR) in respect of the inspection review grade for individual audit engagements and the letter summarising the key findings from a review of an individual audit engagement.
- Agreeing audit monitoring public reports on individual firms.
- Recommending to the Conduct Committee any draft report setting out key findings from the FRC's audit inspection activities.
- Taking steps delegated to it under the Auditor Regulatory Sanctions Procedure and the Crown Dependencies Recognised Auditor Regulatory Sanctions Procedure.
- If appropriate, referring any matter to the Conduct Committee or Case Examiner, as applicable, to consider action under one of the FRC's disciplinary schemes or enforcement procedures.
- Performing any other functions as shall be determined by the Conduct Committee from time to time.

Audit file inspection process

The process of an audit file inspection followed by the AQR Team for each review, from selection to reporting, is set out below⁵⁶:



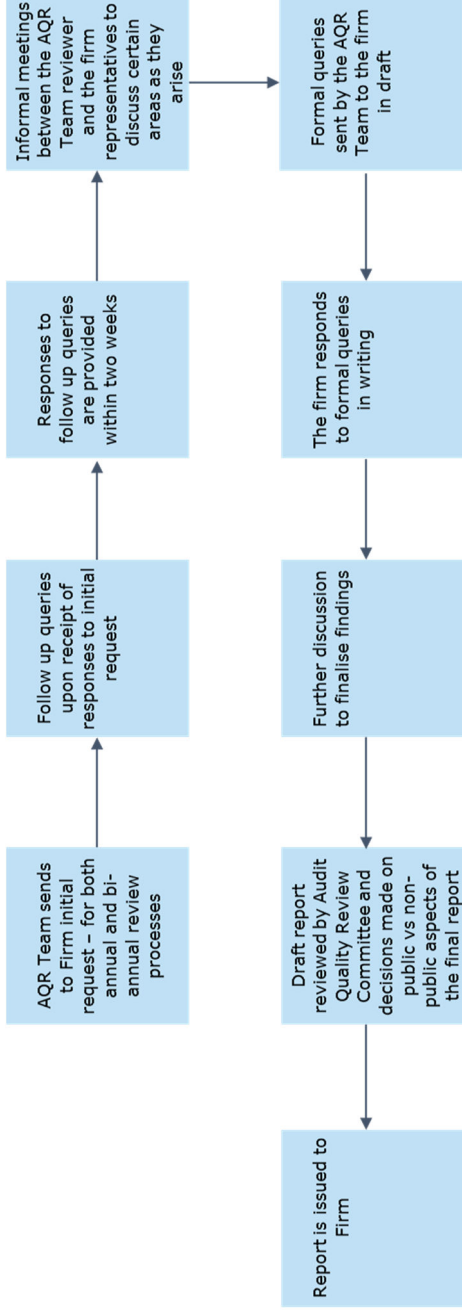
* Risk is assessed using type of engagement, e.g. FTSE 100 vs FTSE 350 and recommended grade, e.g. 2A vs 2B.

** The Schedule of Other Findings, which comprises minor matters identified by the AQR, is only sent to the firm and not to the Audit Committee Chair.

⁵⁶ The process flow diagram is prepared by Deloitte from publicly available sources, supplemented by Deloitte's knowledge and experience.

Firm-specific inspection process

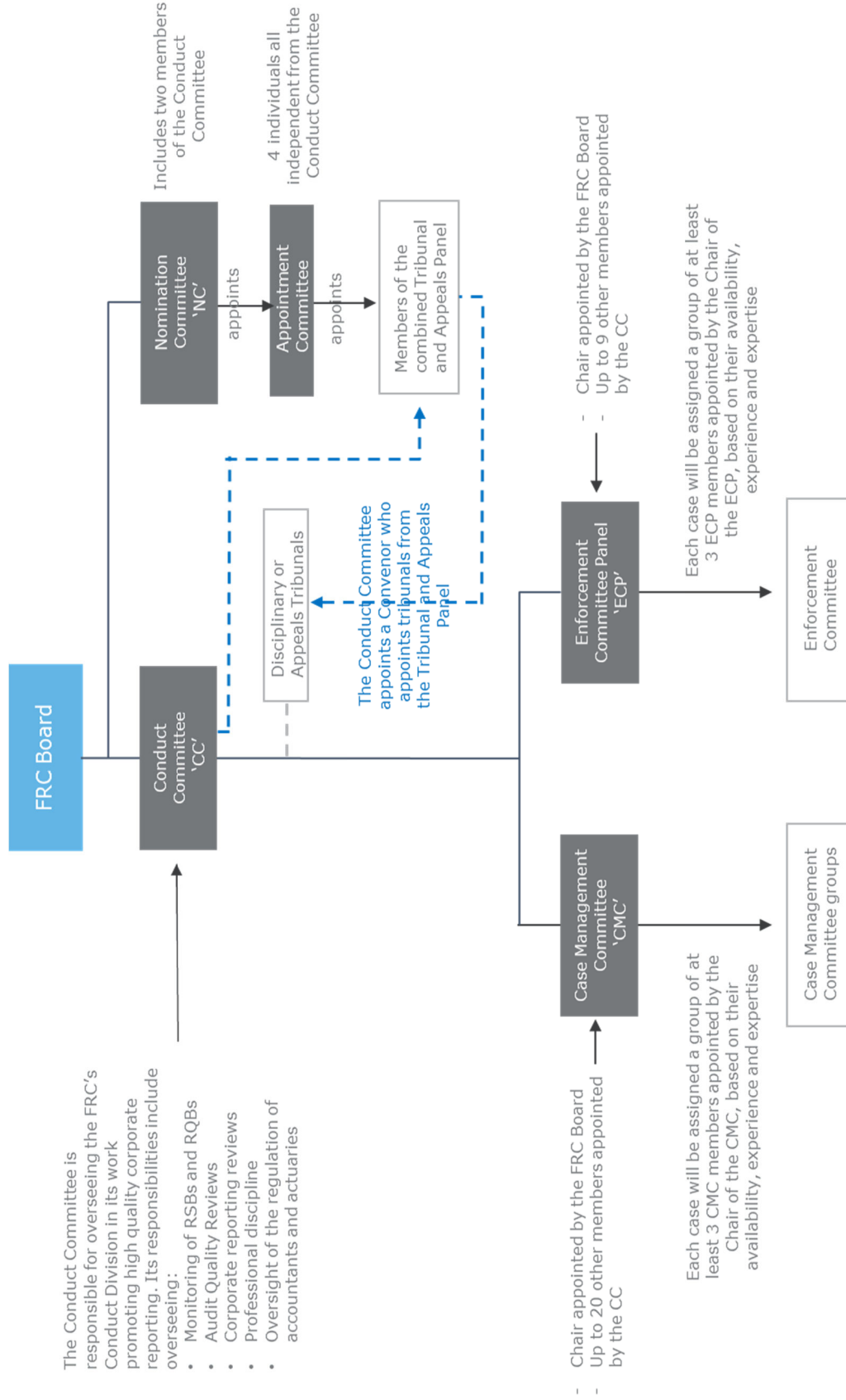
The process of inspection on the audit firm's system of quality control followed by the AQR Team is set out below⁵⁷:



⁵⁷ The process flow diagram is prepared by Deloitte from publicly available sources, supplemented by Deloitte's knowledge and experience.

3.1.4 Investigation and enforcement⁵⁸

- The Conduct Committee is responsible for overseeing the FRC's Conduct Division in its work promoting high quality corporate reporting. Its responsibilities include overseeing:
- Monitoring of RSBs and RQBs
 - Audit Quality Reviews
 - Corporate reporting reviews
 - Professional discipline
 - Oversight of the regulation of accountants and actuaries



⁵⁸ The diagram to present organisation of the disciplinary bodies is prepared by Deloitte from publicly available sources, supplemented by Deloitte's knowledge and experience.

Organisation of the disciplinary bodies

The table below summarises each body within the investigation and enforcement functions and their remit, organisation, number of people, skills, qualifications and competencies as well as independence considerations.

Name of the body or key individuals	Number of key individuals, their nomination process, organisational details, including the number of people, skills, qualifications and competencies	Independence considerations
<p>Case Examiner</p> <p>Key responsibility</p> <p>Gather material and determine whether information amounts to an allegation and either seek constructive engagement with the respondent or refer the allegation to the Conduct Committee for an investigation.</p>	<p>Officer of the FRC whose responsibilities include to decide whether there is an allegation and whether it should be resolved by constructive engagement or investigated</p>	<p>Examiner shall not be a practising auditor or an individual who has, during the previous three years:</p> <ul style="list-style-type: none"> • carried out statutory audits; • held voting rights in an audit firm; • been a member of the administrative, management or supervisory body of an audit firm; or • been a partner, employee of, or otherwise contracted by, an audit firm.
<p>Executive Counsel</p>	<p>A legally qualified officer of the FRC appointed by the FRC's Nominations Committee</p>	
<p>Conduct Committee (CC)</p> <p>Responsibilities</p> <p>Overseeing the FRC's Conduct Division in its work promoting high quality corporate reporting. Its responsibilities include overseeing:</p> <ul style="list-style-type: none"> • Monitoring of RSBs and RQBs • Audit Quality Reviews • Corporate reporting reviews • Oversight of the regulation of accountants and actuaries 	<ul style="list-style-type: none"> • Number and nomination process – Appointed by the FRC Board and comprises: <ul style="list-style-type: none"> – Chair of the Conduct Committee (independent non-Exec) – Executive Director of Audit and Actuarial Regulation – Deputy Chairman of the Board – Chair of the Audit Quality Review Committee – Chair of the Case Management Committee – Other non-executive Directors of the FRC and other committee members • Composition – majority of members are not practising accountants and/or actuaries • Quorum – five members • Frequency of meetings – At least eight times a year • Reporting responsibilities <ul style="list-style-type: none"> – to the Secretary of State on the exercise of the delegated functions of the Secretary of State under section 457 CO06 and section 14(2) of the Companies (Audit, Investigations and Community Enterprise) Act 2004. – to the Board on the Committee's activities and activities of the Case Management Committee, AQR Committee and Corporate Reporting Review Committee at each Board meeting. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit. – The CC Chair shall make a statement in the FRC Annual Report about its activities. 	<p>The Committee shall have a majority of members who are not practising accountants and/or actuaries and no member shall be:</p> <ul style="list-style-type: none"> • member of the Codes & Standards Committee; • a practising auditor or an individual who has during the previous three years: <ul style="list-style-type: none"> – carried out statutory audits; – held voting rights in an auditing firm; – been a member of an administrative management or supervisory body of an audit firm; or – been a partner, employee or otherwise contracted by an audit firm; or – an officer of any of the accountancy or actuarial professional bodies.

Name of the body or key individuals	Independence considerations
<p>Case Management Committee (CMC) Responsibilities Advise on the handling of disciplinary cases. Each case will be assigned a Case Management Committee Group (CMCG) of at least three CMC members nominated by the CMC Chair based on the availability, experience and expertise of members. Responsibilities of the CMCG</p> <ul style="list-style-type: none"> • consider all documentation and representations placed before it by the Case Examiner • refer the allegation for investigation where it considers there is good reason to investigate • direct whether an investigation shall be delegated to a RSB • indicate whether an investigation must be overseen by a CMC Group • oversee any case where the CC or CMCG determines that it should do so. 	<p>No member of the CMC shall be:</p> <ul style="list-style-type: none"> • an officer of any of the accountancy or actuarial professional bodies • a current employee, member, director or officer of the FRC, or subsidiary company of the FRC • a practising auditor or an individual who has during the previous three years: <ul style="list-style-type: none"> – carried out statutory audits – held voting rights in an auditing firm – been a member of an administrative management or supervisory body of an audit firm – been a partner, employee, or otherwise contracted by an audit firm – been an employee, member, director or officer of the FRC, or subsidiary company of the FRC.
<p>Number of key individuals, their nomination process, organisational details, including the number of people, skills, qualifications and competencies</p> <ul style="list-style-type: none"> • Number and nomination process <ul style="list-style-type: none"> – Chair appointed by the FRC Board – Up to 20 other members appointed by the CC • Composition - Including, but not limited to, persons with legal, accounting or actuarial expertise and experience • Quorum – CMC six members / CMCG three members • Frequency of meetings – At least once a year • Reporting responsibilities - The CMC Chair reports to the CC on its activities at CC meetings no less than four times a year. The CMC Chair provides an annual report to the CC which will include trends, patterns and learning points, from the cases considered by the CMCGs and shall make whatever recommendations to the CC it deems appropriate on any area within its remit. • Term - Up to three years and can be reappointed for two further three years periods. 	<p>Independence considerations</p> <p>No member of the ECP shall be:</p> <ul style="list-style-type: none"> • a member of the CC, the CMC or the Tribunal and Appeal Panel appointed under the FRC's AEP • a serving officer of any of the RSBs • a current employee, member, director or officer of the FRC or subsidiary company of the FRC • a practising auditor or an individual who has during the previous three years: <ul style="list-style-type: none"> – carried out statutory audits – held voting rights in an auditing firm – been a member of an administrative management or supervisory body of an audit firm – been a partner, employee, or otherwise contracted by an audit firm – been an employee, member, director or officer of the FRC, or subsidiary company of the FRC.
<p>Enforcement Committee Panel (ECP or the Panel)</p> <ul style="list-style-type: none"> • Each case will be assigned an Enforcement Committee of at least three Panel members nominated by the Panel's Chair based on the availability, experience and expertise of members. Responsibilities • consider all documentation and representations placed before it by the Executive Counsel • specify time limits, grant extension, adjourn • invite the Enforcement Committee and respondent to make oral submissions • decide whether a respondent is liable for enforcement action or whether to issue a cancellation notice • refer the matter to the Tribunal or issue a final decision notice • consider whether to impose interim order • decisions are taken by a majority vote. No member may abstain from a vote. 	<p>Number and nomination process of the Panel</p> <ul style="list-style-type: none"> – Chair, legally qualified, appointed by the FRC Board – Up to nine other members appointed by the CC. <p>Composition</p> <ul style="list-style-type: none"> – Panel: Including, but not limited to, persons with legal and auditing expertise and experience. – Enforcement Committee: includes a legally qualified Chair, a lay person and an individual with audit experience. <p>Quorum of the Enforcement Committee – three members</p> <p>Reporting responsibilities - The Panel Chair shall provide an annual report to the CC which will include trends, patterns and learning points observed from the cases considered.</p> <p>Term - Up to three years and can be reappointed for two further three year periods.</p> <p>Other - All matters considered by the Enforcement Committee shall remain confidential to that Committee subject to the reporting responsibilities and to applicable publication provisions and Publication Policies.</p>

Name of the body or key individuals	Number of key individuals, their nomination process, organisational details, including the number of people, skills, qualifications and competencies	Independence considerations
<p>Disciplinary and Appeal Tribunals</p> <ul style="list-style-type: none"> • Appeal Tribunals are constituted in the same way and subject to the same restrictions as Disciplinary Tribunals. • Decisions are taken by a majority vote. No member may abstain from a vote. 	<ul style="list-style-type: none"> • Number <ul style="list-style-type: none"> - Three individuals for the Disciplinary Tribunal or five individuals for the Appeal Tribunal. • Nomination process <ul style="list-style-type: none"> - Tribunals are selected from a panel of tribunal members by a 'convenor' (a senior individual independent of the investigation process). - As at 28 November 2016, the panel consisted of 25 members including legal chair (nine), accountant or actuarial members (11) and lay persons (five). • Composition <ul style="list-style-type: none"> - Including, but not limited to, persons with legal and auditing expertise and experience. - Tribunals will always be chaired by a lawyer (for an appeals tribunal by a former judge or Queen's Counsel) and either (a) two other members - a lay person and an accountant or actuary or (b) four other members - maximum of two accountants / actuaries and at least one lay person, plus another lay person or a lawyer. - Tribunals will always include a majority of non-accountants. • Term - Up to three years and can be reappointed for two further terms. 	<p>No member of the Panel shall be:</p> <ul style="list-style-type: none"> • a member of the CC, the CMC or the Tribunal and Appeal Panel • a serving officer of any of the RSBs • a current employee, member, director or officer of the FRC or subsidiary company of the FRC • a practising auditor or an individual who has during the previous 3 years: <ul style="list-style-type: none"> - carried out statutory audits; - held voting rights in an auditing firm - been a member of an administrative management or supervisory body of an audit firm - been a partner, employee, or otherwise contracted by an audit firm - been an employee, member, director or officer of the FRC, or subsidiary company of the FRC or any RSB. • No member may be appointed to an Appeal Tribunal if she/he has had prior involvement with a particular case as a Tribunal member. • No tribunal member can be an officer or employee of the FRC or any of its professional bodies.

The full terms of reference are set out in the FRC's Governance Bible at <https://frc.org.uk/FRC-Documents/Governance-and-Legal/Governance-Bible-June-2016.pdf>

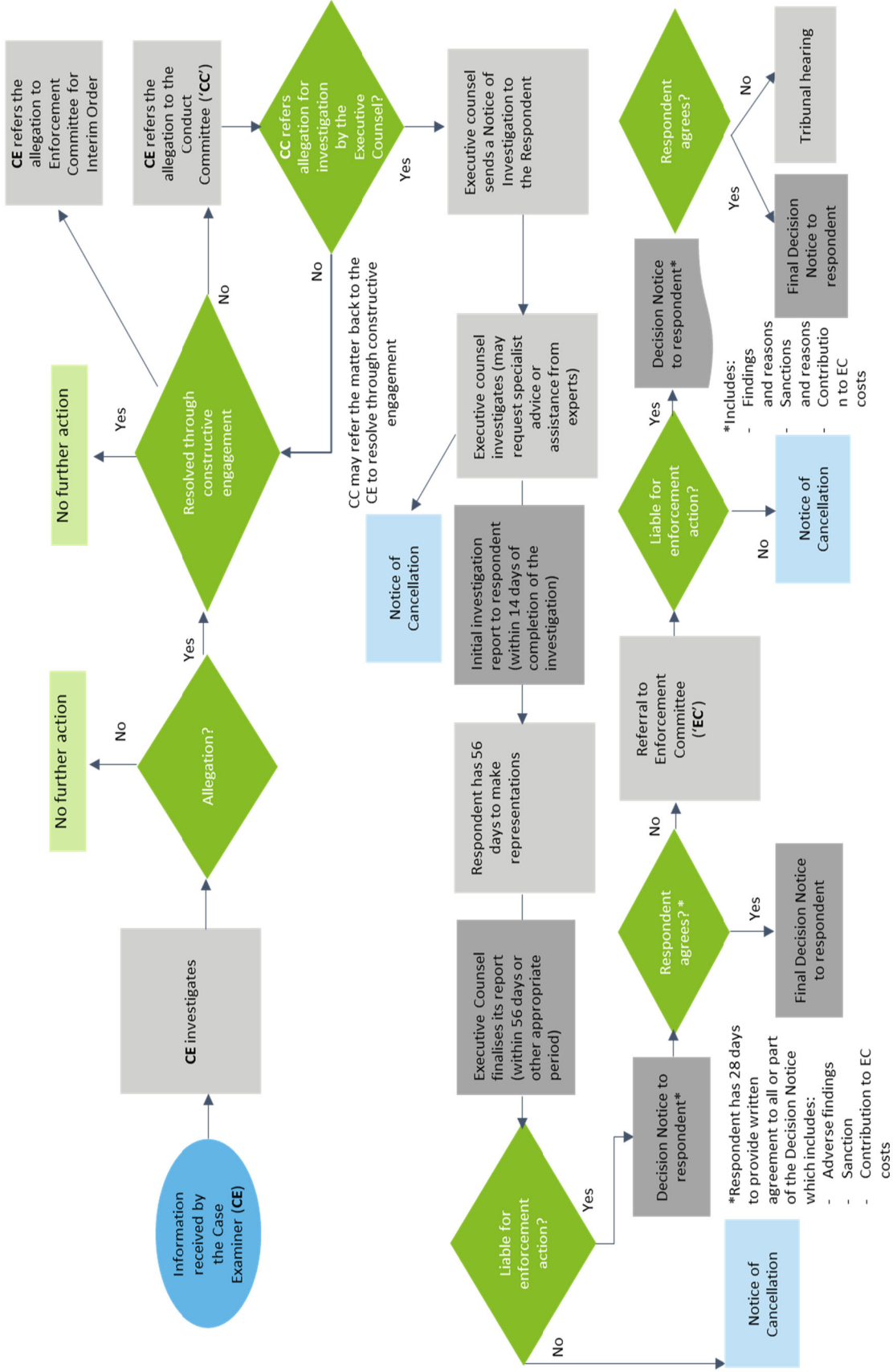
Fairness and natural justice and segregation between the inspection, investigation and enforcement functions

The concept of 'natural justice' where the regulator is not both the prosecutor and the jury is upheld by the established structures within the FRC and the guidelines set out by the AEP. The table below sets out the main decision making points, decision makers and factors bearing on segregation and independence⁵⁹.

Decision making point	Decision Maker	Independence/segregation considerations
Referring matters arising from inspection to the Conduct Committee or the Case Examiner	AQR Committee	The chair of the AQR Committee is a member of the Conduct Committee.
Referring an allegation for investigation (when the case is not resolved through constructive engagement)	Conduct Committee (CC)	<ul style="list-style-type: none"> Link between the decision to investigate and inspections through membership of the Executive Director of Audit and Actuarial Regulation and the Chair of the Audit Quality Review Committee to the CC. Link between the decision to investigate and the management of the case through membership of the Chair of the Case Management Committee to the CC.
Deciding whether an allegation is liable for enforcement action / refer a case to the Disciplinary Tribunal when a respondent does not accept the Executive Counsel's initial decision, and Enforcement Committee's decision	Executive Counsel Enforcement Committee	<ul style="list-style-type: none"> The Executive Counsel both oversees investigations and makes an initial decision regarding whether a respondent is liable for enforcement. Whilst the decision is referred to the Enforcement Committee when a respondent does not agree with the Executive Counsel's initial decision, in practice, it might be difficult for another body of the FRC to subsequently disagree with the decision of a senior member of the FRC's Executive and dismiss the case, particularly if a considerable amount of time may have been spent on a case. The Executive Counsel is appointed by the Nominations Committee whose membership includes two members of the CC (including the Chairman) and one member of the Codes & Standard Committee. The Enforcement Committee Panel is appointed by the Conduct Committee.
Tribunal hearings	Disciplinary and Appeal Tribunals	<ul style="list-style-type: none"> Tribunals are selected from a panel of tribunal members by a 'convenor', an individual appointed by the CC who is independent of the investigation process.
Advising on the handling of disciplinary cases (i.e. are the cases handled fairly)	Case Management Committee Group	<ul style="list-style-type: none"> Members are appointed by the CC.

⁵⁹ The information presented is collated by Deloitte from publicly available sources, supplemented by Deloitte's knowledge and experience.

Overview of the investigation and enforcement process⁶⁰



⁶⁰ The process flow diagram is prepared by Deloitte from publicly available sources, supplemented by Deloitte’s knowledge and experience.

3.1.5 Oversight responsibility over delegated functions

No further information to present.

3.1.6 Approach to third country auditors

No further information to present.

3.2 Netherlands

3.2.1 Funding and budget

The AFM published its annual report and annual plan which gives information on the progress of the planned activities, associated costs and sources of funding. In its annual report 2015 the AFM provided the key elements below. Please note that this information is on the whole organisation and not limited to the supervision of the audit market.

Summary

The Dutch Authority for the financial Markets (AFM) promotes the conscientious provision of financial services to consumers and supervises the honest and efficient operation of the capital markets. Companies that are active on the Dutch financial markets can be legally bound to pay for the costs of supervision. The Dutch government also paid for part of the costs of that supervision, although this contribution has decreased over the years and ceased from 2015.

The AFM's budget, which is the basis for the levies, is approved by the minister of Finance. The calculation of the levies is discussed with an Advisory Panel, which includes representatives of the professional bodies (such as NBA). The Advisory Panel has no formal decision-making powers. The Minister of Finance sets the levies. There are separate levies for market entry and for annual supervision activities. The main driver for the annual levies on audit firms is the revenue generated by PIEs and non-PIEs legally required audits.

	2015 Actuals €m⁶¹
Personnel expenses	65.8
Depreciation of fixed assets	1.9
Other operating expenses	18.9
Total expenses	86.6
Levies	83.6
Fines	3.5
Penalties	-
Government contributions	0.3
Total income	87.4

Expenses related to supervising audit market

Total expenses for the supervision of the audit market in 2015 amounted to €14.4m (for supervision, inspections and investigations).

IT (related) costs (included in the expenses)

The total IT costs at AFM are approximately €5.2m in 2015. This is the total IT expenses for the whole organisation, not only for audit supervision. The expenses were €1.2m higher than budgeted due partly to higher expenses for the use and maintenance of hardware and software partly attributed to the development of new monitoring systems as a result of the implementation of the new EU directive.

⁶¹ As noted above, this information is on the whole AFM organisation, which has responsibility for supervising the operation and conduct of the entire financial market, therefore it is not limited to the oversight of audit firms.

Fines

AFM issues administrative fines to the market participants and the audit firms as a result of investigations or inspections.

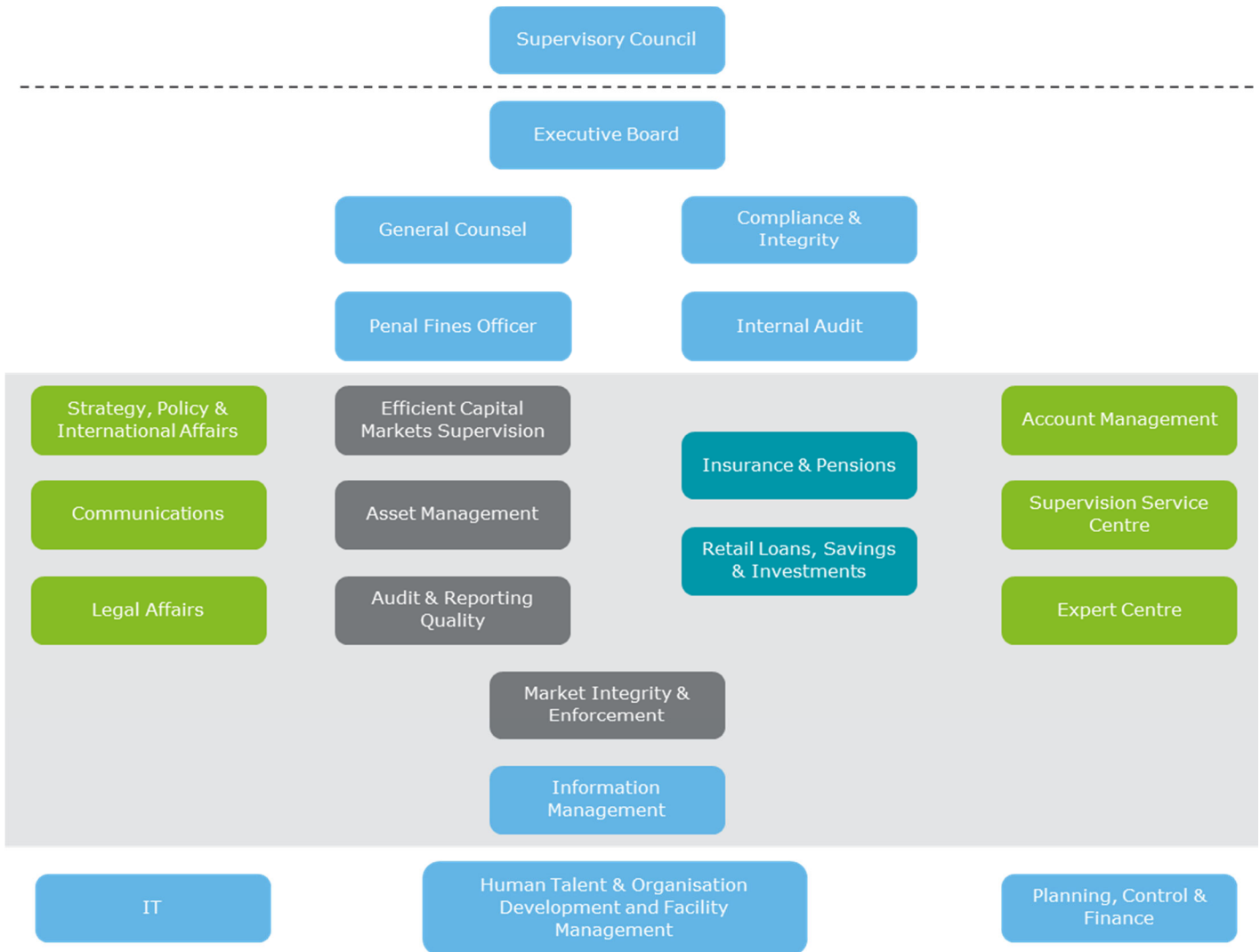
Fines are only recognised as income in the AFM’s financial statements once they have been irrevocably established and it is highly probable that the fine is received by the AFM.

Under Article 7 of the Law Funding of Financial Supervision (Wbft), AFM could recognise total fines up to a threshold of €2.5m per year. Any amount over €2.5m will not be recognised in the AFM’s results and will be appropriated by the State.

In 2015, the realised proceeds from fines were €3.5m; with €2.5m gains to be offset in the levies for ongoing supervision in the following year and €1.0m will go to the State.

3.2.2 Governing bodies and executive organisation structures

AFM



Governing bodies

Supervisory Council of AFM

At 1 November 2016, there were 5 members with different types of expertise, including one expert on auditing:

- (Paul) Rosenmöller (chairman)
- D.C.C. (Diana) van Everdingen (vice-chair)
- R. (Rob) Becker
- W.M. (Willemijn) van Dolen
- B. (Bart) Koolstra (temporarily withdrawn by 26 February 2017)

Full detail of members are at <https://www.afm.nl/en/over-afm/organisatie/rvt>

Board of directors AFM

At 1 November 2016, there were 3 members with different types of expertise:

- M.W.L. van Vroonhoven (Chair)
- G.J. Everts
- F. de Vries

Full detail of members are at <https://www.afm.nl/en/over-afm/organisatie/bestuuroverzicht/bestuursleden>

As per the Articles of Association, the Board comprises between three and five Board Members who are appointed by the Minister of Finance, on the basis of a non-binding proposal of the Supervisory Board of the AFM. The Supervisory Board of the AFM determines the eligibility criteria and qualifications required for Board members. All Board Members have a full time appointment at the AFM. The duration of an appointment is four years and can be prolonged by another period of four years. As per the Audit Firms Supervision Act (Wta), a majority of the Board members should be independent from the audit profession.

As per Section 47 of the Audit Firms Supervision Act, a majority of the Board Members:

- a. may not have been responsible for conducting legally required audits during the previous three years that they have had policy-making powers;
- b. may not have been solely or jointly responsible for the day-to-day management of an audit firm in the previous three years;
- c. may not have been a voting member of the board of an audit firm during the previous three years;
- d. may not have been employed by or affiliated to an audit firm during the previous three years.

Operational bodies in relation to regulatory functions

Audit & Reporting Quality department within the AFM

This department is responsible for the supervision of companies' financial reporting as well as audit firms. Inspections and investigations are within its remit. The legal department and the Penalties & Fines Officer are separate and independent from the department on Audit & Reporting Quality.

Responsibilities:

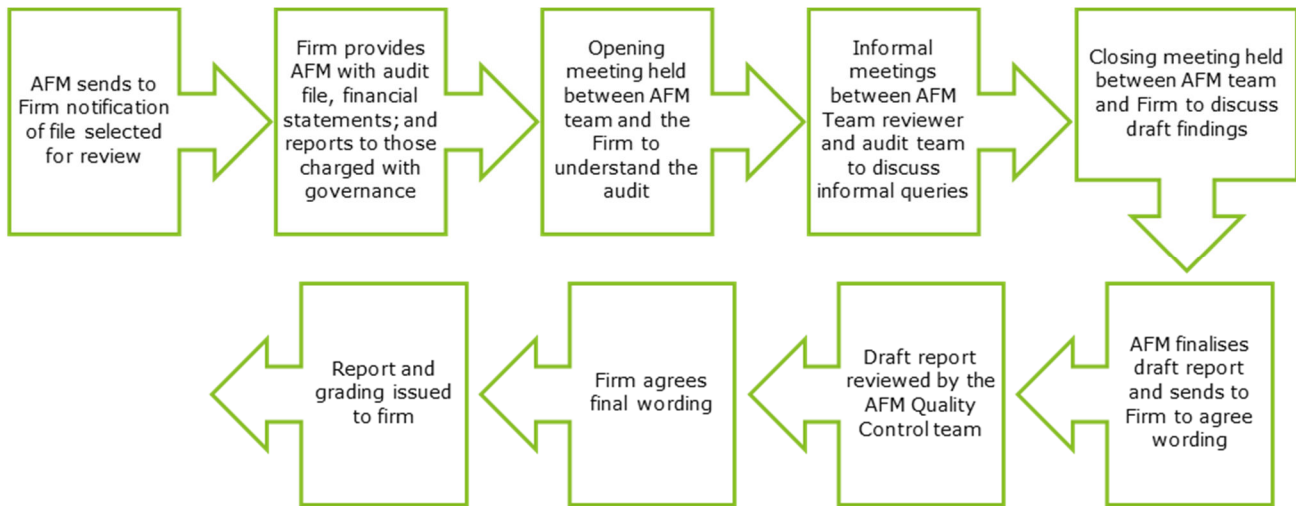
- Licensing
- Monitoring compliance with the permit requirements
- For PIE Audit Firms inspections once every three years
- For audit firms performing legally required audits inspections once every 6 years

How it discharges its responsibilities:

- Frequent inspections
- Inspection of system of quality controls (aligned with CAIM)
- Inspection of legally required audits
- Investigations (information is not public)
- Thematic investigations (for example on public housing corporations)
- Monitoring change process with a focus on behaviour and culture within audit firms

3.2.3 Inspection

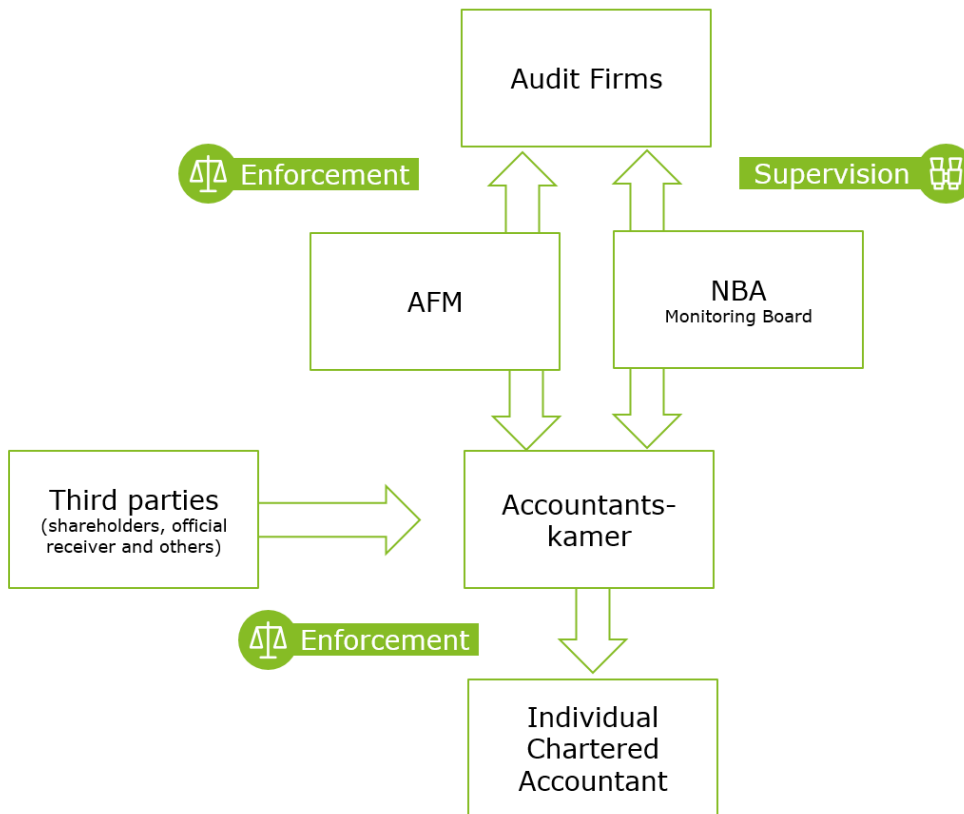
Process flow for audit file reviews⁶²



⁶² The process flow diagram is prepared by Deloitte from publicly available sources, supplemented by Deloitte’s knowledge and experience.

3.2.4 Investigation and enforcement

Framework for enforcement⁶³



3.2.5 Oversight responsibility over delegated functions

No further information, other than the information presented at section 2.4.2.

3.2.6 Approach to third country auditors

No further information presently, other than the information presented at section 2.5.

3.3 US

3.3.1 Funding and budget

Detailed budget 2015-2017

The PCAOB develops a strategic plan to align its programs, operations and activities with its overall mission, goals, and objectives. In addition to serving as a roadmap for the organisation, the strategic plan is used in developing the PCAOB budget each year.

⁶³ The visual presentation of the framework is prepared by Deloitte from publicly available sources, supplemented by Deloitte's knowledge and experience.

PCAOB 2017 Budget by Division/Office

Division/Office	2015 Budget \$m ⁶⁴	2016 Budget \$m	2017 Budget \$m
Board and Executive Staff	7.6	7.2	7.0
Division of Registration and Inspections			
Inspections	124.4	125.0	132.5
Registration	1.2	1.2	1.3
Sub-total	125.6	126.2	133.8
Division of Enforcement and Investigations	19.1	20.2	20.9
Office of the Chief Auditor (Standards)	9.0	9.0	8.9
Office of Research and Analysis	9.5	9.0	8.8
Office of General Counsel	7.9	8.1	8.4
Office of International Affairs	3.2	3.2	3.1
Center for Economic Analysis	2.3	5.6	6.1
Office of Outreach and Small Business Liaison	1.3	1.3	1.1
Office of Government Relations	0.5	0.5	0.5
Office of Public Affairs	0.7	0.7	0.8
Office of Internal Oversight and Perf. Assurance	1.7	1.7	1.8
Office of Information Technology	25.0	26.7	27.4
Office of Administration	37.5	38.3	39.9
Total Outlays	250.9	257.7	268.5
Change to Working Capital Reserve, Net of Other Income and Reconciliations			1.0
Less: Prior Year Registration and Annual Fees			1.5
Total Accounting Support Fees			268.0
Accounting Support Fee - Issuers			232.6
Accounting Support Fee - Broker-Dealers			35.4

Breakdown of operating expenses – by function/program and by type⁶⁵

	2016 \$m	2015 \$m
Program activities	197.8	199.7
Registration and inspections	140.7	141.8
Enforcement	22.1	22.1
Standard setting	8.7	9.5
Economic and risk analysis	15.6	14.9
Board and related activities	10.7	11.4
Supporting activities	51.9	50.4
Administration and general	25.8 ⁶⁶	25.6 ⁵⁹
Communications	2.7	2.5
Information technology	23.4	22.3
Total operating expenses	249.7	250.1

⁶⁴ As per PCAOB's 2016 Budget by Division/Office.

⁶⁵ As per PCAOB's 2016 Annual Report.

⁶⁶ Included in this amount is \$17.0m rent for PCAOB offices at 10 locations around the US for 2016 (2015: \$16.9m).

Breakdown of supporting activities within operating expenses for 2003, 2004 and 2005

	2005 \$m	2004 \$m	2003 \$m
Administration and general	13.8 ⁶⁷	10.6 ⁶⁷	6.5 ⁶⁷
Communications	2.1	2.0	0.9
Information technology	22.2	24.0	4.6
Total supporting activities within operating expenses	38.1	36.7	12.0

The following explanations were included in the PCAOB's 2003, 2004 and 2005 Annual Reports with regards to the supporting activities, which provide certain information on the infrastructure and initial set up costs supporting the regulatory functions:

- Supporting activities made up a significant percentage of the PCAOB's 2003 operating expenses as a result of the need to establish a corporate infrastructure to support the Board's program activities.
- The supporting activities include the offices of the Board members and their staffs, the General Counsel's Office, Public Affairs, Government Relations, Finance, Human Resources, and Administration. The majority of these offices were operational for the better part of the 2003.
- Also included in supporting activities are costs relating to information technology operating costs for system maintenance, network support, and depreciation of information technology equipment.
- During 2004, the PCAOB continued to build the corporate infrastructure to support the program areas and amounts expended in 2004 represent the full year operations.

Breakdown of capital expenditures for 2003, 2004 and 2005

	2005 \$m	2004 \$m	2003 \$m
Technology – program activities	1.7	8.9	4.9
Technology – supporting activities	4.1	6.7	9.1
Furniture and leasehold improvements	6.9	1.8	5.2
Technology development in process	1.6	-	-
Total	14.3	17.4	19.2

The following explanations were included in the PCAOB's 2004 Annual Report with regards to the investments made into information technology and furniture and leasehold improvements, which provide certain information on the costs to build operational infrastructure of the organisation:

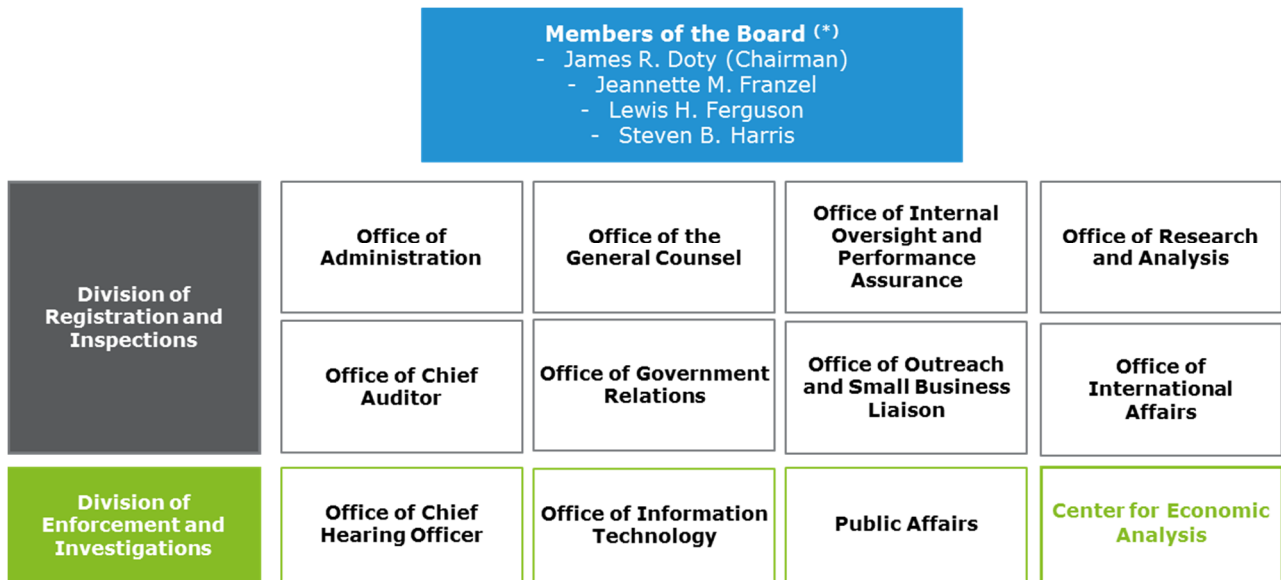
- At 31 December 2005, the PCAOB had established its Washington, D.C. headquarters, seven regional offices and another regional office for its information technology group.
- The decrease in capital expenditure in 2005 is largely attributable to a decrease in spending on IT infrastructure for a maturing organisation.
- Software acquisition was a mixture of commercial off-the-shelf products and certain specific proprietary applications.
- For each proprietary system, the PCAOB considered the costs and benefits of making or buying the system, taking into account the cost, technology, use, and security. In each instance, the PCAOB found that the benefits of building the system in-house outweighed the benefits of utilising an existing system.

⁶⁷ Included in these amounts are \$5.2m, \$3.8m and \$2.8m rent for PCAOB offices for 2005, 2004 and 2003, respectively.

3.3.2 Governing bodies and executive organisation structures

Governing bodies

The following chart provides additional details about the board and the offices and divisions under the board. The board is the governing body and the directors of the divisions are 'officers' that report to the board. Further details of the organisation structure is not publicly available, however, we understand all divisions and offices report to the board.



(*) There is an open seat on the board following Jan Hanson's resignation.

The PCAOB organization also includes Office of Secretary that oversees the scheduling of the board's open and closed meetings and preparing and maintaining records of board actions.

Independence considerations

As stated in the Act, the board has five members, 'appointed from among prominent individuals of integrity and reputation who have a demonstrated commitment to the interests of investors and the public.' Furthermore, the members are expected to be knowledgeable of the nature of financial disclosures required of issuers under the securities laws and of the obligations of accountants who undertake audits of such issuers and issue audit reports.

Two members, and only two members, are to be certified public accountants (CPAs) or have been CPAs previously. If one of the two CPA members is the chairperson of the board, he or she may not have been a practicing CPA for at least five years prior to his or her appointment to the board. Members serve on a full-time basis and may not engage in any other business or professional activity during their service as board members.

Present and former board members and staff are required to comply with the Ethics Codes that, among other things, includes general principles of ethical conduct, financial and employment interests, outside activities and post-employment activities. Full rules are available at https://pcaobus.org//Rules/Pages/Ethics_Code.aspx.

Internal Oversight

The Office of Internal Oversight and Performance Assurance (IOPA) provides internal examination of the programs and operations of the PCAOB and, in so doing, helps ensure the efficiency, effectiveness, and integrity of those activities.

IOPA conducts annual and special performance and quality assurance reviews as well as inquiries into PCAOB functions and programs. IOPA's goal is to help ensure that the PCAOB does the following:

- Identifies and addresses risks to the integrity and effectiveness of programs and operations
- Identifies and implements opportunities to improve the effectiveness and efficiency of programs and operations
- Reports material and other relevant financial, performance, and operating information to the public, Congress, and the SEC
- Complies with applicable laws, regulations, and policies, and promotes and enforces the compliance of PCAOB employees
- Safeguards and uses resources in an efficient manner
- Conducts programs and operations to protect and promote the public interest in the integrity of issuer audits.

Following a review, IOPA usually issues a report to the board that includes recommendations.

3.3.3 Inspection

Remit of inspection

Auditors of Brokers and Dealers - temporary inspection program

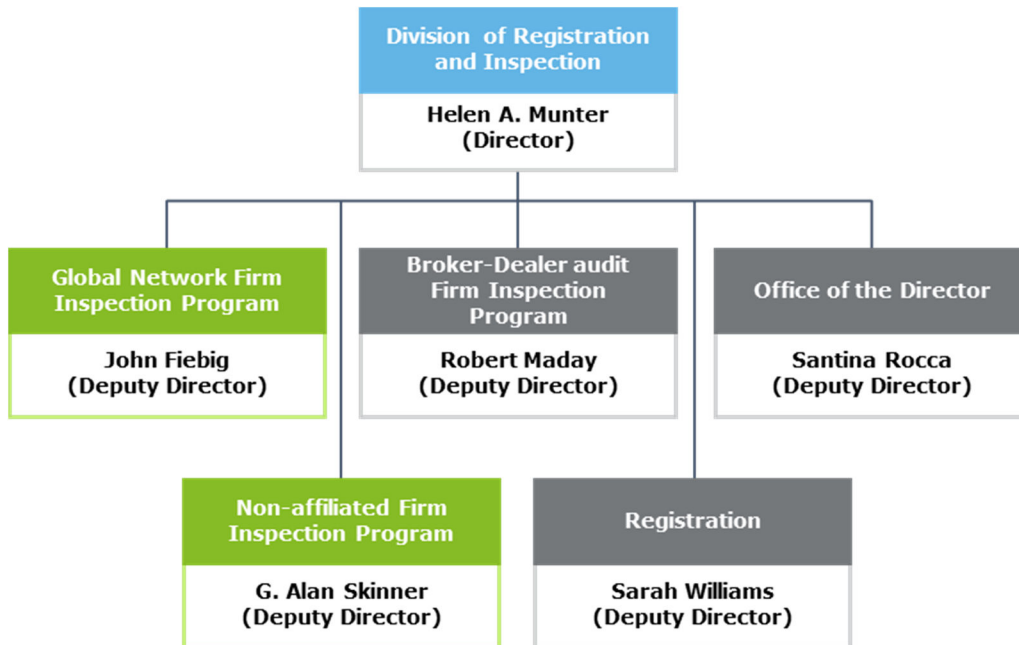
Dodd-Frank authorised the PCAOB (Board) to establish a program of inspection of auditors of brokers and dealers. The law leaves to the Board, subject to the approval of the SEC, important questions concerning the scope of the program and the frequency of inspections, including whether to differentiate among categories of brokers and dealers and whether to exclude from the inspection program any categories of auditors.

A temporary rule adopted by the Board and approved by the SEC in 2011, provides for an interim inspection program while the Board considers the scope and other elements of a permanent inspection program. Under this temporary rule, the Board is inspecting auditors of brokers and dealers and identifying and addressing with the registered firms any significant issues in those audits. The Board also expects that insights gained through the interim program will inform the eventual determination of the scope and elements of a permanent program.

During the interim program, the Board will provide public reports annually on the progress of the interim program and significant issues identified. In the absence of unusual circumstances, however, the Board will not issue firm-specific inspection reports before inspection work is performed under the permanent program and will not issue firm-specific inspection reports on any firms that are eventually excluded from the scope of the permanent program.

Operational bodies in relation to regulatory functions

PCAOB staff of the Division of Registration and Inspections carries out the PCAOB inspection functions. The chart below illustrates the organisation of the Division of Registration and Inspections.



The PCAOB has inspectors with foreign language skills but not all foreign languages are covered, and in some cases, the entire inspection team may not be fluent in foreign language. Sometimes local translators may be used.

Firm specific reviews – objective and process

The procedures generally applied to firm-specific reviews are set out below:

- a. Review of management structure and processes, including the tone at the top
 - Procedures in this area are designed to focus on (a) how the firm's management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance, and (b) whether actions and communications by the firm's leadership – the 'tone at the top' – demonstrate a commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.
- b. Review of practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions:
 - Procedures in this area are designed to focus on (a) whether the firm's processes related to partner evaluation, compensation, admission, termination and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as distinct from marketing or other activities of the firm; (b) the firm's processes for allocating its partner resources; and (c) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team may interview members of the firm's management and review documentation related to certain of these topics. In addition, the inspection team's evaluation may include the results of interviews with audit partners regarding their responsibilities and allocation of time. Further, the inspection team may review a sample of partners' personnel files.
- c. Review of policies and procedures for considering and addressing the risks involved in accepting and retaining issuer audit engagements, including the application of the firm's risk-rating system

- The inspection team may consider the firm's documented policies and procedures in this area. In addition, the inspection team may select certain issuer audits to: (a) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the issuer audit engagements, and (b) observe whether the audit procedures were responsive to the risks identified during the firm's process.
- d. Review of processes related to the firm's use of audit work that the firm's foreign affiliates perform on the foreign operations of the firm's US issuer audit clients
 - The inspection team may review the firm's policies and procedures related to its supervision and control of work performed by non-US affiliates on the firm's US issuer audits, review available information relating to the most recent internal inspections of non-US affiliated firms, interview members of the firm's leadership, and review the US engagement teams' supervision concerning, and procedures for controls of, the audit work that the firm's non-US affiliates performed on a sample of audits.
- e. Review of the firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to defects or potential defects in quality control:
 - (i) Review of processes for identifying and assessing indicators of deficiencies in audit performance
 - Procedures in this area are designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team may interview members of the firm's management and review documents regarding the firm's identification and evaluation of, and response to, possible indicators of deficiencies in audit performance. In addition, the inspection team may review documents related to the design, operation, and evaluation of findings of the firm's internal inspection program, and may compare the results of its review of audit work to those from the internal inspection's review of the same audit work.
 - (ii) Review of response to defects or potential defects in quality control
 - The inspection team may review steps the firm has taken to address possible quality control deficiencies and assess the design and effectiveness of the underlying processes. In addition, the inspection team may inspect audits of issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies have improved.
 - (iii) Review of certain other policies and procedures related to monitoring audit quality
 - The inspection team may assess policies, procedures and guidance related to aspects of independence requirements and the firm's consultation processes, as well as the firm's compliance with these requirements and processes. In addition, the inspection team may review documents, including certain newly issued policies and procedures, and interview firm management to consider the firm's methods for developing audit policies, procedures and methodologies, including internal guidance and training materials.

Audit file inspection process and documentation, including use of standard programmes and electronic work papers

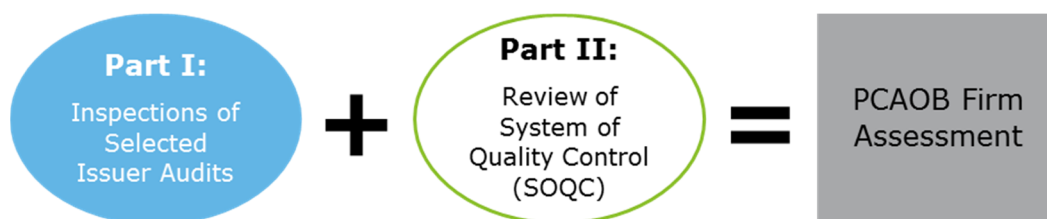
If the inspection team identifies a potential issue, it discusses the issue with members of the engagement team. If the inspection team is unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements, as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed a procedure.

Transparency of firm-specific reporting

After the conclusion of the inspection and after receiving comment form responses, a PCAOB inspection report is prepared. All inspection reports, once final, are shared with the SEC and the local State Boards of Accountancy.

In addition to the key features of the firm-specific reporting set out in section 2.2.2 above, we also note the following:



The content of the report

An inspection report may include other non-public parts, such as a discussion of less significant audit deficiencies not included in Part I and a discussion of the firm's obligation to consider the need to perform additional audit work to address the audit deficiencies described in Part I.

The firm may submit evidence to the Director of the Division of Registration and Inspections that the quality control system has improved and defects are remedied no later than 12 months after the issuance of the Board's final inspection report.

The PCAOB staff encourages dialogue throughout the 12-month remediation period so that the firm will understand what the PCAOB expects it to do and can obtain staff input on its efforts before the deadline. Along these lines, the PCAOB has stated that, for the largest firms, it identifies certain quality control issues that are of greatest concern and asks the firm to submit, within 60 days after the report date, a written plan for remediating those issues.

The Board notifies the firm of its final determination concerning whether the firm has addressed the criticisms or defects in the quality control system of the firm identified in the final inspection report to the satisfaction of the Board.

Quality control criticisms remain non-public if the firm addresses them to the Board's satisfaction within 12 months after the report date. If a firm fails to satisfactorily address any of the quality control criticisms within 12 months, the portion of the report discussing the particular criticism(s) is made publicly available.

For engagement findings, the inspection staff could decide that the auditing failure was so serious, that they refer it to PCAOB enforcement who decides whether or not to open an investigation. As a result, matters that arise during

an inspection may become a source for an enforcement proceeding, along with other inputs that could lead to enforcement proceeding.

The timing of the report

There is not a stated period of time for an inspection and there is no requirement with respect to completing inspection reports.

According to the PCAOB rules, the Director of the Division of Registration and Inspections makes a draft inspection report available for review by the firm that is the subject of the report. Generally, within the 30 days after the draft inspection report is first made available for the firm's review the firm submits to the Board a written response to the draft report. Any firm written response becomes part of the final inspection report.

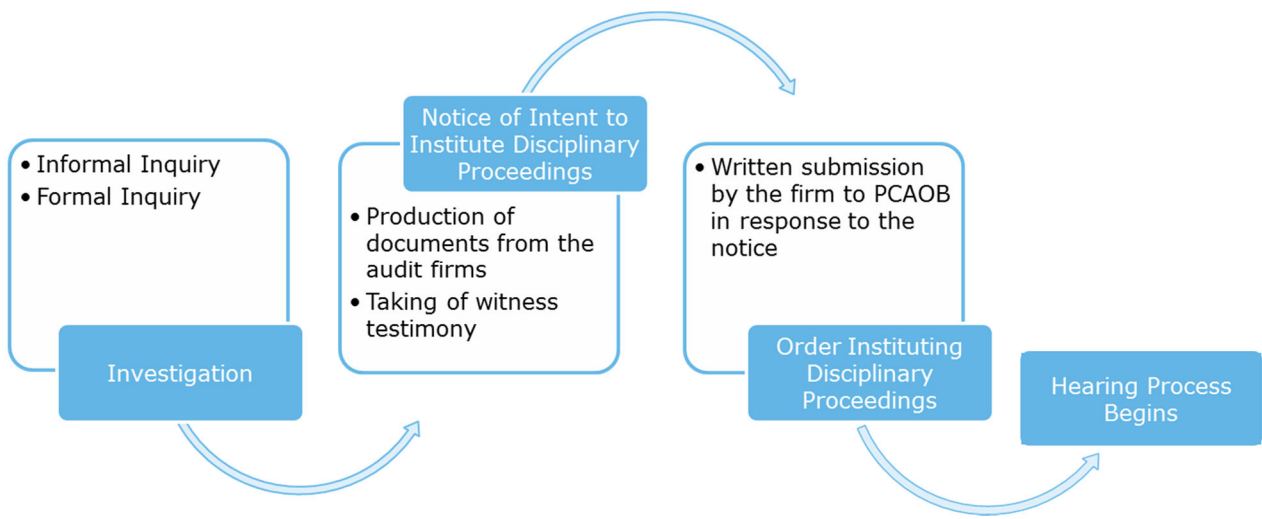
After receiving and reviewing any response letter the Board may take such action with respect to the draft inspection report as it considers appropriate, including adopting the draft report as the final report, revising the draft report, or continuing or supplementing the inspection before issuing a final report. In the event that, prior to issuing a final report, the Board directs the staff to continue or supplement the inspection or revise the draft report, the Board may, at its discretion, afford the firm the opportunity to review any revised draft inspection report.

Approval of the report

The Board itself is responsible for approving inspection reports. The draft report becomes final when it is approved by a majority vote of the Board. After Board approval, the final inspection report is sent to the firm, which has an opportunity to request SEC review of the report.


3.3.4 Investigation and enforcement

Overview of the stages of the PCAOB disciplinary process is presented as follows:



Commencement of informal and formal enquiries

PCAOB Rule 5100

 Where it appears that, or to determine whether, a registered public accounting firm or an associated person of the firm may have engaged in **omission or violation of:**

- (1) any provision of the Act
- (2) the Rules of the Board
- (3) the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants (including the rules of the Commission)
- (4) professional standards

Commencement of an informal inquiry

- Director of Enforcement and Investigations may request documents, information or testimony from, or an interview with, any person


PCAOB Rule 5101

Upon recommendation of:

- The Director of Enforcement and Investigations
- The Director of Registration and Inspections

Upon own initiative of:

- The PCAOB Board

 When it appears that a registered public accounting firm or any associated person engaged in omission or violation of:

- (1) any provision of the Act
- (2) the Rules of the Board
- (3) the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants (including the rules of the Commission)
- (4) professional standards

Commencement of an investigation

The Board will issue an order of formal investigation

Formal inquiry (investigation) process

PCAOB Rule 5112 (a) – (c) provides guidance regarding the coordination and referral of investigations. Specifically, 5112(a) provides that as soon as practicable after entry of an order of formal investigation pursuant to Rule 5101 that involves a potential violation of the securities laws, the Secretary of the Board shall send a copy of the order to the SEC, or any staff of the SEC designated to receive orders of formal investigation by the Board, and Board staff shall thereafter coordinate their work with the work of the SEC's Division of Enforcement, as necessary to protect any ongoing Commission investigation.

Additionally, PCAOB Rule 5112(b) provides that the Board may refer any investigation to the SEC and, in the case of an investigation that concerns an audit report for an institution that is subject to the jurisdiction of any other Federal functional regulator (as defined in section 509 of the Gramm-Leach-Bliley Act), to such regulator.

Finally, PCAOB Rule 5112(c) states that at the direction of the SEC, the Board may refer any investigation to:

- (1) the Attorney General of the United States;
- (2) the attorney general of one or more States; and
- (3) an appropriate State regulatory authority.

See also Rule 6002, which permits the Board to provide assistance to non-US regulators.

Upon the recommendation of the Director of Enforcement and Investigations, or on its own initiative, the Board may issue an order terminating or suspending, for a specified period of time, a formal investigation. Additionally, the Board may commence disciplinary proceedings.

The PCAOB does not provide guidance regarding the circumstances under which powers to close or suspend an investigation are exercised.

Disciplinary proceedings

The Board may commence a disciplinary proceeding when:

- it appears to the Board, as the result of an investigation or otherwise, that a hearing is warranted to determine whether a registered public accounting firm/the associated person has engaged in an omission or violation of relevant laws and regulations
- it appears to the Board, as the result of an investigation or otherwise, that a hearing is warranted to determine whether a registered public accounting firm, or any person who is, or at the time of the alleged failure reasonably to supervise was, a supervisory person of such firm, has failed reasonably to supervise an associated person, as required by relevant laws and regulations
- it appears to the Board that a hearing is warranted pursuant to Rule 5110 – non-cooperation with an investigation.

Tribunal hearings

All parties against whom the PCAOB has initiated disciplinary proceedings (Respondents) have the right to a hearing. Hearings may be conducted in person before a PCAOB Hearing Officer or, in some circumstances, may consist solely of the submission of written materials.

The PCAOB's Rules governing proceedings before a PCAOB Hearing Officer are available at: http://pcaobus.org/Rules/PCAOBRules/Documents/Section_5.pdf

Office of the Hearing Officer

When the PCAOB issues an Order Instituting Disciplinary Proceedings charging one or more Respondents with violations, or when a registration applicant files a request for a hearing, the PCAOB's Secretary assigns a Hearing Officer to preside over the proceeding and prepare a decision resolving the issues in the case (an Initial Decision). The Hearing Officer is an attorney who is employed by the PCAOB but is independent of the Division of Enforcement and Investigations and all other PCAOB Divisions responsible for initiating and conducting proceedings before the PCAOB. The Hearing Officer serves as an impartial initial adjudicator of disciplinary charges and certain proceedings involving registration applications.

Right to Counsel

Respondents in a proceeding before the PCAOB are entitled to be represented throughout the proceeding by an attorney of their choice. The PCAOB encourages all Respondents to consider retaining an attorney. However, the PCAOB cannot appoint or pay for a Respondent's counsel, and the Hearing Officer presiding over a proceeding and other members of the PCAOB's staff cannot act as counsel for any Respondent.

Communications with the Hearing Officer

Other than during prehearing conferences or at the hearing itself, no party may attempt to communicate directly with the Hearing Officer. Instead, all communications have to be directed to the Case Administrator assigned to the proceeding by the Office of the Hearing Officer.

During a prehearing conference or at a hearing, the parties, including Respondents, may ask the Hearing Officer questions if they do not understand procedures or rulings, but no party may engage in 'ex parte communications' with the Hearing Officer, which are communications with the Hearing Officer about the merits of a case without all the parties being present.

Filing Required Papers

Unless otherwise directed by the Hearing Officer, parties are required to file all of their pleadings and other papers electronically by transmitting them as an attachment in Portable Document Format. Additionally, copies of every document filed in connection with a proceeding must be sent to all parties to the proceeding.

Answers by Respondents

In its Order Instituting Disciplinary Proceedings, the PCAOB may require a Respondent to file an answer to the allegations. An answer is typically due within 20 days after service upon a party of an Order Instituting Disciplinary Proceedings, with the exception that an answer is due within 5 days after service upon a party in a case that solely involves a charge of non-cooperation with a PCAOB investigation.

A Respondent's answer must specifically admit, deny, or state that a party does not have, and is unable to obtain, sufficient information to admit or deny, each allegation in the Order Instituting Disciplinary Proceedings. Any allegation that is not denied may be deemed admitted. Respondents must also raise in the answer any affirmative defences to the charges in the Order Instituting Disciplinary Proceedings or risk waiving those defences.

Default

The Hearing Officer may deem a Respondent to be in default if the Respondent fails to file an answer in a timely manner, respond to a dispositive motion or appear at a prehearing conference or hearing of which he or she has notice, or otherwise fails to defend the proceeding. After a default, the Hearing Officer may deem the allegations in the Order Instituting Disciplinary Proceedings to be true, and may order the relief requested.

Phases of Proceedings

Proceedings before a PCAOB Hearing Officer typically have a Prehearing, Hearing, and Post-Hearing phase.

(i) Prehearing Procedures

At the outset of a proceeding, the Hearing Officer typically issues a case management order setting forth procedures that implement and supplement the procedures set forth in the PCAOB's Rules. In addition, the Hearing Officer schedules an initial prehearing conference with the parties to establish a schedule for the completion of the proceeding and to set a date for the hearing on the merits. At least one additional prehearing conference is usually conducted prior to the hearing. Also, the parties are usually required to exchange copies of exhibits and the names and other information about their witnesses prior to the hearing, and to file prehearing briefs. A party's failure to comply with the deadlines established in a schedule ordered by the Hearing Officer may subject the party to default or other consequence short of default (such as, for example, an inability to call a witness at the hearing on the merits if the party failed to identify that witness in a pre-hearing witness list).

Hearings on the merits are scheduled at the earliest possible date, consistent with the complexity of the case and the needs of the parties. Most hearings are held in the PCAOB's Washington, D.C., offices, but, upon request by a party, for the convenience of parties and witnesses, the Hearing Officer may agree to conduct all or a portion of the hearing at another location.

Rules 5422 to 5426 govern the availability of discovery to the parties during the proceeding. Unless otherwise ordered, the interested Division is required to make certain documents available for inspection and copying to any Respondent who is not in default. Additionally, upon a request by a Respondent, the Hearing Officer may order the interested Division to produce for inspection and copying certain witness statements. Respondents may also request the issuance of an accounting board demand of a registered public accounting firm or an associated person of a registered firm, or an accounting board request of another person. Such a demand or request may call for the attendance and testimony of a witness at the designated time and place of the hearing or for the production of documentary or other tangible evidence returnable at any designated time or place. The issuance of an accounting board demand or request is subject to the requirement that such a demand or request is reasonable in scope and reasonably calculated to encompass, or lead to the discovery of, admissible evidence.

During the prehearing phase, any party may file a written request that the Hearing Officer make a specified ruling or order (a motion). Only the Hearing Officer (or in circumstances when a motion is being considered by the Board, the Board) can rule on a motion; the fact that all parties consent to the relief sought does not determine the outcome. Motions must state with particularity the grounds for the request and the relief that is sought, and must be accompanied by a written brief of the points and authorities relied upon. Any opposition must be filed within 5 days, and no reply brief may be filed unless permitted by the Hearing Officer. Absent extraordinary circumstances, the Board will not grant requests for review of any ruling by a Hearing Officer that does not fully resolve all of the issues and claims in a proceeding.

If there are no material facts in dispute, Rule 5427 permits the filing of a motion for summary disposition, a procedure that allows the Hearing Officer to resolve the case without the need for a hearing on the merits.

Respondents may, at any time, propose in writing an offer of settlement.

(ii) Hearing Procedures

A hearing on the merits before a PCAOB Hearing Officer is, in many respects, similar to a trial before a judge in a state or federal court. The Hearing Officer may permit or direct the parties to make opening statements. The interested Division will present witnesses and offer exhibits first since it has the primary burden of proof. Each Respondent also has the right to present witnesses and offer exhibits. Any Respondent raising an affirmative defence will have the burden of proving that affirmative defence. Any party may object to testimony or documentary evidence on the grounds that it is irrelevant, immaterial, or unduly repetitious. A pro se Respondent called to testify may also object to answering questions for the same reasons. Any party may cross-examine any adverse witness.

At the hearing, a Respondent who is an individual may exercise his or her right guaranteed by the Fifth Amendment to the Constitution to refuse to testify as to any matter that may tend to be incriminating. However, in a civil proceeding such as a hearing before the PCAOB, an adverse inference may be drawn from a Respondent's refusal to answer a question based upon an assertion of the Fifth Amendment's protections.

(iii) Post-Hearing Procedures

Following the hearing, unless otherwise ordered by the Hearing Officer, the parties may submit proposed findings of fact and conclusions of law and briefs containing legal arguments in support of their positions. The Hearing Officer then prepares an Initial Decision, including findings of fact, conclusions of law and, if appropriate, sanctions. The Hearing Officer files the Initial Decision with the PCAOB's Secretary, who sends copies of the Initial Decision to all parties.

An Initial Decision as to a party becomes the PCAOB's final decision as to that party upon issuance of a notice of finality. A party may seek Board review of an Initial Decision by timely filing a petition for review, or the Board may order review on its own initiative. The PCAOB's Secretary will issue a notice of finality as to a party no later than 20 days after the expiration of the time for filing a petition for review of the Initial Decision as to that party, unless such a petition has been timely filed or the Board has on its own initiative ordered review of the Initial Decision with respect to that party.

Parties to a disciplinary proceeding (other than a proceeding that solely involves a charge of non-cooperation with a PCAOB investigation) and parties to a proceeding to determine whether to approve or disapprove a registration application pursuant to Rule 5500 may obtain Board review of an Initial Decision by filing a petition for review within 30 days after service of the Initial Decision; parties to a disciplinary proceeding that solely involves a charge of non-cooperation with an investigation may obtain Board review of an Initial Decision by filing a petition for review within 10 days after service of the Initial Decision. Respondents who fail to timely file a petition for review may lose their opportunity to have the Board review the Initial Decision.

Sanctions and cost orders

If the Board finds, based on all of the facts and circumstances, that a registered public accounting firm or associated person thereof has engaged in any act or practice, or omitted to act, in violation of the Act, the Rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the SEC issued under the Act, or professional standards, the Board may impose such disciplinary or remedial sanctions as it determines appropriate, subject to the applicable limitations under Section 105(c)(5) of the Act, including:

1. temporary suspension or permanent revocation of registration;
2. temporary or permanent suspension or bar of a person from further association with any registered public accounting firm;
3. temporary or permanent limitation on the activities, functions or operations of such firm or person (other than in connection with required additional professional education or training);
4. a civil money penalty for each such violation, in an amount equal to (i) not more than US\$100,000 for a natural person or US\$2,000,000 for any other person; and (ii) in any case to which Section 105(c)(5) of the Act applies, not more than US\$750,000 for a natural person or US\$15,000,000 for any other person;
5. censure;
6. requiring additional professional education or training;
7. requiring a registered public accounting firm to engage an independent monitor, subject to the approval of the Board, to observe and report on the firm's compliance with the rules and provisions set out in PCAOB Rule 5100 as before;

8. requiring a registered public accounting firm to engage counsel or another consultant to design policies to effectuate compliance with the rules and provisions set out in PCAOB Rule 5100 as before;
9. requiring a registered public accounting firm, or a person associated with such a firm, to adopt or implement policies, or to undertake other actions, to improve audit quality or to effectuate compliance with the rules and provisions set out in PCAOB Rule 5100 as before; and
10. requiring a registered public accounting firm to obtain an independent review and report on one or more engagements.

If the Board finds, based on all of the facts and circumstances, that a registered public accounting firm, or a person associated with such a firm, has failed to comply with an accounting board demand, has given false testimony or has otherwise failed to cooperate in an investigation, the Board may impose such disciplinary or remedial sanctions as it determines appropriate:

- the sanctions described in subparagraphs (1) - (5) of paragraph (a) of this Rule as above;
- requiring a registered public accounting firm to engage a special master or independent monitor, appointed by the hearing officer, to monitor and report on the firms' compliance with an accounting board demand or with future accounting board demands; or
- authorising the hearing officer to retain jurisdiction to monitor compliance with an accounting board demand or with future account board demands and to rule on future disputes, if any, related to such demands.

Sanctions are given to registered public accounting firms and/or associated person(s).

In general, each party pays its own legal fees and costs.

In April 2013 the PCAOB announced that benefits may be available to firms and individuals who offer extraordinary cooperation in PCAOB investigations. Extraordinary cooperation is voluntary and timely action beyond compliance with legal or regulatory obligations, including self-reporting of rule violations before they come to a regulator's attention, taking remedial action and providing substantial assistance to the PCAOB's investigation. This could result in reduced charges or sanctions and in exceptional cases no sanction at all; extraordinary cooperation may also be noted in announcements of PCAOB disciplinary action.

The SEC may also sanction auditors, in addition to PCAOB sanctions.

With respect to sanctions related to non-cooperation with a PCAOB investigation. The Board may:

- suspend or bar such person from being associated with a registered public accounting firm, or require the registered public accounting firm to end such association;
- suspend or revoke the registration of the public accounting firm; and
- invoke such other lesser sanctions as the Board considers appropriate, and as specified by rule of the Board.

Appeal

A party may file a motion for reconsideration of a final order issued by the Board. In terms of further recourse, appeal of the Board’s decision can be made to the SEC. An additional appeal to the US Court of Appeals for the District of Columbia Circuit is also available following a decision by the SEC.

If a respondent in a contested disciplinary proceeding petitions for SEC review of a Board-imposed sanction (or the SEC elects to review the sanction on its own), the Act provides that the sanction is stayed pending further action by the SEC. Normally, SEC review proceedings are public pursuant to Rule 301 of the SEC’s Rules of Practice. However, the Act prohibits the Board from publicly reporting the sanction unless and until the SEC lifts the stay. Consequently, the Board does not publish its opinions, orders, and other final actions imposing sanctions before the SEC has ordered that the stay be dissolved or the opportunity for SEC review has passed. In addition, because of the stay, the effective date of the sanctions imposed by the Board is different from the date of the Board action imposing the sanctions.

3.3.5 Oversight responsibility over delegated functions

No further information to present.

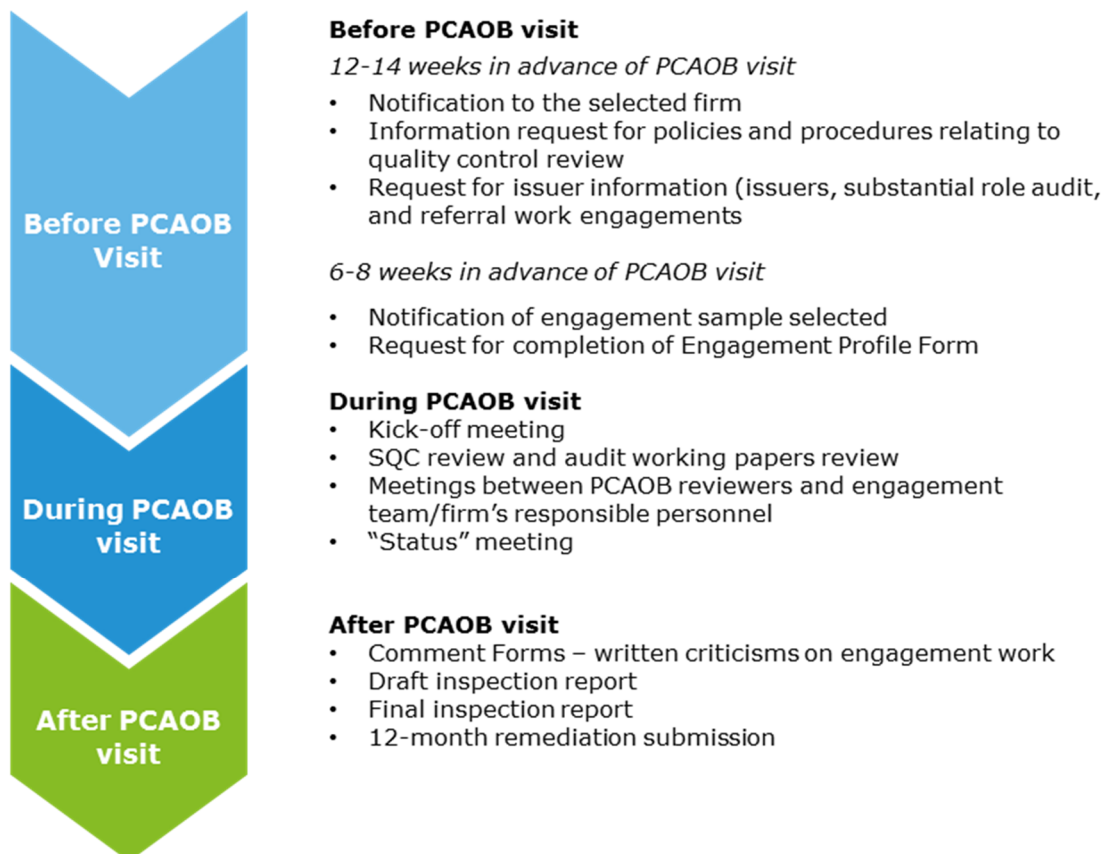
3.3.6 Approach to third country auditors

Non-US accounting firms

The PCAOB’s website provides an update as to which registered accounting firms they have not yet been able to inspect even though four or more years have passed since issuance of an audit report while registered, and the related jurisdictions. See the following link:

<https://pcaobus.org//International/Inspections/Pages/NotYetInspected.aspx>

The typical timeline for the non-US accounting firm inspection may be as follows:



With regards to the conduct of a joint inspection:

Conduct of a joint inspection can vary widely, for example:

- For quality control areas:
 - Review of certain work performed previously by the local regulator and reliance on that work.
 - Conduct of review performed together with review of same documents and conducting joint interviews together.
 - PCAOB reviewing documents and conducting interviews with observation by the local regulator.
- For engagement reviews:
 - Review of work papers together, preparation of joint set of questions, interviews conducted together, agreement on findings.
 - Review of work papers together with the PCAOB taking the lead in most areas.
 - PCAOB independently reviews work papers and conducts interviews with observation by the local regulator.

Agreement of the conduct of the joint inspection often depends on the degree of mutual interest. For example:

- Component engagements are not of inspection interest or jurisdiction for the local regulator so are only reviewed by PCAOB.
- ICFR opinion for issuers are not relevant to local regulator so the PCAOB reviews that portion of work independently (or the local regulator does not have adequate expertise in the ICFR area so the PCAOB will lead that area.)
- Quality controls of independence and compliance with SEC and PCAOB rules are not relevant to the local regulator so PCAOB performs their own review (or the local regulator does not have expertise in the SEC independence rules so the PCAOB will lead that area.)

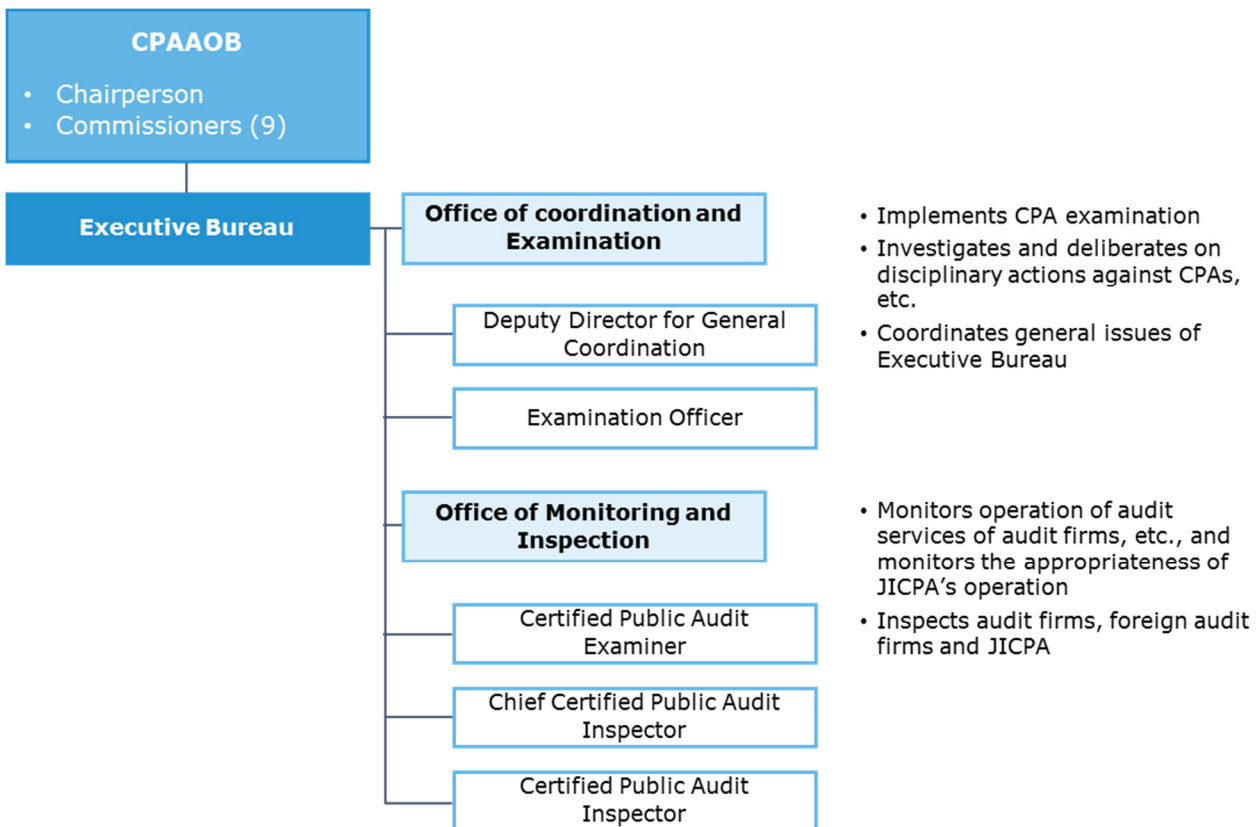
3.4 Japan

3.4.1 Funding and budget

No further information presently.

3.4.2 Governing bodies and executive organisation structures

CPAAOB



3.4.3 Inspection

Firm specific review methodology

Inspections focus in response to risk and business profile of audit firms:

The CPAAOB adopts a three tier approach when assessing different risks and business profiles among audit firms.

(a) Major audit firms (Four largest networks of firms)

The CPAAOB performs an assessment of the quality of the JICPA's inspections (every two years) and conducts thematic reviews and inspections across the international networks of the four largest networks of firms focusing on issues that are common among the major audit firms such as:

- Revenue recognition
- Accounting estimate
- Professional scepticism
- Group audit (in particular, communication between principal auditor and overseas component auditors)

- Engagement quality control review by the JICPA.

In addition, the following issues are covered by the thematic inspections across the audit profession:

- Quality control over local offices
- Audits of financial institutions
- Reviews by international networks
- Response to domestic and overseas regulatory changes.

The inspections aim not only to ensure compliance with minimum standards required by relevant accounting and auditing standards, but also seek to promote best practice across the audit profession.

(b) Second-tier large firms

Regular inspections are conducted every three years with a focus on particular issues such as:

- Audit engagements which require a higher level of audit expertise, such as financial institutions, collective investment schemes and globally operating companies
- Communication with those charged with governance
- Corrective measures in response to the findings identified by the JICPA's quality control review
- Quality control regarding rotation of auditors within the firm
- Group audits (in particular, communication between principal auditor and overseas component auditors)
- Any measures taken nationwide in response to the changes in surrounding environments.

(c) Small and mid-sized firms

A number of deficiencies have been noted among small and mid-sized firms, in relation to quality control around the acceptance and continuance of audit engagements, corrective measures in relation to the deficiencies identified by the JICPA and audit engagements with high dependency (more than 15% of the firm's total revenue). Inspections are conducted in response to the risk profile of the firms focusing on:

- Capacity for quality control within resource constraints
- Expertise and competence of engagement team members
- Audit engagements requiring a higher level of audit expertise, such as financial institutions, collective investment schemes, and globally operating companies
- Communication with those charged with governance
- Quality control regarding rotation of auditors within firms
- Group audit (in particular, communication between principal auditors and overseas component auditors)
- Corrective measures to address deficiencies and weaknesses identified by JICPA's quality control review.

3.4.4 Investigation and enforcement

No further information presently.

3.4.5 Oversight responsibility over delegated functions

No further information presently.

3.4.6 Approach to third country auditors

Monitoring of non-Japanese accounting firms

I. Basic Framework

With respect to information gathering and inspections regarding foreign audit firms ('firms'), the FSA and CPAAOB will, in principle, rely on such actions by the competent authorities of the firms' home jurisdictions ('foreign competent authorities'), instead of seeking to obtain information from or conducting inspections on firms themselves, provided that:

- (a) Audit and public oversight systems in the firms' home jurisdictions are equivalent to those of Japan;
- (b) Necessary information can be provided by the foreign competent authorities through appropriate arrangements of information exchange; and
- (c) Reciprocity is ensured.

It is a prerequisite for entering into an arrangement of information exchange that the staff of the foreign competent authorities are subject to professional confidentiality obligations and are prohibited from using the information beyond predetermined purposes.

In cases where any of the above conditions cannot be met and thus the framework of mutual reliance cannot work, the FSA/CPAAOB will seek to obtain information directly from audit firms or conduct inspections themselves.

II. Operation of Inspection/Supervision

The FSA/CPAAOB requires firms to submit information and will inspect/supervise these firms following the principles outlined below. In implementing this framework, however, the FSA/CPAAOB will give due consideration to specific circumstances surrounding each jurisdiction, including its legal system.

1. Information Submission

The CPAAOB requires firms to report or submit respective information based upon the CPA Act once every three years in principle, in addition to the information submitted through notification documents. The CPAAOB will, in principle, notify foreign competent authorities prior to taking such actions.

- (1) All firms: overview of the firms, their businesses, and results of inspection/audit quality review conducted by foreign administrative agencies or similar organisations.
- (2) Firms which provide audit and attestation services to the issuers of securities listed in Japan: in addition to information in II.1(1), information on the firms' operational control systems, including systems of quality control.

If firms do not provide the required information without any legitimate reasons, the FSA will issue business improvement instructions after having notified the foreign competent authorities in advance. Alternatively the FSA may request the foreign competent authorities to take necessary actions against the firms.

Furthermore, the CPAAOB will request the firms to submit the above information on a voluntary basis when deemed necessary and appropriate.

2. Selection of firms to be inspected

The CPAAOB analyses the information submitted following the process mentioned in II.1 together with other information and assess whether to perform further inspections regarding, for example, a firm's system of quality control.

When deemed necessary and appropriate in light of the public interest or investor protection, such as in cases where firms have allegedly made fraudulent or inappropriate attestations, the CPAAOB may conduct inspections of the firms without going through the process described in II.1. The CPAAOB will, in principle, notify the foreign competent authorities prior to taking such actions.

3. Implementation of inspection

The CPAAOB generally notifies the foreign competent authorities when it intends to conduct inspections, before it notifies the firms. The CPAAOB seeks to coordinate its inspections with those of the foreign competent authorities to conduct inspections simultaneously.

The CPAAOB limits the scope of its inspections to audits required for disclosure under the provisions of the Financial Instruments and Exchange Act in Japan. With respect to the firm's system of quality control, the CPAAOB strives to achieve efficiency of inspections and lessen the burden on firms through this coordination.

4. Provision of inspection report and follow-up

The CPAAOB communicates inspection results to inspected firms by providing inspection reports in Japanese, together with provisional English translation for reference.

Following the inspection, the FSA requires the inspected firms to submit business improvement plans concerning issues identified in the inspection reports. When inspections are conducted in cooperation with foreign competent authorities and collection of the firms' improvement plans by such authorities are considered to be more effective in light of public interest or investor protection by Japanese authorities, the FSA may request the foreign competent authorities to assume the task.

The FSA will monitor the progress of the improvement plans and give instructions to the firms when necessary and appropriate (hereafter referred to as 'follow-up'). In cases where follow-up actions taken by the foreign competent authorities are considered to be more effective in light of public interest or investor protection by Japanese authorities, the FSA may request the foreign competent authorities to assume the task.

The CPAAOB directly follows improvements in subsequent inspections.

5. Administrative Actions

In cases where firms' audit and attestation services in Japan are found to be significantly inappropriate, the FSA issues business improvement recommendations to the firms. When firms do not respond to the FSA's requirement to submit improvement plans without any legitimate reasons, or when poor implementation of the improvement plans are revealed through further inspections for example, the FSA issues business improvement recommendations to the firms as well. The FSA will, in principle, notify the foreign competent authorities prior to taking any such actions.

In the above cases, the FSA may request that the foreign competent authorities take actions to ensure the firms' operational improvement instead of directly issuing business improvement instructions, when it is considered to be more effective in light of public interest or investor protection by Japanese authorities.

When the firms fail to follow the instructions they have received, the FSA may publicise such failure and the contents of the instructions. Once such publications are made, the firms' assurance related to audit and attestation services will not be considered valid in the Japanese market under the Financial Instruments and Exchange Act until the FSA publicises that the matters pertaining to the instructions have been rectified.

Appendix 1: Glossary

Appendix 1: Glossary

- Common Audit Inspection Methodology (CAIM)
- European Audit Inspection Group (EAIG)
- European Economic Area (EEA)
- International Forum of Independent Audit Regulators (IFIAR)
- Public Interest Entities (PIEs)
- Statutory Audit Directive (SAD)
- Third country auditors (TCAs)

UK

- Alternative Investment Market (AIM)
- Association of Chartered Certified Accountants (ACCA)
- Audit Enforcement Procedure (AEP)
- Auditing Practices Board (APB)
- Audit Quality Review (AQR)
- Auditor Regulatory Sanctions Procedure (ARSP)
- Case Examiner (CE)
- Case Management Committee (CMC)
- Chartered Accountants Ireland (CAI)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Competition and Markets Authority (CMA)
- Companies Act 2006 (CA06)
- Conduct Committee (CC)
- Consultative Committee of Accountancy Bodies (CCAB)
- Enforcement Committee Panel (ECP or the Panel)
- EU Audit Regulation and Directive (ARD)
- Financial Reporting Council (FRC)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants of Scotland (ICAS)
- Recognised Qualifying Body (RQB)
- Recognised Supervisory Body (RSB)
- Small and Medium Enterprise (SME)
- Statutory Audit Directive (SAD)

UK (continued)

- Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR 2016)

Netherlands

- Audit Firms Supervision Act (Wta)
- College van Beroep voor het Bedrijfsleven (CBb)
- Dutch Accounting Standard Board (DASB, Financial Reporting - Raad voor de Jaarverslaggeving)
- Financial Markets Authority (AFM)
- General Administrative Law Act (Awb)
- Law on Funding of Financial Supervision (Wbft)
- Netherlands Institute for Chartered Accountants (NBA)
- Samenwerkende Registeraccountants en Accountants-Administratieconsulenten (SRA, network of independent audit firms)

US

- American Institute of Certified Public Accountants (CPAs) (AICPA)
- Financial Accounting Standards Board (FASB)
- Internal control over financial reporting (ICFR)
- Office of Internal Oversight and Performance Assurance (IOPA)
- Public Company Accounting Oversight Board (PCAOB)
- Securities Exchange Commission (SEC)
- US Department of Justice (DOJ)

Japan

- Certified Public Accountants and Auditing Oversight Board (CPAAOB)
- Certified Public Accountants (CPAs)
- Financial Services Authority (FSA)
- Japanese Institute of CPAs (JICPA)

Appendix 2: Library

Appendix 2: Library

UK

The FRC's Final Plan & Budget and Levies for 2017/18 <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Plan-Budget-and-Levies-2017-18.pdf>

The FRC's annual report and accounts 2015/16 <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/FRC-Annual-Report-and-Accounts-2015-16.pdf>

Annual key facts and trends report on statistical data on the accountancy profession <https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Professional-oversight/Key-Facts-and-Trends-in-the-Accountancy-Profession.aspx>

Reports on Developments in Audit (specifically 2015/16 full report, 2015/16 overview, February 2017 update, YouGov report: Enhancing confidence in the value of audit 2016)

<https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Report-on-Developments-in-Audit.aspx>

The AQR's inspection scope 2017/18 <https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-Quality-Review.aspx>

List of entities the FRC has published in its 2016/17 cycle of inspection for the first time (and it expects to publish further details of audits reviewed by the AQR on a quarterly basis at this location)

<https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-Quality-Review/AQR-Audit-Reviews.aspx>

Audit firm specific inspection reports 2016 <https://www.frc.org.uk/Our-Work/Audit/Audit-Quality-Review/Audit-firm-specific-reports/Audit-firm-specific-reports-2016.aspx>

The list of inspection procedures, known as European Common Audit Inspection Methodology (CAIM), as published on the European Audit Inspection Group (EAIG)'s website:

<https://www.eaigweb.org/index.php?id=4>

Audit Enforcement Procedure and various supporting policies and guidance <https://www.frc.org.uk/Our-Work/Enforcement/Enforcement/Supporting-documents-policies-and-guidance.aspx>

The full terms of reference are set out in the FRC's Governance Bible at <https://www.frc.org.uk/FRC-Documents/Governance-and-Legal/Governance-Bible-June-2016.pdf>

Professional oversight responsibilities <https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Professional-oversight.aspx>

Oversight of audit <https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Professional-oversight/Oversight-of-Audit.aspx>

Netherlands

Overview of the audit oversight system in Netherlands <https://www.ifac.org/about-ifac/membership/country/netherlands> and further details at https://www.ifac.org/system/files/compliance-assessment/part_3/201509-Netherlands-NBA_0.pdf

AFM's organisational details <https://www.afm.nl/en/over-afm/organisatie>

AFM's 2015 annual report

Dutch: https://www.afm.nl/~/_/profmedia/files/afm/jaarverslag/2015/jaarverslag-2015.ashx

English: <https://www.afm.nl/~/profmedia/files/afm/jaarverslag/2015/samenvatting-jaarverslag-engelstalig.ashx>

AFM's agenda and priorities for 2016 – 2018, '*Supervision in times of change*'
<https://www.afm.nl/~/profmedia/files/afm/jaaragenda-begroting/agenda/2016/agenda-2016-2018-eng.ashx>.

Results of the inspection on the quality of statutory audits at the four largest networks of firms (September 2014) <https://www.afm.nl/en/consumenten/nieuws/2014/sep/rapport-controles-big4> and dashboard of change and improvement measures for the audit firms that audit PIEs (2015)
<https://www.afm.nl/~/profmedia/files/rapporten/engels/dashboard-2015/dashboard-2015-change-improvement-measures.ashx>

Results of the inspection on the quality of non-PIE statutory audits (November 2013)
<https://www.afm.nl/en/professionals/nieuws/2013/nov/onderzoek-niet-oob>

Results on the thematic inspection of statutory audits of housing corporations (2012)
<https://www.afm.nl/en/professionals/nieuws/2012/dec/big-4-en-controle-woningcorporaties>

NBA's '*In the public interest*' report https://www.accountant.nl/globalassets/accountant.nl/toekomst-accountantsberoep/in_the_public_interest_summary-and-measures_okt2014.pdf
Status of implementation by the AFM and the NBA <https://toekomst.nba.nl/> and
<https://www.afm.nl/~/profmedia/files/rapporten/engels/dashboard-2015/dashboard-2015-change-improvement-measures.ashx>.

General information on administrative fine <https://www.afm.nl/en/over-afm/werkzaamheden/maatregelen/boete> and specific information on administrative fine against Deloitte
<https://www.afm.nl/en/professionals/nieuws/2016/mrt/boete-deloitte>

Some examples of fines included:

- [AFM imposes an order for incremental penalty payments on financial adviser Sturz](#)
- [BinckBank fined twice by AFM](#)
- [AFM imposed an administrative fine for failing to notify transactions on time 16 November 2015](#)

Register of third-country audit entities <https://www.afm.nl/en/professionals/registers/alle-huidige-registers.aspx?type=%7b5F004334-7EE7-4381-8D7D-E3EC499BB639%7d>

US

PCAOB reports and general statements, including staff brief reports (first one published in 2015)
<https://pcaobus.org/Inspections/Pages/PublicReports.aspx> and
<https://pcaobus.org/Inspections/Pages/default.aspx>

PCAOB Annual Reports and Budgets <https://pcaobus.org/About/Administration/Pages/default.aspx>

PCAOB's 2015 inspection report on Deloitte & Touche LLP (US firm)
<https://pcaobus.org/Inspections/Reports/Documents/104-2016-141-Deloitte.pdf>

PCAOB Strategic Plan for 2016 – 2020
<https://pcaobus.org/About/Administration/Documents/Strategic%20Plans/2016-2020.pdf>

The AICPA's peer review program <http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/Pages/default.aspx>

The number of inspections undertaken by the PCAOB according to the Hanson's speeches
https://pcaobus.org/News/Speech/Pages/03172015_Hanson.aspx and
https://pcaobus.org/News/Speech/Pages/100115_Hanson.aspx

Announcements in relation to disciplinary cases according to the Modesti's speech
<https://pcaobus.org/News/Speech/Pages/Modesti-speech-AICPA-12-7-16.aspx>

US (cont'd)

Publicly available settled disciplinary orders <https://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>

Publicly available opinions in disciplinary proceedings
<https://pcaobus.org/Enforcement/Adjudicated/Pages/default.aspx>

PCAOB bylaws and rules (including inspections, investigation and adjudications, international, funding and governing board) <https://pcaobus.org/Rules/Documents/PCAOB-Rules.pdf>

PCAOB Ethics Code at https://pcaobus.org//Rules/Pages/Ethics_Code.aspx

Japan

IFIAR 2016 member profile
https://www.ifiar.org/IFIAR/media/Documents/General/About%20Us/2016_Member_Profile_Japan.pdf

Annual Report of the CPAAOB <http://www.fsa.go.jp/cpaaob/english/reports/27.pdf>

JICPA's report on auditing (July 2013)
<http://www.hp.jicpa.or.jp/english/about/publications/pdf/PUBLICATION-Auditing2013.pdf>

Overall information on JICPA and its activities <http://www.hp.jicpa.or.jp/english/about/jicpa/>

CPAAOB's audit firms' monitoring policy for fiscal year 2015 and 2016
<http://www.fsa.go.jp/cpaaob/english/shinsakensa/kouhyou/20150707/01.pdf> and
<http://www.fsa.go.jp/cpaaob/english/shinsakensa/kouhyou/20161221-1/01.pdf>

CPAAOB case report from audit firm inspection results (2013 and 2015)
https://www.ifiar.org/IFIAR/media/Documents/IFIARMembersArea/MemberUpdates/2013-Audit-Firm-Inspection-Results_1.pdf and https://www.ifiar.org/IFIAR/media/Documents/General/About%20Us/2015-Audit-Firm-Inspection-Results_4.pdf

FSA's framework for inspection/supervision of foreign audit firms
<http://www.fsa.go.jp/en/news/2009/20090914-2/01.pdf>

Recommendations from the 'Advisory Council on the Systems of Accounting and Auditing'
<http://www.fsa.go.jp/en/news/2016/20160308-1/01.pdf>
http://www.fsa.go.jp/en/refer/councils/accounting_and_auditing/material/20160308-1.pdf



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