KAZAKHSTAN:

PUBLIC OVERSIGHT AND QUALITY ASSURANCE SYSTEMS

INTERNATIONAL EXPERIENCE AND KEY CONSIDERATIONS FOR KAZAKHSTAN: INSTITUTIONAL STRUCTURE, FUNCTIONS, STAFFING, AND FUNDING

Prepared as part of the Joint Economic Research Program between the Government of Kazakhstan and the World Bank Group

June 2020

This preliminary report is part of the Joint Economic Research Program (JERP) FY20 task on "Improving the institutional capacity to design and implement a rigorous system of audit public oversight and quality assurance in Kazakhstan", under Activity 1 "Technical assistance for analysis of good practices (action plan, areas for professional institution, and qualification requirements)".

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Acronyms and Abbreviations

ACRA	Accounting and Corporate Regulatory Authority of Singapore
AFM	Dutch Authority for the Financial Markets
AOB	Auditor Oversight Body of Germany
APOA	Agency for Public Oversight of Auditing of Slovenia
CPAAOB	Certified Public Accountants and Auditing Oversight Board of Japan
CPAB	Canadian Public Accountability Board
EU	European Union
FRC	Financial Reporting Council of the United Kingdom
FSA	Financial Services Agency of Japan
FMA	Financial Markets Authority of New Zealand
H3C	High Council for Statutory Audits of France
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IRBA	Independent Regulatory Board for Auditors of South Africa
JERP	Joint Economic Research Program
JICPA	Japanese Institute of Certified Public Accountants
PAC/KZ	Professional Audit Council in Kazakhstan
PAO	Professional Accountancy Organization
PAO/KZ	Professional Auditing Organization in Kazakhstan
PAOC	Public Accountants Oversight Committee of Singapore
PCAOB	Public Company Accounting Oversight Board of the United States
PIE	Public Interest Entity
PPPK	Finance Professions Supervisory Center of Indonesia
SRA	Association of Registered Accountants and Accounting Consultants of the Netherlands
WPK	Chamber of Public Accountants of Germany

Executive summary

1. **Integration into the global economy of competitive countries is one of the priorities of the Government of the Republic of Kazakhstan.** Improving audit regulation, implementation of an audit public oversight system, and enforcement of International Standards on Auditing are of particular relevance to achieving this goal. The existing legal framework in Kazakhstan has no independent system of audit oversight, only elements of self-regulation by the six public audit organizations (PAO/KZ)[1]. But recent corporate scandals involving the auditing profession, along with shortfalls in other national audit metrics, have underlined the need to establish a public oversight system. Consequently, Deputies of the Parliament of the Republic of Kazakhstan initiated amendments to the Law of the Republic of Kazakhstan "On Auditing Activity" with an aim to establish an independent non-profit, non-membership organization founders of which are PAO/KZ (one or more). Following the initiative, Ministry of Finance has initiated a process to amend the existing legal and regulatory framework to establish a non-membership non-profit organization, founders of which are PAO/KZ (one or more)[2]. After the work on this report was finalized, the proposed amendments to Law of the Republic of Kazakhstan "On Auditing Activities" was signed on July 3 2020.

2. **In April 2020 the Ministry of Finance of the Republic of Kazakhstan asked the World Bank, as part of the Joint Economic Research Program (JERP) between Kazakhstan and the World Bank, to prepare this report** focusing on issues related to institutional arrangements of the proposed public oversight model, its key activities, board members' eligibility and qualification criteria, funding and staffing. The conclusions and recommendations included in this report are based on analysis of the proposed amendments[3] to the Law on Auditing Activity, phone discussions, and virtual meetings with key stakeholders. Other important areas will be further analyzed and discussed during the second phase of the technical assistance (July 2020-June 2021)[4]. The report provides in its annexes background information on oversight systems in 14 countries, plus proposed adjustments to the existing or subsequent legislative acts, and an implementation action plan.

3. **The core conclusions of this report suggest that the Government needs to careful consider the implications of the proposed model of public oversight** and adjust the legislation and/or bylaws as well as its implementing regulations. The proposed structure appears unique by international practices and its operations may have potential flaws which could reduce the board's independence. This report suggests a series of adjustments to address these shortfalls, which are outlined below. It also proposes another model altogether for the Government's consideration which corresponds to good international practice; however, additional discussions and public consultations would be required to identify the most suitable model for oversight of the auditing profession in Kazakhstan.

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1 http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_services/services/audit_organs

2 The concept of the draft amendments was approved at the 498th meeting of the Interdepartmental Commission on Legislative Activities on November 15, 2019. The results of the regulatory impact analysis prepared by the Ministry of Finance of the Republic of Kazakhstan were approved at the meeting of the Interdepartmental Commission on Business Regulation on January 16, 2020.

3 The latest draft amendments available to the team were dated June 5, 2020.

4 The preliminary conclusions and recommendations may be reconsidered, as necessary, after a team mission (tentatively planned for September-October 2020) and following the final version of the approved amendments to the law.

Institutional structure

4. **Ensuring the independence of the Board from the audit profession is the key challenge under the proposed public oversight model in Kazakhstan.** The public oversight regulator in Kazakhstan is proposed to be established as a non-membership non-profit organization, founders of which would be one or more PAOs/KZ. Given these unusual institutional arrangements for setting up a public oversight model, it is critical to ensure its independence from the auditing profession, i.e. audit firms, auditors, and professional accountancy organizations (PAOs/KZ). The following key challenges associated with the proposed institutional arrangements would need to be properly regulated through bylaws and regulations where identified:

- *Professional auditing organizations will have the right to, but will not be required to, establish the Professional Audit Council (PAC/KZ).* Consequently, there is a risk that the PAC/KZ may not be established or the process will be delayed (in some countries the audit profession has resisted establishment of public oversight and quality assurance requirements at the incipient stages). Clear requirements, obligations, and incentives should be defined in a bylaw/regulation to eliminate or minimize such risks. Also, situations where PAOs/KZ founders lose their accreditation or desire to become founders should be properly regulated. The rights and obligations of PAOs/KZ and their members in respect of public oversight, quality assurance, and other areas under the jurisdiction of the PAC/KZ should be the same, regardless of whether they are founders of the PAC/KZ or not.

- *Independence from the profession*. Since the six PAOs/KZ could be represented on the board by a separate member (equivalent to no more than 1/3 of the total board number), a decision should be taken in respect of allowing audit practitioners on the board. A good approach would be if the bylaw states that representatives of PAOs/KZ (and all other board members) should be experts that are non-practitioners. Good practice would not normally allow audit practitioners to be members of such boards, but some jurisdictions allow it if they are in a minority. Even though the proposed legal amendments foresee that founders of the PAC/KZ are PAOs/KZ, effectively they should not have the power of decision making. PAOs/KZ can only influence decision-making through their participation in the professional council, where they will be in the minority.

- *Development and approval of the statute creating* the *PAC/KZ.* The statute is to be approved by the founder(s) (which could be one single PAO/KZ (or more) according to the current legislation) and according to the legal amendments, it should respect provisions of the law on audit activity. To minimize the risk that the document could contain provisions that significantly affect the independence of the institution, the statute should be reviewed by the authorities - the Ministry of Finance and the Agency for Regulation and Development of the Financial Market.

Key functions

5. **The ultimate oversight responsibilities of the Ministry of Finance and of the PAC/KZ should be clarified.** While the PAC/KZ will have responsibility for some important functions related to public oversight, some other functions remain the responsibility of the Ministry of Finance. The respective bylaw/regulations should clarify the roles, ultimate responsibility for each key function, reporting lines and other interactions between these two institutions (and PAOs/KZ where relevant). Good international practices recommend that the key activities associated with ultimate responsibility of a public oversight institution include: approval and registration of statutory auditors and audit firms; adoption of standards on auditing, professional ethics,

and internal quality control of audit firms; continuing professional education; quality assurance system; and investigative and administrative disciplinary system.

6. **The PAC/KZ should have ultimate responsibility for the quality assurance program of all auditors performing statutory audits (audits required by law). Quality assurance inspections directly performed by the PAC/KZ should, at a minimum, cover audits of public interest entities (PIE).** According to good international practice, this specific task should not be delegated to the profession, and the quality assurance inspections performed by the profession (i.e. PAOs/KZ) should be overseen by the PAC/KZ. The current amendments to the auditing law do not define as to whether the PAC/KZ will be ultimately responsible for quality assurance control of all auditors, even though the work of PAOs/KZ will be supervised/reviewed by the PAC/KZ.

7. **It is unusual that the provisions of the adopted amendments to the law foresee systematic direct quality assurance by the PAC/KZ only of auditors that audit selected types of PIEs, with the possibility of unplanned inspections of other auditors on the basis of complaints received.** While the scope of such provisions is to cover significant entities with required public accountability (banks, insurance entities, listed entities, national state-owned enterprises and their holdings), it is not usual practice to apply different requirements for different PIE auditors. Typically, countries have a single definition of PIEs used for applicable financial reporting standards (International Financial Reporting Standards – IFRS), management reporting, disclosures, and enhanced requirements for audits and auditors (including direct quality assurance inspections by audit oversight competent authorities). It would be advisable for the authorities to reconsider the definition of PIEs[5] and harmonize requirements for PIEs and non-PIEs in line with good international practices. In addition, the proposed amendments provide that the PAC/KZ could perform unplanned quality assurance inspections of other audits, following requests or complaints received; this is in line with the spirit of responsibility of PAC/KZ for the oversight of all auditors.

Board composition and qualification requirements

8. **Board nomination procedures should be independent and transparent, accompanied by clear eligibility and qualification criteria for board members.** The skills and backgrounds collectively represented on the board should reflect the diverse nature of the environment in which the PAC/KZ and its stakeholders operate. A diverse board includes and makes good use of differences in skills, experience, background, gender, and other characteristics. Key challenges associated with functionality of the board under the proposed amendments that would need to be carefully regulated through bylaws and regulations are:

- *Appointment/Dismissal.* The final decision on board members' appointment and dismissal should be taken by the board decision and coordinated with the body/governmental agency to which the PAC/KZ is accountable (e.g. the Ministry of Finance).

- *Size of the board and terms of its members*. A bylaw/regulation needs to clarify the maximum size of the board and the number of representatives to be nominated by each institution, taking into consideration that 1/3 should represent PAOs/KZ. Were six members representing the six PAOs/KZ, for example, the size of the board would be excessively large and cumbersome. In addition, the quorum for meetings and decision making should be established in a prudential manner to exclude situations where decisions are taken by the PAO/KZ representatives (especially if these are practicing auditors). While defining the terms of board members, the terms need to be long enough (e.g. 3-5 years) to allow members to

[5] PIEs are typically defined as listed companies, banks, insurance companies and other entities that have significant public interest because of the nature of their business, their size or the number of their employees.

take more of a long term view and to give some continuity to the board and its activities; on the other hand, serving more than two consecutive terms could affect their independence. Consequently, after two consecutive terms a “cooling-off” period is recommended, i.e. after two consecutive terms a former board member could be appointed again only after a number of years have passed; other possible conflicts of interests should be analyzed, if relevant in the country context.

- *Eligibility and Qualification criteria.* To ensure board members’ independence from the profession it would be recommended that all members are knowledgeable and experienced auditors but are not practicing auditors (i.e. non-practitioners). Annex D of the report outlines a set of eligibility and qualification criteria, aiming to ensure an independent membership; however, depending on other decisions as discussed in the report, some of proposed criteria would not be applicable to all members, and consequently the respective bylaw should make a clear differentiation.

Funding and Staffing

9. **It is important to ensure that financing of the PAC/KZ is transparent, secure, free from any undue influence by audit firms and PAOs/KZ, and sufficient for performing key functions.** The bylaw/regulation or a PAC/KZ decision should clearly state which audit firms are required to make contributions to the public oversight system. There are various models for how to establish the amounts to be paid by audit firms. In the context of Kazakhstan, the following sources of funding could be considered: a percentage of total audit fees; a percentage of audit fees received from engagements with companies subject to external quality review; a fixed amount paid for each audit opinion issued in the respective year; or a combined approach with a fixed amount per audit opinion issued and a percentage from audit fees. Such a decision should be based on simulations with the expected level of annual costs, that will ensure a proper functioning of the PAC/KZ under various revenue models. In drafting the budget, adequate remuneration for key staff (i.e. quality inspectors and examiners) should be included, commensurable with their anticipated effort and required qualifications (it should be at least equivalent to the remuneration level of senior managers in medium-sized PIEs in the country or their auditors).

10. **An organizational chart should be developed, reflecting key functions, responsibilities, and the volume of work to be performed annually by the PAC/KZ.** The bylaw or a PAC/KZ decision should also clarify what provisions of the law refer to staff, and which of these refer to membership in board committees. From the provisions of the amendments, it appears that the PAC/KZ would need to hire full-time staff to perform its two key functions: external quality review of audit firms (as defined by the law) and certification of auditors. Assuming that there are around 900 audits[6] subject to external quality review at least once in 3 years, it is estimated that PAC/KZ would need to hire between 6 and 10 full-time inspectors. The final number depends also on the final number of audit firms performing these 900 audits; it could be estimated that around 55-65% or more are performed by the largest audit firms (and their networks) in Kazakhstan. The number of examiners involved in the certification process depends on the number of examined papers. Where relevant, external experts could be hired for specific tasks. In addition, the PAC/KZ should have suitable staffing for legal issues, including appeals or complaints, and investigation and discipline.

11. **Eligibility criteria for quality assurance inspectors and their independence from inspected audit firms are essential.** The recruitment of quality assurance inspectors should be organized following a transparent and independent process. Among other eligibility criteria for selection

[6] Currently there are 317 audit firms, allowed to perform mandatory audits.

and hiring inspectors, the following essential ones should be considered: (i) national professional qualification or foreign professional qualification, issued by an International Federation of Accountants (IFAC) member; (ii) relevant experience in statutory audit and financial reporting for a minimum of 5-7 years or more; and (iii) specific training on quality assurance reviews as a significant asset. In addition, when assigning an inspector to a particular quality assurance review of an audit firm, he/she shall not be allowed to act as an inspector until at least three years have elapsed since he/she ceased to be a partner or an employee of, or otherwise associated with, that audit firm (i.e. the so-called “non-practitioner test” should be performed before each quality inspection and it is not part of recruitment process). Bylaw/regulations should also include provisions that quality assurance inspectors must declare that there are no conflicts of interest between them and the audit firm/auditors to be reviewed.

Action Plan

12. **A detailed action plan should support implementation of the selected model of audit public oversight.** The action plan should reflect all activities to be undertaken, the expected deadlines and expected results. Where relevant, it should highlight the possible risks that could influence or contribute to delay of a particular activity or activities. At this stage, the draft action plan (see Annex F) outlines the bylaws and regulations that would need to be developed or amended to ensure a proper functioning of the public oversight body and of the entire corporate financial reporting ecosystem in Kazakhstan. It also proposes initial activities. Additional support to this task will be provided during the second phase of the technical assistance (July 2020-June 2021).

Alternative for consideration

13. **An independent public oversight authority, established under the Ministry of Finance or financial sector regulator and governed by non-practitioners, could be considered as an alternative approach.** Such an institution could be established as a separate agency with accountability to the Ministry of Finance and/or financial sector regulator. Members of the board could be nominated by key regulators of PIEs (e.g. Ministry of Finance, Kazakhstan Stock Exchange, National Bank of Kazakhstan or the Agency for Regulation and Development of the Financial Market) and also include representatives of academia and non-practitioners, all appointed by the Minister of Finance or Prime Minister. Such a model would be better aligned with good international practice; however, additional discussions and public consultations would be required to identify the model most suitable for oversight of the auditing profession in Kazakhstan.

Introduction

14. **Integration into the global economy of competitive countries is one of the priorities of the Government of the Republic of Kazakhstan.** Improving audit regulation, implementation of a public oversight system, and enforcement of International Standards on Auditing are of particular relevance to achieving this goal. As part of the entry into the top 30 competitive countries of the world, it is necessary to improve the infrastructure of corporate financial reporting and consequently of the investment climate. Public availability of audited financial statements ensures transparency and provides various users access to financial information needed for economic decisions. Consequently, it is important to ensure consistently high quality in all statutory audits performed in accordance with the Kazakh legal framework. The “Third Modernization of Kazakhstan: Global Competitiveness” address of the Head of State dated January 31, 2017, mentioned the need to strengthen the responsibility of auditors and audit entities. According to Initiative 3.15 “Improving the level of corporate governance” of the Kazakhstan Strategic Development Plan till 2025 and abolishment of some decrees by the President of the Republic of Kazakhstan as approved by the Decree of the President of the Republic of Kazakhstan of February 15, 2018 № 636, strengthening of audit regulation will be considered, including through penalties and mechanisms to cancel licenses for false information.

15. **The existing legal framework in Kazakhstan has no independent system of audit oversight, only elements of self-regulation by the six PAOs/KZ[7].** Recent corporate scandals involving the accounting profession have underlined the need to establish a public oversight system in Kazakhstan, aligned to good international practice with an aim to protect the public interest. With enhanced and well-functioning institutional structure(s) to promote confidence in the integrity of audited financial reporting, Kazakhstan will be better placed to maintain a stable financial system and attract foreign investment to provide the long-term capital necessary to create employment-generating activities. The findings below highlight the need of reform in this field:

    - reduction of Kazakhstan’s ranking in global competitiveness index over the last 7 years from 74 to 101;
    - on average, there are complaints of a poor-quality audits for every 10th audit firm during the last two years;
    - in 2018, 210 auditor certificates were issued which constitutes 19% of the total number of issued certificates in 20 years; and
    - the Accounts Committee reported that in audits of quasi-public corporate sector entities a majority of breaches are in areas of accounting (82% in 2017 and 59.5% in 2018).

16. **Deputies of the Parliament of the Republic of Kazakhstan have initiated the process to amend the existing legal framework with an aim to establish an independent public oversight system in Kazakhstan.** Reform would contribute to improvement of financial stability and economic prosperity and bring audit regulation of Kazakhstan closer to good international practices and recent trends. Amendments foresee establishment of a public oversight council (PAC/KZ) in the form of a non-membership non-profit organization, founders of which are PAOs/KZ (one or more). The key functions will include quality assurance inspection of significant PIE’s auditors and audits and certification of auditors. The proposed amendments were adopted on July 3, 2020.

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[7] http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_services/services/audit_organs

17. **The report is prepared as part of Kazakhstan and the World Bank Joint Economic Research Program (JERP), the overall objective of this JERP activity being to improve audit regulation in Kazakhstan**. To achieve this objective, the task is considering improving the institutional capacity to design and implement a rigorous system of public oversight and quality assurance that promotes the delivery of high-quality audits, achieved through analytical studies of good international practices. According to the agreed terms of reference, reporting by June 30 will focus on issues related to institutional arrangements of the proposed public oversight model, its key activities, board members' eligibility and qualification criteria, funding and staffing, while other important areas will be further analyzed and discussed during the second phase of the technical assistance (July 2020-June 2021).

International experience in setting up audit oversight and quality assurance systems

A. Key benefits

18. There are many benefits to establishing independent public oversight of statutory audit and auditors. Among key benefits could be highlighted:

- *Public audit oversight improves audit quality and thus supports economic growth.* Effective and efficient allocation of capital and credit is essential to economic growth, job creation, and long-term poverty reduction. In efficient economies, capital and credit are to a significant extent allocated based on sound corporate financial information. For such financial information to be reliable, high quality independent audits of the information are essential. Thus, audits underpin the successful functioning of capital and credit markets and help smaller companies to access capital or credit from other sources, such as banks. For many years, the audit profession was largely self-regulated. However, a number of high-profile corporate failures around the globe called into question the value of external audits, the integrity of the audit process, and thus the ability of the audit profession to regulate itself effectively. Independent oversight of the audit profession in the public interest was quickly and widely established as a means of improving audit quality and re-establishing faith in corporate financial reporting.

- *Establishing public audit oversight follows international good practices and expectations*. Globalization of trade and business has increased the number of companies operating across national borders and helped create an international market for capital and credit flows. As a result, investors and other private stakeholders have an increasing interest in promoting consistent, international good practices for transparency and integrity in capital and credit markets. For their part, individual countries have a strong interest in following international good practices in order to compete effectively for investment capital in the global marketplace and improve the efficiency and reach of their domestic capital and credit markets. Finally, national oversight bodies that regulate audits of companies with multinational reach must determine whether and to what extent they can rely on the oversight bodies of other countries to assess the effectiveness of auditing practices within their respective jurisdictions. For the reasons above, there has been an international drive to establish audit regulators that function effectively, act consistently, and coordinate and cooperate to oversee the audit profession, including the international audit networks that dominate the market for audits of multi-national companies, listed companies, and other so-called PIEs. All member states of the European Union (EU) are required by EU legislation to establish independent public oversight systems for audit. Audit regulators have come together both bilaterally and in groups such as the Committee of European Auditing Oversight Bodies, the European Audit Inspection Group and the International Forum of Independent Audit Regulators (IFIAR[8]) to create awareness of important issues and promote cooperation and consistency amongst audit regulators on quality assurance inspections. They share inspection practices and findings among their members and facilitate discussions on topics related to audit inspections, as well as with relevant third parties such as standard-setters and the audit profession.

- *Public audit oversight directs and assists further development of the audit profession.* Independent audit oversight in the public interest can help direct and facilitate the development of the audit profession. Oversight works to maintain and strengthen auditing standards and practices and also serves as a focal point for policy issues which

[8] IFIAR's Core Principles are listed in the Annex B.

can be key to developing and promoting effective audits and improving the audit profession.

19. **Establishment of an independent oversight authority in Kazakhstan aims at improving the quality of audited financial statements and protecting investors' interests.** It is expected that with enhanced and well-functioning institutional structure(s) to promote confidence in the integrity of audited financial reporting, Kazakhstan will be better placed to maintain a stable financial system, increase competitiveness, and attract foreign investment to provide the long-term capital necessary to create employment-generating activities.

B. Institutional arrangements

20. **Each jurisdiction's specifics determine the best location for its public oversight regulator.** Around the world, public oversight structures are situated variously in government, within wider-remit regulators, or are independent. In smaller countries they may also either be part of government or independent but with close links to the sponsoring government department, especially in the start-up phase. Each model has specific merits and demerits. There is, though, always room for improvements to the audit supervisory model to adapt to the growing role for audit regulators and audit regulation.

21. **The danger of misdirection should be avoided when establishing a public oversight system, as a misdirected profession will not develop and improve.** Auditors must perform their complex function in a limited time and with limited resources. If regulators force auditors to spend time and resources on activities that do not involve identifying and addressing the real risks of inaccurate financial reporting for the companies they audit, they will have less time and fewer resources to fulfill their real and important function. A regulator that does not adequately understand modern auditing might force auditors to spend too much time on unproductive "compliance" activities such as satisfying excessive documentation requirements, performing formalistic or rote audit procedures, creating formalistic quality assurance processes, etc.

22. **An effective audit oversight system needs adequate capacity and resources.** The system should be equipped with leadership having credibility to command the respect and attention of the profession, reporting companies, other regulators, and stakeholders. There should be incentives and accountability for the leadership to devote sufficient time to developing, guiding, and publicizing the oversight body. It is also important to communicate with the general public and have in place mechanisms to obtain regular input and feedback from stakeholders. A public oversight system should also have adequate funding to hire and retain experienced auditors, who have attained at least manager-level in international network firms or equivalent, to do audit quality inspections. There must be capacity to retain experts to conduct or assist in the review of specialized audits (e.g., financial services) and conduct complex investigations and disciplinary actions. Countries often face challenges in either mobilizing adequate resources (budget limitations, inability to charge fees to the industry, etc.) or in being able to properly spend such resources (for example, when the audit oversight institution is subject to civil service pay scales).

23. **The fundamental dilemma of a public oversight system is to identify the right balance between expertise and independence.** In terms of expertise: auditing is a highly technical field, and most knowledge and experience resides within the profession; at the same time, an outside and independent body is needed to supervise the profession, but if that body lacks expertise, it may misdirect the profession. Therefore, audit oversight institutions have to be governed by relevant experts who do not perform audits and are not part of the practicing audit profession. This also applies for operational staff that perform audit inspections, and exercise investigation and disciplinary work.

24. **A public oversight body could be structured in various ways and there is no single model from a specific jurisdiction that has been shown to be better than another.** A public oversight system could be: (i) a self-standing, separately funded, independent agency; (ii) an office, division, or component of a body with a broader regulatory function, such as a securities or financial sector regulator/supervisor; or (iii) an office or department within the country's public administration (e.g. Ministry of Finance). For instance, in **Japan** it is an independent regulatory body established within the Financial Services Agency (FSA), consisting of one chairperson and one full-time and eight part-time commissioners. The Board members are appointed by the Prime Minister with the consent of the Diet and the Board exercises its statutory authority independently from the FSA. The public oversight function in the **United Kingdom's** Financial Reporting Council (FRC) has always been independent; even so, the governance of the FRC is currently being streamlined in accordance with the Kingman Review recommendations in order to strengthen its enforcement regime[9]. The public oversight function in the **Netherlands** has always been part of that country's financial sector regulator, the Authority for Financial Markets. The **French** audit oversight body, the High Council for Statutory Audits (H3C), was created in 2003 as a high-level independent public authority with direct links to the Minister of Justice and has a working relationship with the combined banking and insurance regulator. The **U.S.** Public Company Accounting Oversight Board (PCAOB) is established as an independent body, but its budget and significant decisions are subject to review by the securities regulator, the Securities and Exchange Commission. More details on these country examples are provided in Annex A.

25. **There are several advantages to establish a separate, independent public oversight body; but embedding it in a larger regulator also has advantages**. These advantages are compared in Table 1 below.

Table 1: Comparative advantages – separate oversight body versus embedded in a larger regulator[10]

Advantages	
Separate, independent body	**Embedded in a larger regulator**
More specialization and focus in its mission and operations may result in better accumulation of knowledge and more informed decision-making. The board members of a body with a much broader mission may never develop sufficient expertise to adequately guide the audit oversight function.	In countries where there is comparatively little appreciation of the value of a public oversight body, and where there is greater appreciation and public recognition of other regulators, it might make sense at least in the short-term to establish the public oversight body as part of another regulator.
A single body can ensure that audit oversight remains consistently a top regulatory priority.	Countries with a relatively small pool of accountants (and auditors) with significant experience of IFRS and derivative financial reporting standards might benefit from combining the public oversight body with other regulators who need and would benefit from such experience as they review

[9] FRC is in a process of transition into a new regulator, ARGA (the Audit, Reporting and Governance Authority).
[10] https://cfrr.worldbank.org/publications/public-oversight-systems-statutory-audit-eu

	their regulated entities' financial statements.
A single, dedicated body may be more accountable for results.	Separate institutions and regulators require comparatively greater resources in terms of time and funds to establish and maintain infrastructure. Combining regulators may reduce overhead costs.
In some countries, a separate oversight body may be structured to avoid governmental compensation limits, allowing more flexibility to attract former auditors with the needed skills and experience.	

26. **Good international practices highlight the need to insulate the public oversight system from excessive political influence.** Housing the public oversight body as an office within the Ministry of Finance or an equivalent may leave it more vulnerable to political influences, instability, and neglect, particularly in an environment where government ministers are frequently reshuffled. The selection of board members for the oversight body should be structured to favor relevant experience and competence over political connections, while terms of board members should be long enough to allow them to take a more-long term view and to give some continuity to the board and its activities. Ideally, funding should be insulated from big swings in state budgetary priorities and free from undue influence from the profession.

Discussing the institutional arrangements of the proposed model in Kazakhstan

27. **Independence from the profession seems to be the key challenge under the proposed public oversight model in Kazakhstan**. The proposed amendments to the Law on Audit Activity № 304 provide that the PAC/KZ will be established as a non-membership non-profit organization, founders of which are PAOs/KZ (one or more - currently six are accredited). This is an unusual public oversight model. Thus, it is critical to ensure its independence from the auditing profession, i.e. audit firms, auditors, and PAOs/KZ. Key challenges related to the institutional arrangements of the proposed model include:

   - *PAOs/KZ have a right but not an obligation* to establish the PAC/KZ. Consequently, there is a risk that the PAC/KZ may not be established or the process will be delayed (in some countries the audit profession has resisted public oversight and quality assurance requirements at the incipient stages). Clear requirements, obligations, and incentives should be defined in a bylaw/regulation to reduce or minimize such risks.
   - *Loss of accreditation by PAO/KZ*. Since the PAC/KZ could be founded by a single PAO/KZ, the bylaw should clarify what happens if this PAO loses its accreditation under Article 12 of the Auditing Law. Bylaw or a decision issued by PAC/KZ needs also to clarify whether this would have any implications on the legal status of the PAC/KZ or if the PAO/KZ would only be required to recall its representative from the board. The question is also relevant if the PAC/KZ is founded by several PAOs/KZ and one of them loses accreditation under Article 12; bylaws should clearly regulate whether in such circumstances the board representative of the unaccredited PAO/KZ should be recalled or dismissed from the board. The respective bylaw (statute) should prescribe all potential situations and possible actions and safeguards to ensure the continuing activity of the PAC/KZ, without affecting public confidence and trust.
   - *New founders*. The bylaw (statute) or a decision issued by PAC/KZ should prescribe conditions under which other PAOs/KZ could become founders of the PAC/KZ and

nominate a representative to the board. It should also clarify the rights and obligations of PAOs/KZ and their members that are not founders. Founder and non-founder PAOs/KZ should have the same rights and obligations with respect to public oversight, quality assurance, and other areas under the jurisdiction of the PAC/KZ. Further, from the regulatory perspective they all should be subject to PAC/KZ oversight.

- *Independence from the profession*. Article 13-1(5)(1) stipulates that PAOs/KZ will be represented on the board by the same number of board members each. For a proper enforcement of this requirement, the following aspects should be very clearly regulated via a bylaw/internal regulation: (i) which PAOs/KZ have the right to nominate a representative, i.e. all accredited PAOs/KZ, or only founders of the PAC/KZ; (ii) each PAO/KZ should be limited to only one representative on the board; assuming that the law requires that PAO/KZ representatives make up 1/3 of the board and given that there are six accredited PAOs in Kazakhstan the board risks becoming very large; (iii) a decision should be taken in respect of allowing audit practitioners on the board; a good approach would be if the bylaw states that representatives of PAOs/KZ (and all other board members) should be non-practitioners experts (for example executive staff of PAOs/KZ who are not practicing auditors) as defined by the Auditing Law. Good practices do not allow audit practitioners to be members of such boards, but it is allowed by some jurisdictions if they are in the minority.
- *Development and approval of* the *PAC/KZ statute.* The amendments (Article 13-1(1)) say that the statute is approved solely by the founder, which could be one single PAO/KZ (or more). The statute should be in line with the provisions of audit law. To minimize the risk that the statute could contain provisions significantly affecting the independence (from the profession) of the PAC/KZ, and since Article 13-1(11) requires the PAC/KZ to present an annual activity report to the Ministry of Finance and to the Agency for Regulation and Development of the Financial Market, it would make sense that the statute is coordinated with these governmental bodies on legal grounds. Annex G highlights some areas (in addition to other standard provisions as required by the national legal framework) to be covered by the bylaw regulating the activity of the PAC/KZ.
- *An independent public oversight authority, established under the Ministry of Finance and/or financial sector regulator and governed by non-practitioners, could be considered as an alternative approach.* Such an institution could be established as a separate agency, with accountability to the Ministry of Finance or financial sector regulator. Members of the board could be nominated by key regulators of PIEs (e.g. Ministry of Finance, Kazakhstan Stock Exchange, National Bank of Kazakhstan) and also include representatives of academia and non-practitioners all appointed by the Minister of Finance or Prime Minister. Such a model corresponds to good international practice; however, additional discussions and public consultations would be required to identify the best model, suitable for auditing profession oversight in Kazakhstan.

C. Activities of a public oversight body

28. **A public oversight system can contribute to monitoring and improving the quality of auditing by ensuring that basic functions are attributed to the competent authority,** i.e.: regularly inspecting the quality control systems that audit firms have adopted to see if they are effectively designed and implemented; regularly inspecting some of the individual audits performed by audit firms to assess their adequacy; developing measures to induce audit firms to address any deficiencies found in their quality control system; and conducting

investigations and imposing discipline to address the most serious deficiencies, deter other firms from allowing similar deficiencies to occur, and removing from the market those audit firms that cannot or will not conform to professional standards. For instance, in the EU, according to the provisions of Directive 2006/43/EC[11], the competent authority, designated by each Member State for regulating and oversight of statutory audits and auditors, shall have the ultimate responsibility for the oversight of: (i) the approval and registration of statutory auditors and audit firms; (ii) the adoption of standards on professional ethics, internal quality control of audit firms, and auditing, and (iii) continuing education, quality assurance, and investigative and disciplinary systems. In addition, the competent authority has the right to conduct investigations in relation to statutory auditors and audit firms and the right to take appropriate action. The mission and responsibilities of various public oversight systems around the world are provided in Annex A.

29. **Public oversight authorities could perform their activities directly or through oversight, where one or more tasks are delegated.** In many jurisdictions, functions such as qualification of auditors and monitoring of continuing professional education are delegated to PAOs. For instance, EU Directive 2006/43/CE says that Member States may delegate, or allow the competent authorities to delegate, any of the tasks required to be undertaken by the Directive to other authorities or bodies designated to carry out such tasks, except for tasks related to (i) the quality assurance system for auditors of PIEs; (ii) investigations arising from that quality assurance system or from a referral by another authority; and (iii) sanctions and measures related to the quality assurance reviews of auditors of PIEs or investigation of statutory audits of PIEs.

Discussing Key Activities of the Professional Audit Council in Kazakhstan

30. **Bylaws should further clarify the roles and responsibilities of the PAC/KZ.** According to the proposed amendments to the Auditing Law, the PAC/KZ to be established will have ultimate responsibility over some important functions related to public oversight but some functions will remain under the responsibility of the Ministry of Finance. Consequently, bylaws/regulations should clarify the role, ultimate responsibility over each key function, reporting lines, and other interactions between these two institutions (and PAOs/KZ where relevant). The key functions for which a public oversight regulator should have ultimate responsibility are discussed below, comparing good international practice with the proposed model where appropriate (see also Annex C for additional details):

    - *Approval and registration of statutory auditors and audit firms* – if functions related to the approval and registration of auditors and audit firms are split between the PAC/KZ and the Ministry of Finance, their exact roles and final responsibility over various stages (e.g. examination, registration of auditors, licensing of audit firms, evaluation of practical experience) should be clearly described by the respective bylaw/regulation. For example, the Qualification Commission is one of the PAC/KZ executive bodies (Article 13-1(10)). At the same time the Ministry of Finance is entitled to approve the rules for the creation and functioning of the Qualification Commission (Article 7(8)), despite the fact that Article 14 already includes minimum requirements for the Commission.

      It is important that at all stages the integrity of the examinations should be maintained and enhanced; the objective of the examinations and qualification process is to ensure that competent individuals[12] are admitted to the profession. The following key areas, among others, should be considered while developing the rules for auditors' approval and registration: entry requirements, syllabus and learning materials, governance,

[11] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1591342026115&uri=CELEX:02006L0043-20140616

[12] In case of violation of the procedure for attestation of aspiring auditors, the authorized body has the right to appeal the decision of the Qualification Commission in court.

examination development, examination integrity, examination question style, examination papers, examination transparency, examination scripts, and marking/correcting. Details of the approval and registration of auditors will be further discussed by a separate chapter of this report during the second phase of the technical assistance (July 2020-June 2021).

- *Adoption of standards on professional ethics, internal quality control of audit firms, and auditing* – under the proposed amendments to the law the PAC/KZ will not have a direct or oversight role; international standards are disseminated by the Ministry of Finance. Over time this function can be assigned to the PAC/KZ for a better alignment with good international practice.
- *Continuing professional education* – there is no direct or oversight role envisaged for the PAC/KZ. If this function is delegated to PAOs/KZ, the public oversight regulator should have at least an indirect, oversight role and there should be some reporting line from PAOs/KZ to the PAC/KZ on this task. Details on continuing professional education requirements will be further discussed by a separate chapter of this report during the second phase of the technical assistance (July 2020-June 2021).
- *Quality assurance system* - the key function of the PAC/KZ, as defined by the amendments to the Auditing Law, is the quality assurance inspection of selected PIE audits and auditors[13]. However, the proposed amendments are not explicit on whether the PAC/KZ will be ultimately responsible for quality assurance of all auditors that perform statutory (required by law) audits, even though the work by PAOs/KZ will be reviewed by the PAC/KZ. While the scope of such provisions is to cover significant entities with significant public accountability (banks, insurance entities, listed entities, national state-owned enterprises and their holdings), it is not a usual practice to apply different requirements for different PIE auditors. Typically, countries have a single definition of PIE[14] and this applies to applicable financial reporting standards (IFRS), management reporting, disclosures, and enhanced requirements for audits and auditors (including direct quality assurance inspections by audit oversight competent authorities). Although currently the list of PIEs, provided by the amendments to the Law is sufficient, it would be advisable for the authorities to reconsider definition of PIEs and harmonize requirements for PIEs and non-PIEs in line with good international practices. Annex E maps the definition of PIE in Kazakhstan and the proposed definitions for audits and auditors subject to external quality review and definition of companies subject to statutory audits. The analysis in Annex E identifies the gap which exists between entities defined as PIEs in Kazakhstan and entities which are subject to statutory audits but these audits are not subject to external quality review by the PAC/KZ directly or indirectly. The PAC/KZ needs to have a role over monitoring quality assurance inspections performed by PAOs/KZ and there should be a reporting line from PAOs/KZ on this task. Nonetheless, the proposed amendments provide that the PAC/KZ could perform unplanned quality assurance inspections of other audits and auditors, following requests received, and requestors would be required to pay for this (ultimately, the costs could be covered by the audit firm, if the PAC/KZ concludes that the performed audit was of poor quality).

  The quality assurance system will be further discussed in a separate chapter of this report during the second phase of the technical assistance (July 2020-June 2021).

[13] According to the proposed amendments, audit firms that perform audits of selected PIEs are exempted from the quality assurance inspections by PAOs/KZ.
[14] PIEs typically include listed companies, banks, insurance companies and other entities that have significant public interest because of nature of their business, their size or the number of their employees

- *Investigative and administrative disciplinary systems* – responsibilities are split between the PAC/KZ and the Ministry of Finance. The bylaw/regulation should be developed in such a way to ensure that there is an effective system of investigations and sanctions in place to detect, correct, and prevent inadequate execution of the statutory audit. Details on investigative and administrative disciplinary systems will be further discussed as part of the chapter dedicated to the quality assurance system during the second phase of the technical assistance (July 2020-June 2021).

D. Public oversight board

31. **Good international practice calls for a public oversight system governed by non-practitioners, who are knowledgeable in the areas relevant to statutory audit.** They should be selected in accordance with an independent and transparent nomination procedure. According to IFIAR's membership criteria, the public oversight system should be independent of the audit profession, which means that a majority of the relevant governing body should be non-practitioners and funding should be free of undue influence from the profession (the profession includes, for example, audit firms, professional bodies, and bodies or entities associated with the profession). EU Directive 2006/43/EC defines non-practitioners as persons who within the preceding three years have not carried out statutory audit, held voting rights in an audit firm, been a member of the administrative, management, or supervisory body of an audit firm, or been employed or otherwise associated with an audit firm. Annex A provides details about governing bodies in various countries (composition, eligibility criteria, and requirements).

32. **Board members of the public oversight body should be selected to achieve both competence and independence from the profession.** Good board members will have adequate financial sophistication, willingness to devote time and attention, and credibility in the role with the profession and the public. Nominated board members should have in-depth understanding and experience of the auditing process and/or have a user's perspective of financial information. The board of the public oversight body must also have a way of seeking specialized advice from external experts without compromising its independence. This may be particularly challenging in emerging markets with a younger audit profession. Members of mature public oversight boards typically include: retired professionals such as lawyers, former audit professionals, former bankers, directors or former directors of leading companies, business community representatives, and former civil servants. In addition, members often include representatives of other regulators, departments, central bank, ex officio, or academics (university professors, etc.).

33. **There is a critical need to ensure the board of the public oversight body includes audit experience.** Auditing is one of the most difficult industries to regulate properly. To determine whether the auditor acted with professional competence and reasonable diligence and judgment, the regulator must become familiar with the large set of facts about the audited company that the auditor considered (or should have considered), identify and understand the procedures the auditor performed to test the company's financial reporting, as well as the audit firm's quality assurance programs that impacted the audit, and assess whether those procedures and programs appear reasonable in light of the risks of unreliable reporting that the auditor faced. Only someone highly trained and experienced in auditing can adequately perform this regulatory function. For review of some audits (e.g., financial services, airline, extractives) industry-specialized experience is also needed.

34. **Boards of the public oversight body vary in size in different countries.** Boards typically comprise six to ten members although there is a wide range; for example, a majority of IFIAR members have more than six board members while the PCAOB in the US has only five, all of whom are full-time board members.

35. **A public oversight body may establish advisory committees, either for a specific and temporary purpose, or on a standing basis, to assure that its decisions are adequately informed.** Use of such committees can also increase stakeholder visibility and support. Consultations should occur in a public and transparent way, to assure there is no appearance of compromise of the board's independence. Such committees might include representatives from the profession, large or institutional investors, leading academics, and financial journalists. In other jurisdictions, the activity of the board is also supported by Councils. For example, FRC (UK) is assisted by three Councils who advise the executive on Corporate Reporting, Audit & Assurance, and Actuarial matters, while a Corporate Reporting Review Committee, Audit Quality Review Committee, Enforcement Committee, and Case Management Committee support the work of the Conduct Committee and have specific responsibilities set out in the FRC's monitoring, review, enforcement, and disciplinary procedures.
36. **One possible model, to ensure adequate knowledge of the auditing profession on the board, could be for a jurisdiction to allow the inclusion of a minority of practitioners initially and work towards full independence.** In an environment where retired audit partners or other former practitioners are not available, and without other sources of technical audit knowledge, it may sometimes be best for a board to begin with a minority of sitting practitioners. As the system matures and develops access to professional knowledge, the board should become fully independent by removing current practitioners entirely from the decision-making body.
37. **Boards are usually supported by a strong executive body led by a board-appointed executive director, with or without a voting right at board meetings.** Eligibility and qualification requirements for the executive director (chief executive officer) should be similar to those for board members. Independence from the profession is essential. Subject to the authority of the board, the executive director shall have general supervision of the activities and affairs of the public oversight body and such other powers and duties as the board may specify (see Annex G for more details).

Discussing key issues related to board composition and qualification requirements

38. **The board nomination and composition for the PAC/KZ needs to be properly regulated in bylaws. Independence and professionalism should be key in making sure the board composition is credible.** The proposed amendments state that the board is the supreme governing body of the PAC/KZ. The law does not regulate aspects as such nomination process, appointment of board members, or size, instead, Article 13-1(5) lists institutions/agencies that could nominate a representative, while Article 13-1(6) expressly requires that PAOs/KZ should be represented on the board by 1/3 of its members. Key challenges related to board nomination, size, composition, eligibility, and qualification criteria are discussed below, and these should be addressed through internal regulations of PAC/KZ and/or bylaws:

    - *Nomination.* The nomination procedures should be independent and transparent. Issues related to the nomination PAO/KZ representatives have been discussed above. The nomination process for representative(s) of universities and for an independent director needs to be clearly specified; should it be launched by the founder(s) of the PAC/KZ or perhaps organized by the Ministry of Finance and the Agency for Regulation and Development of the Financial Market. The Ministry of Education could nominate a representative of universities. Diversity principles should be considered in the nomination of board members. A diverse board includes and make good use of differences in skills, experience, background, gender, and other characteristics. The skills and backgrounds collectively represented on the board should reflect the diverse nature of the environment in which the PAC/KZ and its stakeholders operate.

- *Appointment.* The decision on board member appointments should be coordinated with the body/governmental agency to which the PAC/KZ is accountable. This should be the Ministry of Finance and/or the Agency for Regulation and Development of the Financial Market. The same institution should also be given the right to propose dismissal of a board member, for example, if she/he is absent for more than a certain number of meetings (good international practice suggests more than 3), where a member represents a high reputational risk, or in other circumstances as prescribed by the legislation.
- *Size*. The optimal board size of the PAC/KZ should be between seven and nine members, with practicing auditors and/or PAO/KZ representatives in the minority. According to the proposed amendments, the size of board will be always variable (1/3 of members should represent PAOs/KZ; the number of PAOs/KZ/founders could change as new ones could become founders and others could lose their accreditation and therefore the right to be founder). Currently there are six accredited PAOs/KZ, if they each have one representative it could lead to a situation where the board comprises 19 members – six PAO/KZ representatives, one representative of the Ministry of Finance, one representative of the Kazakhstan Stock Exchange, one independent director, and a further 10 identified from among universities and the Astana International Financial Center. The bylaw could recommend the maximum size of the board and number of representatives to be nominated by each institution, listed in Article 13-1(5). As an alternative, the size of board could be fixed (e.g. 7-9 members) and the number of PAO/KZ representatives limited to two or three representatives of the profession (to ensure they are always a minority in all decision-making processes). Irrespective of the number of accredited PAOs/KZ and how many of these are founders, all must agree on transparent procedures to nominate their common representatives.
- *Quorum for meetings*. The quorum for meetings and decisions making should be established in a prudential manner to exclude situations where decisions are taken by PAOs/KZ/representatives of the profession (potentially practicing auditors). For instance, assuming a quorum for board meetings is 2/3 and decisions are taken with 50%+1, in a situation where the board comprises 19 members of which 6 are PAOs' representatives and all are attending the meeting, the final decisions will be taken with 8 votes, of which 6 could be "the voice of the profession", and this is a serious issue in respect of the board independence, as discussed above.
- *Eligibility and qualification criteria.* Annex D outlines a set of eligibility and qualification criteria that aims to ensure an independent membership. As discussed above, it is recommended that all members are knowledgeable and experienced auditors but are not practicing auditors (i.e. non-practicing experts) as independence could be compromised if all 6 accredited PAOs/KZ become founders and their representatives on the board are all practicing auditors. However, depending on other decisions as discussed above, some proposed criteria could be made non-applicable to some members and consequently the respective bylaw should make a clear differentiation. Among other eligibility criteria, the following essential ones should be considered: the board members should (i) be subject to a "cooling-off period" (good practice suggests an 3-year period) prior to their appointment from having conducted any statutory audit activities, or having held any voting rights, or having taken part in the administrative or supervisory body, or having been employed by an audit firm[15];

[15] In addition to "cooling off" period, or where this requirement cannot be applied to all board members (e.g. to representative of the authorized body or where PAOs will be represented by practicing auditors), the board member shall be required to recuse himself or herself from any board function or activities which might reasonably create the appearance of affecting his or her independence or objectivity with respect to the board's function or activities.

(ii) be knowledgeable in areas relevant for statutory audits, i.e. accounting, auditing, finance, tax, or law etc., and have a minimum of 7-10 years of practical experience in such areas; (iii) have an impeccable reputation; and (iv) have not been sentenced by legally valid verdict for intentionally committed crime against property, fiscal, or economic crime that has not yet been expunged from the record.

- *Terms of board members.* While defining the terms of board members it should be taken into consideration that it needs to be long enough (e.g. three to five years) to allow them to take a sufficiently long term view and to give some continuity to the board and its activities, but that serving more than two consecutive terms could affect the independence. Consequently, after two consecutive terms a "cooling-off" period is recommended, i.e. after two consecutive terms a former board member could be appointed again only after 2-3 years have passed. Other possible conflicts of interests should be analyzed, if relevant in the country context.

E. Funding and staffing

39. **Audit regulators have a range of funding sources and funding amounts.** Within IFIAR, members' funding sources are almost equally split among government funding, levies on auditors and companies, and mixes of both. As the public oversight system evolves in a jurisdiction, there is a trend towards less reliance on government funding. EU Directive 2006/43/EC provides for an adequately funded public oversight system with secure funding, free from any undue influence by statutory auditors or audit firms. Where auditors/audit firms contribute to the public oversight system, this should not be at their discretion. Funding arrangements for public oversight systems in various jurisdictions are described in Annex A.

40. **The most common ways to fund public oversight bodies are through general state revenues (public budget), fees or other levies on auditors and/or professional bodies, and fees or other levies on companies or listing authorities.** Financing through the state budget is often associated with limits on spending or rules applicable for public administration – e.g. civil service pay scales that can be unstable – and can be subject to additional political pressures. Fines and penalties should never be part of the oversight body's budget as this could be seen as incentivizing fault-finding. Generally, the larger IFIAR members, including the US, UK, and Germany, receive little or no state funding. In contrast, smaller and more recently established oversight bodies tend to be reliant on the state for a large proportion or even all of their funding. In Europe, oversight bodies in Bulgaria, Croatia, the Czech Republic, Latvia, Lithuania, and Romania, for example, are fully or predominantly funded through the state budget. Some oversight bodies from developing and transitional countries which are IFIAR members – such as Georgia, Sri Lanka, Philippines, and Indonesia – are also funded through state budgetary allocations. Table 2 below shows the advantages and disadvantages of various funding options.

Table 2: Funding options[16]

Source	Advantages	Disadvantages
Government funding	Ensures maximum independence for the audit oversight body. Signals government commitment to audit reforms.	Insufficient funding may be programed. Commitments may not be received, or not received on a timely basis, especially in developing countries with constrained fiscal positions.

[16] https://cfrr.worldbank.org/publications/audit-oversight-enhance-trust-and-transparency-corporate-financial-statements

Source	Advantages	Disadvantages
	As auditing benefits society some public funding is appropriate.	
Funded by levies on audit firms	Equitable as the providers of services are charged for the necessary assurance on their activities.	Low audit fees in most developing countries may make it difficult for firms/profession to raise sufficient funds.
Funded by levies on companies	Independent of the profession.	Onerous on companies, legal wherewithal of the audit oversight body to levy fees may be challenged in court.

41. **The public oversight system should be staffed with competent staff that have a general audit background and specific industry experience (banking, insurance, etc.).** For example, IFIAR principles say that audit regulators should ensure that their staff is independent from the profession and that they should have sufficient staff of appropriate competence.

42. **Quality assurance reviewers (inspectors) should be subject to additional requirements.** Inspectors should have appropriate professional education and relevant experience in audit and financial reporting. The selection of reviewers for quality assurance should be effected in accordance with an objective procedure designed to ensure that there are no conflicts of interest between the inspectors and the statutory auditor/audit firm under review (e.g. reviewing an audit firm that was a former employer). EU Directive 2006/43/EC recommends the following criteria be applied to the selection of quality assurance inspectors: (i) inspectors should have appropriate professional education and relevant experience in audit and financial reporting combined with specific training on quality assurance reviews; (ii) a person shall not be allowed to act as a reviewer in a quality assurance review of a statutory auditor/audit firm until at least 3 years have elapsed since that person ceased to be a partner or an employee of, or otherwise associated with, that statutory auditor/audit firm; and (iii) reviewers shall declare that there are no conflicts of interest between them and the statutory auditor/audit firm to be reviewed. There are additional challenges in practice, especially for smaller audit regulators, related to sectoral experience (e.g. financial sector and airline industry) that could be solved by engaging experts to carry out specific assignments, but the authority must ensure no conflicts of interest between those experts and the audit firms/auditors in question. Such experts shall comply with the same requirements as quality assurance.

Discussing key issues related to funding and staffing

43. **While the amended law contains general provisions on how the PAC/KZ will be funded, significant issues arise in respect of implementation and enforcement of the financing model.** It is important to ensure that the financing of the PAC/KZ is transparent, secure, and free from any undue influence by statutory auditors or audit firms. Key challenges are:

    - *Funding by audit firms.* Article 13-1(2) provides that audit firms should contribute with one-time or regular fees without specifying if all registered audit firms should pay, or only audit firms which perform mandatory audit of public interest entities or are selected for external quality review (these are defined in Article 1(12-1)). Normally, audit firms subject to quality review by PAO/KZ will pay the professional organization[17] and some of these fees would be allocated to the oversight authority (mainly to cover costs of PAO/KZ oversight). In addition, the meaning of one-time fee should be explained in a decision issued by PAC/KZ; audit firms that audit selected PIEs should be subject to quality review at least once in 3 years, consequently a financing model based only on one-time fees seems to be unsustainable (the law says one-time OR regular fees). Normally PIE auditors should pay higher fees than auditors of non-PIE clients.

- *Level of levies on audit firms.* There are various possible models for setting levies to be paid by audit firms[18]. In the context of Kazakhstan the following sources of funding could be considered: a percentage from total audit fees; a percentage from audit fees received from audit engagements with companies subject to external quality review (i.e. auditors that audit selected PIEs); or a fixed amount paid for each audit opinion issued in the respective year (all or only those subject to external quality review). A combined approach could also be considered with a fixed amount per audit opinion issued and a percentage from audit fees. Such a decision should be based on simulations of the expected level of annual costs and various revenue models to ensure the proper functioning of the PAC/KZ. While drafting the budget, adequate level of remuneration for quality inspectors and examiners should be included, commensurate with their expected effort and required qualification (it should, for example, be at least equivalent to the remuneration level of senior managers in medium-sized PIEs in the country or their auditors).
- *Funding and level of contribution by PAOs/KZ.* Similar to funding by the audit firms, the law provides that PAOs/KZ should contribute with one-time or regular fees, without specifying if all accredited PAOs/KZ should contribute, or only founders-PAOs/KZ. Normally, all accredited PAOs/KZ, allowed to perform quality review of their members-audit firms performing statutory audits, should be monitored by the PAC/KZ and consequently contribute to the annual budget. A financing model based solely on one-time fees from PAOs/KZ seems to be unsustainable. The decision should be taken based on various simulations as described above.
- *Staffing.* A detailed organizational chart should be developed, assuming key functions and responsibilities and the volume of work to be performed annually by the PAC/KZ. From the provisions of the amendments, it appears that the PAC/KZ would need to hire full-time staff for performing its two key functions: external quality review of audit firms (as defined by the law) and certification of auditors. Assuming that there are around 900 audits subject to external quality review, and that each audit firm should be inspected at least once in 3 years, it is estimated that the PAC/KZ would need to hire between 6 and 10 full-time inspectors. The final number depends also on the number of audit firms performing these 900 audits; it could be estimated that around 55-65 % or more are performed by the largest 10 audit firms in Kazakhstan. The bylaw should also help to clarify which provisions of the law refer to PAC/KZ staff and which to committee members, for instance Article 13-2(1) requires minimum of two non-practitioners on the Quality Control Committee, without specifying their status. The number of examiners involved in the certification process will depend on the number of expected exam papers (some aspects, such as exemptions from papers should also be considered). In addition, the PAC/KZ should have suitable staffing to address legal issues, including appeals or complaints and investigation and discipline.

[17] For audit firms subject to mandatory quality assurance review by PAC/KZ inspection by PAO/KZ is not required (article 19(2)).
[18] Usually, these are deductible for tax return.

- *Eligibility criteria for quality assurance inspectors.* The recruitment of quality assurance inspectors should follow a transparent and independent process (e.g. advertising, testing, interview, etc.). Among other eligibility criteria for selection and hiring inspectors, the following should be considered essential: (i) national professional qualification or foreign professional qualification, issued by an IFAC member; (ii) completed higher education in the field of economics, finance, legal, tax, or other relevant fields (professional qualification should prevail); (iii) relevant experience in statutory audit and financial reporting of at least five to seven years; and (iv) specific training on quality assurance reviews should be considered as a significant asset. Once recruited, the so-called "non-practitioner test" should be performed before each quality inspection; individual inspectors must not be allowed to act as an inspector of any firm they have had an association with (as a partner, employee, or any other link) for at least three years. Bylaw/regulations should also include provisions that quality assurance inspectors must declare that there are no conflicts of interest between them and the audit firm/auditors to be reviewed. Many countries use recruitment firms to identify suitable candidates for such high skilled positions.
- *Collegial executive body.* The bylaw/regulation or internal document would need to clarify the role, functions, and responsibilities of the collegial executive body (see example functions and responsibilities in Annex G). The law assumes that day-to-day management will be the responsibility of the PAC/KZ's collegial executive body. Eligibility and qualification requirements for the members of the collegial executive body should be close to board's members' requirements (see Annex D). Their independence from the profession is essential.

ANNEX A: Analysis[19] of the functioning of public oversight authorities around the globe[20]

Key elements	Brief description
Jurisdiction	CANADA
Name	**The Canadian Public Accountability Board (CPAB)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **14**/141 Strength of auditing and accounting standards = **12**/141
Basis for establishment	The CPAB was created by the Canadian Securities Administrators, the Office of the Superintendent of Financial Institutions (Canada) and the Institutes of Chartered Accountants in Canada as part of a regulatory response to perceived deficiencies in financial reporting by reporting issuers. It was incorporated on April 14, 2003 under the Canada Corporations Act and continued under the Canada Not-for-Profit Corporations Act in June 2014. The CPAB is a leading audit regulator that reinforces public confidence in Canada's capital markets.
Mission and Responsibilities	The CPAB promotes sustainable audit quality through proactive regulatory oversight, facilitating dialogue with domestic and international stakeholders, and publishing practicable insights to inform capital market participants. The CPAB's purpose is to contribute to the public confidence in the integrity of financial reporting of public companies in Canada by effective regulation and by promoting quality, independent auditing. The CPAB is responsible for establishing and maintaining requirements for the participation of public accounting firms that audit reporting issuers in the Board's oversight program. Under Canadian Securities Administrators National Instrument 52-108, public accounting firms that audit Canadian reporting issuers must participate in the CPAB's oversight program. To register, participating audit firms must submit an Intent to Participate form and Quality Control Report to the CPAB. Participating firms must sign the CPAB's Participation Agreement. The CPAB has some involvement in the setting of auditing standards as it is a permanent member of the Auditing and Assurance Standards Oversight Council that provides oversight of the setting of auditing standards in Canada. The CPAB is responsible for: 1. Requiring remedial action by participating audit firms when necessary or appropriate; 2. Conducting investigations and review proceedings and imposing, where appropriate, requirements, restrictions, or sanctions on participating audit firms;

[19] Prepared based on publicly available information on the corporate webpages of respective audit regulators and on https://www.ifiar.org/

[20] The following criteria has been used to select the countries: (i) the score according Global Competitiveness Index (2019), including score on indicator 1.17 "Strength of auditing and accounting standards"; (ii) geographical coverage; (iii) IFIAR membership, i.e. independent oversight bodies.

Key elements	Brief description
	3. Working in close conjunction with professional regulatory authorities on identified matters of misconduct; and 4. Referring matters as appropriate to securities regulators. In accordance with Rule 602 of the CPAB's Rules, if as a consequence of an inspection or investigation, or otherwise, the Board considers that a violation event has occurred, the Board may give notice to a participating audit firm that it proposes to impose requirements, restrictions, or sanctions on such firm, which may include one or more of the following: a) Additional professional education for some or all of the designated professionals of a participating audit firm; b) The design, adoption, or implementation of policies by a participating audit firm to ensure its compliance with the rules of the Board and professional standards; c) Assignment of a reviewer or supervisor to oversee the work of one or more designated professionals of a participating audit firm; d) Termination of one or more audit engagements of a participating audit firm; e) Appointment of an independent monitor, subject to the approval of the Board, to observe and report to the Board on a participating audit firm's compliance with the rules and professional standards; f) Prohibition of a participating audit firm from accepting new reporting issuer audit clients for a period of time; g) Prohibition of a participating audit firm from assigning one or more designated professionals to audits of financial statements of reporting issuers, for a period of time or permanently; h) Public censure; i) Monetary assessment intended to recoup the Board's anticipated cost of monitoring the participating audit firm's compliance with the terms of any requirement, restriction, or sanction; j) Termination of a firm's status as a participant and its Participation Agreement; and k) Other remedial actions.
Governing Body and Composition	In accordance with CPAB By-law No. 1 Article 3, the Board of Directors shall consist of: 1. at least five Non-Accountant Directors; 2. at least three Accountant Directors (Professional Accountants) and there shall always be fewer Accountant than Non-Accountant Directors; 3. at least two directors must have oversight regulatory experience, including at least one Professional Accountant and at least one person with audit oversight regulatory experience.
Eligibility criteria and requirements for Board's members	For the purposes of appointment to the Board, the CPAB by-laws define a "professional accountant" as an individual with a professional accounting designation; who is not a sole proprietor, partner, member, director, officer, or employee of a participating audit firm; has not been a sole proprietor, partner, member, director, officer, or employee of a participating audit firm during the 1-year period prior to appointment; and has relevant satisfactory experience.
Funding Arrangements	The CPAB derives all of its revenue from "participation fees" paid by Canadian reporting issuers. To facilitate the collection process, the CPAB invoices audit firms and the firms in turn bill their reporting issuer audit clients per agreement with the CPAB and with the understanding of the reporting issuer. Participation fees are calculated as a percent of reporting issuer's audit fees.

Key elements	Brief description
	Every three years, the CPAB develops a strategic plan that outlines strategic priorities for the following three-year period. This strategic plan is approved by the Board of Directors. On an annual basis, the CPAB's management develops an operating plan and budget and determines the participation fee percentage required to enable the CPAB to recover its annual operating costs and provide a reasonable reserve for contingencies. The operating plan, budget, and a proposed participation fee percentage is presented to the Board of Directors for approval. The CPAB does not get fees from any member of the profession directly (the fees are collected by the firms from their reporting issuer clients). None are on the Board, nor is any employee an active member of the profession.
Inspection System	The CPAB conducts its inspections directly using full time staff and consultants based in three offices in Toronto, Vancouver, and Montreal. The CPAB's Rules 403 and 404 specify the required frequency of inspections of participating audit firms: (i) annually if 100 or more reporting issuer audit reports are issued during a calendar year; (ii) at least once every two years if 50 – 99 reporting issuer audit reports are issued during a calendar year; (iii) at least once every three years if less than 50 reporting issuer audit reports are issued during a calendar year. Risk analysis and assessment are embedded throughout the CPAB. It identifies and rates reporting issuers and audit firms that may represent the most significant risks to the investing public. By assessing the reporting issuer's risk on a standalone basis with risk factors associated with the audit firm, the CPAB develops a comprehensive view of risk for reporting issuers. These are used to identify audits that have the highest risk of a material error or misstatement. This model considers the general economy, the reporting issuer's industry, financial stability, size and foreign exposure, management's track record, the audit firm's risk profile, and the engagement partner's experience, including past inspection results. The CPAB has entered into Memoranda of Understanding with the provincial regulators of public accountants who perform inspections of some of the smaller audit firms. The CPAB reviews the provincial inspection reports and arranges for CPAB staff to supplement a provincial inspection if necessary.
Data on Audit and Financial Market	As of February 2020, 267 participating audit firms were registered with the CPAB and therefore subject to inspection. The CPAB's mandate is limited to the inspection of firms that audit Canadian reporting issuers. There are approximately 7,400 reporting issuers in Canada. The Canadian member firms and foreign affiliates of the Big Four global networks audit 64% of Canada's reporting issuers, representing more than 98% of the market capitalization.
Website	https://www.cpab-ccrc.ca/

Key elements	Brief description
Jurisdiction	FINLAND
Name	**Auditor Oversight Unit** within Finnish Patent and Registration Office
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **11**/141 Strength of auditing and accounting standards = **1**/141
Basis for establishment	The Auditor Oversight Unit within the Finnish Patent and Registration Office was established by the Auditing Act (1141/2015) which became effective on 1 January 2016. Within the Auditor Oversight Unit shall operate the Audit Board, which shall be independent in its decision making.
Mission and Responsibilities	According to the Auditing Act, Chapter 7, the Auditor Oversight Unit is responsible for the general direction and development as well as for the oversight of auditors. The Auditor Oversight Unit shall: 1. approve auditors and be responsible for the approval system and its development; 2. oversee that auditors act in accordance with this Act, with provisions issued by virtue thereof, and with the Act on Auditing of Public Administration and Finance; 3. oversee that auditors maintain and improve their professional competence and maintain the preconditions for approval; 4. oversee the quality of auditing and be responsible for developing the quality control system; 5. be responsible for the general direction and development of auditing; 6. participate in international co-operation and exchange of information; 7. attend to other duties prescribed to it in the Auditing Act (maintain the Auditor register and professional examinations register inter alia). The Auditor Oversight Unit of the Patent and Registration Office shall arrange professional examinations in Finnish and in Swedish. The HT examination is the basic professional examination in auditing. A person who has passed the HT examination (equivalent to registered auditor) can specialize in audits of PIEs by passing a KHT examination (registered auditor having the specific competence for public-interest entities audits) and/or in audits of public administration and finance by passing a JHT examination (registered auditor having specific competence for public administration and public finances audits). The director of the Auditor Oversight Unit shall decide whether a candidate has passed the examination and decide on his/her registration in the public auditors´ register. There are no practitioners involved in the decision making. The Auditor Oversight Unit shall oversee that the auditors and audit firms maintain their professional competence and other qualifications required for approval. The Auditor Oversight Unit establishes the criteria for permanent education of auditors, but it does not delegate or authorize any specific organization to conduct the education task. In addition, the Auditor Oversight Unit shall perform the Finnish Patent and Registration Office's other duties assigned to it (e.g. administrative duties and duties which arise from EU regulation and which require implementation into national law such as market monitoring etc.).

Key elements	Brief description
	The Audit Board decides on sanctions against auditors and audit firms, on rectifications, which can be sought against the decisions made by the Auditor Oversight Unit. The Audit Board also tends to the general direction and development of auditing.
Governing Body and Composition	The Auditor Oversight Unit comprises of staff and the Audit Board. The director of the Unit and the staff members are civil servants employed by the state and thus independent from the audit profession. The State Government shall appoint the Audit Board for three years at a time. The Board comprises a Chairperson and a Deputy Chairperson and also no less than five and no more than eight other members. In addition, the Board relies on two permanent experts in an advisory role and without Board membership or voting rights. Each member, with the exception of the Chairperson and the Deputy Chairperson, shall have a personal deputy, and each permanent expert shall have a deputy. The Chairperson and the Deputy Chairperson of the Audit Board shall be appointed on the proposal of the Ministry of Employment and the Economy.
Eligibility criteria and requirements for Board's members	*The Audit Board:* According to the Auditing Act all members and their deputies of the Audit Board must have thorough knowledge of auditing. At least two members must have a higher university degree in law, other than Master's Degree in International and Comparative Law. The Board as a whole must possess other expertise required by its duties. Permanent experts must be practicing auditors. An auditor, a shareholder of an audit firm or a person holding a similar position, a member of the Board of Directors or a similar body of an audit firm, or a person with an employment or assignment relationship with an audit firm cannot be elected a member of the Board. The majority of the members must be persons, who have not been engaged in the above tasks for at least three years (cooling-off period). The provisions on the members shall correspondingly apply to their deputies. Two practicing auditors must be nominated as experts to advise the Audit Board. Their role is limited, and they have no voting rights. Except for cases where there may be conflicts of interest, the experts have a right to obtain the relevant documents related to the issues, which the Audit Board decides. The experts can provide their opinion to bring expertise to the discussions within the Board. *Staff of the Auditor Oversight Unit:* the director of the Auditor Oversight Unit must be independent from the audit profession. He or she must have thorough knowledge of auditing, good communication skills etc. The requirements are prescribed by the Finnish Patent and Registration Office. The same cooling off-requirement (three years) is applied rigorously on the director of the Auditor Oversight Unit.
Funding Arrangements	The oversight system is funded by mandatory fees collected from the auditors. The funding and fees are based on a special law on auditors' annual fees (1512/2015) and a decree of the Ministry of Employment and the Economy (696/2014). The Finnish Patent and Registration Office shall compose the budget.
Inspection System	Inspections are led and organized by the Head of Inspections under the Director of the Auditor Oversight Unit. Inspections are conducted by an independent quality assurance team, which comprises of the staff of the Auditor Oversight Unit. The Auditor Oversight Unit sets the criteria of good audit quality and determines the outcome of each inspection. Minimum inspection cycle is three years for PIE sector auditor and audit firms. Minimum inspection cycle is 6 years for Non-PIE sector auditors and audit firms.

Key elements	Brief description
Data on Audit and Financial Market	There are ca. 70 audit firms subject to inspections, approximately 20% of them audit PIEs. There are ca. 420 PIEs in Finland and ca. 118 200 statutory audit engagements annually, which fall under the Patent and Registration Office´s oversight mandate. In terms of number of PIE audit clients/listed companies, Nasdaq Helsinki (January 2020): KPMG 32%; PwC 30%; EY 29%; Deloitte 4,5%; Others 4,5%. In terms of number of Top 100 big audit clients (June 2019): PwC 35,5%; KPMG 31,5%; EY 23,0%; Deloitte 8,0%; - Others 2,0%.
Website	https://www.prh.fi/en/index.html

Key elements	Brief description
Jurisdiction	FRANCE
Name	**High Council for Statutory Audits (H3C)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **15**/141 Strength of auditing and accounting standards = **28**/141
Basis for establishment	The H3C is a high-level **independent public authority**, created by the Financial Security Law on 1 August 2003. The role and responsibilities of the H3C over the audit profession in France are defined and set out by law and decree in the Commercial Code.
Mission and Responsibilities	The mission and responsibilities of the H3C cover: ➢ Registration of statutory auditors, including third country auditors and audit firms, and the maintenance of registration lists; ➢ Adoption of standards relating to audit, ethics, and internal controls, as well as professional best practices; ➢ Definition of the general guidelines and various fields for continuing education, as well as overseeing their compliance by statutory auditors; ➢ Inspections: the definition of the framework and guidelines for inspections, the conduct of PIE and non-PIE auditor inspections (possibility to delegate certain non-PIE inspections), with the ability to issue recommendations in the follow-up of inspections; ➢ Decisions on specific individual matters relating to the audit mandate and threshold of audit fees for non-audit services; ➢ Enforcement: the conduct of investigations and adoption of sanctions; ➢ Hearings on audit fee disputes; ➢ Cooperation with EU and non-EU counterparts; ➢ Market monitoring of PIE statutory audits in France. The H3C is legally responsible for the **registration of statutory auditors** and audit firms, including third country auditors, as well as the maintenance of the registration lists. Registration of statutory auditors and audit firms have been delegated to the National Company of Auditors, except for non-EU statutory auditors and audit firms. The H3C holds the responsibility for the **adoption of standards relating to audit, ethics, and internal controls**, as well as professional best practices, which are officially approved by the Minister of Justice. The draft auditing, ethics and internal control standards are drafted by a commission, established alongside the H3C and composed of an equal number of H3C Board members and statutory auditors. The H3C Board adopts, under Article L. 821-1 of the Commercial Code, the auditing, ethics and internal control standards. A commission established alongside the H3C and composed of an equal number of H3C Board members and statutory auditors is in charge of the preparation of a project of auditing, ethics and internal control standards. Yet, this commission does not have any decisional authority nor control authority. The decisional and control authority for the adoption of the standards lies on the H3C Board. The H3C is responsible for defining and ensuring compliance of the general policies relating to **continuing education**. The monitoring of permanent education of auditors have been delegated to the National Company of Auditors.

Key elements	Brief description
	The H3C Enforcement Division, led by a Head of Enforcement, is responsible for **investigations** conducted on statutory auditors and audit firms. The H3C Board, through its Disciplinary Board, may adopt sanctions against statutory auditors and their audited entities. In addition, the H3C, through the "Bureau" formation, may adopt decisions on individual cases on specific matters relating to the duration and starting date of the audit mandate and threshold of audit fees for non-audit services. The H3C is the appeal body for audit fee disputes. The H3C is responsible for market monitoring of PIE statutory audits as set out under Article 27 of the EU Regulation 537/2014. The H3C may also be called upon to provide its input and comments on various audit-related matters, including on draft legal texts with regards audit supervision.
Governing Body and Composition	The H3C Board is composed of 14 members who are appointed by decree for 6-year terms, as set out in Article L. 821-2 of the Commercial Code: 1. A member of the French Supreme Court who chairs the H3C. 2. Two magistrates of the judicial order, one of whom chairs the Disciplinary Board formation. 3. A member from the French National Audit Office. 4. The Chair of the French Financial Markets Authority or representative. 5. The Chair of the French Prudential Supervision and Resolution Authority or representative. 6. The Director-General of the Treasury Department of the Ministry of Finance or representative. 7. A university professor specialized in legal, economic, or financial matters. 8. Four experts in economic and financial matters, i.e. in the field of public offerings and entities whose securities are admitted to trading on a regulated market; in the field of banking and insurance; in the field of small and medium enterprises, private entities with economic activity, and non-profit associations; or in the area of national and international accounting matters. 9. Two former statutory auditors. As requested by the French Commercial Code, former statutory auditors who are members of the H3C Board are not employed by or affiliated to a registered audit firm, nor employed by or affiliated to a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession. In addition, a Government Commissioner, represented by the Director of Civil Affairs or their representative, sits on the Board with consultative powers.
Eligibility criteria and requirements for Board's members	Board members are subject to a 3-year cooling-off period prior to their appointment from having conducted any statutory audit activities, or having held any voting rights, or having taken part in the administrative or supervisory body or having been employed by an audit firm (Article L. 821-3(I) of the Commercial Code). It is also set out under French law that no Board member may deliberate on any matter which could lead to a conflict of interest.
Funding Arrangements	The H3C is financially independent and adopts its budget on the basis of a proposal from the Chair of the Board. The funding arrangements of the H3C, as well as the fee levels, are set out under Article L821-5 and Article L821-6-1 of the Commercial Code which provides that proportional levies are collected from the audit profession. The H3C funding system and fee levels are fixed by virtue of law and decree.

Key elements	Brief description
	Since January 2018, the H3C's revenues are based on the payment by the auditors of a contribution based on the sums invoiced during the previous calendar year for performed statutory audits (between 0.5 % and 0.7 %) and an additional contribution for PIE audits performed (between 0.2 % and 0.3 %).
Inspection System	H3C has direct responsibility for recurring inspections of audit firms performing audits of PIEs. The H3C has a dedicated team to the inspection of the PIE audit firms (i.e. audit firms with at least one PIE engagement). For non-PIE audit firms, the H3C has the responsibility for the inspections and may delegated in their performance to the professional body or may decide on H3C direct inspection of a non-PIE audit firm at any moment, for any reason. The five largest audit networks operating in France are inspected on an annual or biennial basis. Other PIE audit firms are inspected every three years (or six years for smaller firms), and non-PIE audit firms are inspected every six years.
Data on Audit and Financial Market	Number of audit firms: 6,287 in total, including 331 PIE audit firms Number of individuals auditors: 13,343 including 48 PIE auditors The term "auditor" encompasses both individuals and audit firms. Figures are those of the 2019 market monitoring report of the H3C published in June 2019. The five largest networks (Big Four + Mazars) in France hold 26.8% of the engagements (total PIE and non-PIE) and 68.2% of the PIE audit engagements in France.
Website	http://www.h3c.org/accueil.htm

Key elements	Brief description
Jurisdiction	GERMANY
Name	**Auditor Oversight Body (AOB)** at the Federal Office for Economic Affairs and Export Control
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **7**/141 Strength of auditing and accounting standards = **34**/141
Basis for establishment	The AOB was established as a result of the EU Audit Reform. **The AOB is the competent authority in Germany** as per Article 32 of EU Directive 2006/43/EC and Art. 20 (1) (c) of EU Regulation No. 537/2014.
Mission and Responsibilities	The mission and responsibilities include: ➢ inspections of PIE audit firms and PIE audits. ➢ enforcement (investigations and sanctions) in relation to PIE audits. ➢ supervision of the Chamber of Public Accountants (WPK) and ultimate responsibility and decision making power especially in relation to the following activities of the WPK: (i) licensing of public accountants and sworn accountants; (ii) licensing of audit firms and revocation of licenses; (iii) registration of public accountants and audit firms; (iv) disciplinary oversight; (v) external quality assurance mandatory statement on any amendments to professional rules (ethics, quality control) issued by the WPK for approval by the Federal Ministry of Economics. ➢ market monitoring in accordance with Article 27 of Regulation (EU) No. 537/2014. The AOB is the competent authority for the organization and performance of inspections of auditors/audit firms who audit PIEs. The AOB cooperates in case of cross-border oversight proceedings concerning statutory auditors with the relevant authorities abroad. The organization directly responsible for registration/licensing of auditors is the WPK. Every auditor/audit firm in Germany is a mandatory member of the WPK. As it is a professional body, members of the profession are involved in the governance and the decision-making processes. In terms of how this oversight is put into practice: the AOB oversees this process (and all other oversight processes regarding the WPK, for that matter) in its capacity as technical supervisor through active participation in the meetings of the related decision-making bodies within the WPK. In addition, the AOB has the right to request any information or look at any file it desires. If the AOB does not agree with the decision taken by the WPK in any particular case, it can refer the case back to the WPK, stating its reasons for doing so, and ask for a reconsideration. If the WPK upholds its original decision, the AOB can repeal the decision, instruct the WPK accordingly or take the necessary decision itself (execution by substitution). In cases where the WPK believes the decision to be contra legislation, it can involve the Ministry for Economic Affairs and Energy which is the legal supervisor of both AOB and WPK. Permanent education is a professional duty of any auditor in Germany. This duty is controlled by the WPK. Details are set out in the WPK's bylaws. This area is overseen by the AOB by means of technical supervision.

Key elements	Brief description
Governing Body and Composition	The AOB is led by its Chief Executive Director supported by two Directors (Head of Directorate Inspections and Quality Assurance, and Head of Directorate Enforcement and Policy Matters). Each Directorate has four Divisions. In terms of decision making, the following structure is in place: Decisions in oversight matters are taken by so-called “Panels” or “Ruling Chambers”. Each Panel consists of 5 knowledgeable members of staff of the AOB and is chaired by one member of the leadership structure (i.e. either the Chief Executive Director or an Executive Director); the remaining four members of the panel cannot belong to the leadership structure. At least two members of a panel must have a legal background and must be qualified to hold the office of judge. Decisions will be taken by simple majority. In addition, the AOB is supported by a Consulting Committee that shall offer advice and counsel the AOB in relation to the accomplishment of its tasks. The AOB may consult the Consulting Committee in individual oversight cases (discretional), but the Consulting Committee is not involved in decision-making processes. The Consulting Committee may, however, make general recommendations for enhancements in the oversight practice. The committee will consist of three to five knowledgeable members appointed by the Federal Ministry for Economics for a four-year term. They must be independent from the profession.
Eligibility criteria and requirements for Board’s members	The position of Chief Executive Director as well as any other leadership position (including the Executive Directors and Heads of Divisions) are publicly tendered. The applicable cooling-off period is three years. Members of the governing body must be knowledgeable in areas relevant for statutory audits, i.e. accounting, auditing, tax or law etc.
Funding Arrangements	The AOB is funded mainly by fees (~70%, e.g. charged for inspections) and in addition from the Federal Budget (~30%). The profession has no role in determining the fee level or the budget. The AOB’s budget is part of the budget of the Federal Agency for Economic Affairs and Export Control and therefore ultimately part of the Federal Budget approved by the German parliament.
Inspection System	The frequency of inspections is in accordance with Article 26 of EU Regulation No. 537/2014. According to the AOB’s Rules of Procedure, the cycle will be determined by the number of audit engagements. Audit firms who perform a certain number of audits (currently more than 25 PIE) will be subject to annual inspections. Those audit firms with fewer audit engagements are subject to inspections every three years or six years. However, inspections can take place on an ad-hoc basis if deemed necessary.
Data on Audit and Financial Market	Number of audit firms subject to inspections – 89; number of PIEs - 1,103 (listed entities, non-listed banks, and insurance companies).
Website	https://www.apasbafa.bund.de/APAS/DE/Home/home_node.html

Key elements	Brief description
Jurisdiction	JAPAN
Name	**Certified Public Accountants and Auditing Oversight Board (CPAAOB) within FSA**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **6**/141 Strength of auditing and accounting standards = **16**/141
Basis for establishment	The Certified Public Accountants and Auditing Oversight Board, an **independent regulatory body established within the FSA** in April 2004. FSA is an integrated regulator and has responsibilities outside of audit oversight.
Mission and Responsibilities	The mission of the CPAAOB is to further enhance the quality and effectiveness of the auditing process, and to ensure the fairness and transparency of the Japanese capital market by fulfilling the following statutory responsibilities, thereby contributing to the enhancement of investor confidence. *Responsibilities of the CPAAOB:* ➢ Reviews of "Quality Control Review" by the Japanese Institute of Certified Public Accountants (JICPA); inspections of audit firms, certified public accountants, and the JICPA; and recommendation of administrative actions and other measures to the FSA. ➢ Deliberation of disciplinary actions against certified public accountants and audit firms. ➢ Implementation of certified public accountant examinations. The FSA is a government agency and responsible for (i) ensuring the stability of the financial system; (ii) protecting the users of financial instruments and services, such as depositors, insurance policy holders, investors, and the like; and (iii) facilitating the smooth function of financial services. In order to meet these responsibilities, the FSA has the function of planning and policy making, inspection, and supervision for the financial system including the banking, securities, and insurance markets. *Responsibilities of the FSA with respect to audit regulation include:* ➢ Planning and policy making for certified public accountant systems. ➢ Supervision of audit firms and taking administrative actions.
Governing Body and Composition	The CPAAOB is an independent regulatory body (council) established within the FSA, consisting of one chairperson and one full-time and eight part-time commissioners. The Board exercises its statutory authority independently from the FSA. The term of the members is three years. In principle, they shall not be discharged from their positions against their wills. The CPAAOB has an Executive Bureau that performs clerical work. The Executive Bureau is comprised of the Planning, Management and Certified Public Accountant Examination Office and the Monitoring and Inspection Office, under the Secretary-General of the Executive Bureau.

Key elements	Brief description
Eligibility criteria and requirements for Board's members	The members are appointed by the Prime Minister with the consent of both Houses of the Diet based on the viewpoint that the CPAAOB should be comprised of members from a wide range of relevant expertise on a fair and equitable basis in light of eliminating the risk of biased management and ensuring public interest and independence from the professional audit society. There is no specific requirement with regard to independence from the profession per se. Meanwhile, staff members of the FSA and CPAAOB are segregated from the private sector entities as public servants. As a general rule, all certified public accountants at the FSA and CPAAOB are hired on a full-time basis after leaving audit firms. In addition, the CPAAOB secures prevention of conflicts of interest relating to the inspection activities by composing an inspection team, made up of inspectors who have no interests in inspected firms, when approving its inspection plan of the relevant firms.
Funding Arrangements	The FSA's budget, including CPAAOB's expenses, is funded by the national budget and is unaffected by any affiliates of the public accounting profession.
Inspection System	The CPAAOB conducts inspections on audit firms, certified public accountants, and the JICPA. As to inspections on audit firms, the CPAAOB takes into account the results of JICPA's quality control review. JICPA is required under the Certified Public Accountant Act to report the results of the quality control review to the CPAAOB periodically or as necessary. In practice, CPAAOB obtains monthly reports from the JICPA. If the results of inspections show that the quality control review was not conducted properly, or certified public accountants/audit firms did not conform to laws, regulations, and standards related to quality control of audits, etc., the CPAAOB Board will recommend that the Commissioner of the FSA takes administrative actions and other measures necessary to ensure the proper operation of audit firms, certified public accountants, and the JICPA. The CPAAOB conducts regulatory inspection once every three years in principle. Since mid-2016, CPAAOB has conducted inspection on the big audit firms annually, which is comprised of biannual full-scope inspection and follow-up inspection in the subsequent year. Since the Certified Public Accountant Act requires the JICPA to review the status of the operation of audit and attestation services provided by its members, the JICPA established its bylaws to conduct its quality control review once every three years in principle. However, JICPA conducts its review on the big audit firms every two years. The CPAAOB has implemented 5-level overall ratings, based on which it assigns an overall rating to the inspected audit firm's business administration in the inspection result notification, since FY 2016. This is meant to accurately communicate the CPAAOB's assessment results to audit firms and to enable audit & supervisory board members of the audited companies that receive disclosure of inspection results from audit firms to appropriately understand the quality control level of the audit firm.
Data on Audit and Financial Market	126 out of 236 domestic audit firms and auditors undertake audits of listed entities which are subject to JICPA quality control review. In addition, 2 out of 89 notified foreign audit firms provide audit and attestation services to the companies listed on financial instruments exchange markets in Japan. As of the end of FY2018, the number of registered certified public accountants was 31,189, of which the number of certified public accountants belonging to large-sized audit firms was 10,912 or approximately 35% of the total.

Key elements	Brief description
	The Big Four firms (Deloitte Touche Tohmatsu, KPMG AZSA, EY ShinNihon and PwC Aarata) account for about 71% of the listed companies audit market.
Website	https://www.fsa.go.jp/cpaaob/english/index.html

Key elements	Brief description
Jurisdiction	NETHERLANDS
Name	**Dutch Authority for the Financial Markets (AFM)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **4**/141 Strength of auditing and accounting standards = **5**/141
Basis for establishment	As per the Audit Firms Supervision Act, the AFM is ultimately responsible for licensing/registration, oversight, and enforcement of audit firms that perform statutory audits. The objective of the Act is the justified restoration of confidence in the auditor and the auditor's reports in order to enhance confidence in the financial markets. AFM's **Audit & Reporting Quality Division is responsible for audit oversight and financial reporting.**
Mission and Responsibilities	AFM's aim and task are to supervise business conduct on the financial markets and to decide on market entry by companies in the financial sector. The AFM is solely and fully responsible for the licensing and supervision of firms that audit PIEs and is also solely responsible for the licensing and supervision of firms that audit non-PIEs. ***Note:*** Stricter requirements apply for audit firms that apply for and have obtained a license to audit PIEs. Examples of stricter norms: (i) Audit firm quality control systems: compliance officer; (ii) Governance: independent supervisory board and suitability assessments of management and supervisory boards; (iii) Independence: strict separation between provision of audit and non-audit services to the PIE and related entities and audit firm rotation; (iv) Transparency: transparency reporting. Regarding supervision of firms that audit non-PIEs, the AFM has entered into arrangements with the Dutch Institute of Chartered Accountants and the Association of Registered Accountants and Accounting Consultants (SRA). The AFM is responsible for oversight of the permanent education of auditors. Permanent education standards are set by the Institute of Chartered Accountants. In case of non-compliance, the AFM or the Institute of Chartered Accountants can file a disciplinary complaint against an individual auditor at the Disciplinary Court for Auditors. Furthermore, the audit organization has a duty of care regarding the permanent education of its auditors. The AFM's responsibility to oversee audit firms, includes compliance with permanent education requirements for auditors; non-compliance by the audit organization can be enforced by administrative measures. The AFM has the power to impose administrative sanctions in case of violations of the law and regulation against audit firms (including imposing fines and deregistration), and individual board members (imposing fines or removal from (board) position). Further the AFM has the power to file a disciplinary case against statutory auditors at the independent Disciplinary Court for Auditors. This Court's remit includes withdrawing the license from individual auditors and imposing disciplinary fines. The AFM has no formal role regarding standard setting and regulation, but acts as an advisor on these to the Minister of Finance and the Institute of Chartered Accountants. Outside the scope of audit oversight, the AFM has a broad range of other tasks in the area of financial supervision. It is responsible for supervising the operation of the financial markets. This means that the AFM supervises the conduct of the entire financial market

Key elements	Brief description
	sector: savings, investment, insurance and loans. This includes market abuse, public bids and offerings, financial reporting, and securities regulation.
Governing Body and Composition	As per the Articles of Association, the Board comprises of between three and five Board Members. Board Members 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 fulltime appointment at the AFM. The duration of an appointment is four years and can be extended with another period of four years.
Eligibility criteria and requirements for Board's members	Board Members of the AFM: a) may not be responsible for conducting statutory audits during the period of being a member of the Board, nor have been responsible for conducting statutory audits during the previous three years; b) may not be solely or jointly responsible for the day-to-day management of an audit firm during the period of being a member of the Board, nor have been in the previous three years; and c) may not be a voting member of the board of an audit firm during the period of being a member of the Board, nor have been such voting member in the previous three years.
Funding Arrangements	The supervision activities of the AFM are levied to the firms under supervision. The AFM's budget, which is the basis for the levies, is approved by the Minister of Finance. The calculation of the levies is consulted with the Advisory Panel, which encompasses representatives of the professional bodies and the market. 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 drivers for the annual levies imposed on audit firms are the turn-over in non-PIE-audits and in PIE-audits. Audit firms pay for the ongoing supervision each year + one-off activities.
Inspection System	AFM has implemented an integrated inspections approach, comprising: (i) quality assurance inspections (regular and thematic) for review of audit engagements and (elements of) audit firms' internal quality control systems; (ii) culture and governance assessments - monitor of design and implementation of audit firms' change measures: culture, organization, and governance; and (iii) general studies, e.g. vulnerabilities in the structure of the audit sector report. AFM also follow-up of signals and incidents ('investigations'). Audit engagements are selected based on the following approach: 1. The AFM requests from audit firms a list of all their statutory audit clients, including information regarding the name of the external auditor; whether or not an engagement quality control review or internal quality review was carried out; and what level of risk is attached to the audit in question in the opinion of the audit firm. 2. The aim is to ensure variation in market segments and other features of the audit, incl. both PIE and non-PIE statutory audits. 3. Other elements applied to the selection include, for example, audits by various external auditors; distribution of audits across organizational elements of the audit firm (across branches and business units); engagement quality control reviews; internal quality reviews; average or higher risk profile.

Key elements	Brief description
	AFM employs its own inspectors who conduct the licensing and inspection work. The arrangements with PAOs contain agreements on quality control by the Institute of Chartered Accountants and the SRA on firms that perform statutory audits of non-PIEs. Under the arrangements, the Institute of Chartered Accountants and 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 of firms that do statutory audits other than those of PIEs. Audit firms that audit PIEs must be inspected at least every third year by staff of the AFM. Non-PIEs audits must be inspected at least every six years. All AFM's inspectors are non-practitioners; the majority are qualified registered accountants. AFM publishes all its audit oversight reports in Dutch and English.
Data on Audit and Financial Market	As of February 2020, six firms are licensed to audit PIEs, and 270 firms to audit non-PIEs. Further, 11 firms are registered as third country audit entities. In the Netherlands, a total of 19,333 statutory audits were carried out in the year 2018/2019. Of this number, 773 were audits of PIEs (banks, insurance companies, and listed companies). The audit market in the Netherlands is highly concentrated. The majority of audits of PIEs are performed by the Big Four firms. In 2018/2019 the market shares (based on the number of audits of PIEs) were as follows: KPMG: 28.5%; Deloitte: 11.4 %; EY: 19%; PwC: 24.3%; other 16.8%.
Website	https://www.afm.nl/

Key elements	Brief description
Jurisdiction	NEW ZEALAND
Name	**Financial Markets Authority (FMA)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **19**/141 Strength of auditing and accounting standards = **8**/141
Basis for establishment	The FMA was established as an independent Crown entity on May 1, 2011. FMA's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets. **FMA is responsible for the oversight of the audit profession** as set out in the Auditor Regulation Act 2011 ("the Act"). This Act came fully into force on 1 July 2012.
Mission and Responsibilities	The functions of the FMA under the Act include to issue licenses to overseas auditors; to authorize the registration of overseas audit firms; to prescribe licensing, registration, and other matters; to grant accreditation to persons; to monitor the audit regulatory systems of accredited bodies, report on the adequacy and effectiveness of those systems, and take action in respect of those systems that are inadequate or ineffective; to conduct quality reviews and investigations; to take over and perform regulatory functions; and to perform or exercise any other functions, powers, and duties conferred or imposed on it by or under the Act.
Governing Body and Composition	FMA is structured with a Board of Directors and an Executive team with a CEO appointed by the Board. The Board comprises between five and nine Members, appointed by the Governor-General on the recommendation of the Minister of Commerce.
Eligibility criteria and requirements for Board's members	Board members hold office for a term not exceeding five years and may be reappointed. All members of staff are required to comply with the State Sector Code of Conduct. The Code sets out the minimum standards of integrity and conduct expected of public sector employees – they must be fair, impartial, responsible, and trustworthy. The FMA has adopted its own Code of Conduct which adopts and supplements the State Sector Code.
Funding Arrangements	The FMA's annual appropriation from the Crown is determined by the Government and is made up of Crown funding and third-party funding. Third party funding is obtained from levies paid by financial market participants, including auditors. The FMA also recovers some of its costs through fees for services it provides, including licensing fees, auditor quality review fees, and other fees. The FMA consults with levy payers and other affected parties before seeking any change to its appropriation. Similarly, the Ministry of Business, Innovation and Employment consults on changes to levies. They publicly consult on changes to the FMA's appropriation and levies. Any levies and charges to the audit profession do not affect the overall budget received by the FMA for executing its tasks, just the share of the budget that comes from government funding or from market participants (which includes audit professionals).
Inspection System	The FMA carries out its inspections as set out in the Auditor Regulation Act 2011. The Act requires FMA to perform reviews of audit firms on a four-yearly cycle. To meet international requirements, the FMA conducts reviews of the Big Four audit firms every two years and any other registered firm every three years.

Key elements	Brief description
	Each review is required to cover quality controls systems at audit firms and to review a reasonable number of audit files on their compliance with the auditing standards. The inspections are performed by the FMA audit oversight team. An inspection team includes three staff members, supplemented by staff members of the Financial Reporting Division. Review teams may also be supplemented by inspectors of other overseas audit regulators or other suitable contractors (not employed by audit firms).
Data on Audit and Financial Market	The public interest audits subject to inspections amount to approximately 1,250 audits and include approximately 200 listed entity audits. 18 audit firms are registered in New Zealand and are subject to inspections. The Global Public Policy Committee network audit firms (BDO, Deloitte, EY, Grant Thornton, KPMG, and PWC) audit approximately 95% of the listed entities and 90% of other public interest audits.
Website	https://www.fma.govt.nz/

Key elements	Brief description
Jurisdiction	SOUTH AFRICA
Name	**Independent Regulatory Board for Auditors (IRBA)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **60**/141 Strength of auditing and accounting standards = **49**/141
Basis for establishment	IRBA was established in terms of Section 3 of the Auditing Profession Act, 2005, and came into effect on April 1, 2006.
Mission and Responsibilities	The function of the IRBA is to help create an ethical, value-driven financial sector that encourages investment, creates confidence in the financial markets, and promotes sound practices. This is done by: ➢ Developing and maintaining auditing and ethics standards that are internationally comparable. ➢ Providing an appropriate framework for the education and training of properly qualified auditors and their on-going competence. ➢ Registration of auditors who meet the registration requirements. ➢ Monitoring registered auditors' compliance with professional standards. ➢ Investigating and taking appropriate action against registered auditors in respect of improper conduct. ➢ Developing and maintaining stakeholder relationships to enhance performance, accountability, and public confidence. In response to the recent failures in the auditing profession, the IRBA, as a proactive regulator, embarked on a legislative process to strengthen its regulatory powers through amendments to the Auditing Profession Act 26 of 2005. These amendments were included in the Financial Matters Amendment Bill. This step was necessary to ensure that the IRBA's primary mandate of protecting the investing public's interest is relevant and effective. As of February 2020, the Chief State Law Advisor certified the Bill to Parliament, and it is in the process of being legislated. A summary of the amendments is as follows: ➢ No auditors in public practice can serve on the governing structure of the IRBA, thus strengthening independent regulation in the public interest. ➢ Clients cannot dismiss their auditor while the auditor is in the process of reporting a reportable irregularity, thereby strengthening the independence of the auditor and facilitating the reporting of irregularities. ➢ The Investigating Committee has the power of subpoena, search, and seizure to facilitate speedier investigations. ➢ The limitation on maximum fines has been removed. The disciplinary process has been simplified to facilitate a speedier response to auditors who have been referred for a hearing.
Governing Body and Composition	The Auditing Professions Act requires that the Board consists of not less than six but not more than 10 members who are appointed by the Minister of Finance. The Board comprises of six independent members who have been appointed by the Minister. The Board has no auditors in public practice but has one registered auditor as is required by the Act.

Key elements	Brief description
Eligibility criteria and requirements for Board's members	The Board may not in its membership have more that 40% members who are registered auditors in public practice. The Minister is required to appoint competent persons, who must include registered auditors, to effectively manage and guide the activities of the IRBA. A Board member may not serve more than two consecutive terms. Before the Minister makes the appointment of a new Board member, the IRBA must, by notice in the *Official Gazette* and in any national newspaper invite nominations from members of the public. The membership of a Board member ceases if she or he has, without the leave of the Board, been absent for more than two consecutive meetings. The legislative amendments mentioned above aim to strengthen the independence of the IRBA's governing structure. Currently, to ensure the IRBA remains independent, the Board adopted a protocol to ensure all current Board members are independent from the auditing profession and there are no auditors in public practice serving on the Board.
Funding Arrangements	The IRBA is funded by: ➢ the collection of prescribed fees and levies from registered auditors and firms; ➢ funds which may accrue to the Regulatory Board from any other legal source, including sanctions imposed by the Regulatory Board; ➢ funds appropriated for that purpose by Parliament through the National Treasury. The budget is approved by the Board and tabled in parliament. The IRBA reports annually to the Minister of Finance, who then tables the report in Parliament. The auditors are required to pay annual fees as a license to operate and practice as auditors. Secondly, audit firms are required to pay an annual assurance fee to operate. Failure to pay annual fees will result in a license to practice as an auditor being revoked by the regulator. The auditors do not influence how they should be regulated as they are not part of the governing structure. The IRBA is also partly funded by the government.
Inspection System	Inspections are performed by the IRBA Inspections Department, in terms of section 47 of the Auditing Professions Act. The risk-based approach focuses the IRBA's attention on audit firms and auditors who perform statutory assurance work, and the IRBA allocates its resources accordingly over a three-year cycle. The IRBA adopted the IFIAR Core Principles for Inspections. All firms that audit public companies are inspected at least once in a three year cycle. The purpose of the risk-based inspections approach is to ensure that firms performing high-risk assurance engagements are analyzed, categorized, and selected for inspection at the appropriate frequency, based on inherent and identified risk factors. Firms providing assurance services are classified into categories based on their size (per annual assurance fees declared); the number of registered auditors performing assurance engagements; and the nature/type of assurance engagements. This is done to stratify the population and help determine the nature and extent of both firm level and engagement level inspections to be performed. The Inspections Department focuses on high-risk assurance engagements. For compliance monitoring purposes, the department inspects entities that require mandatory/statutory audits and prioritizes the inspection of PIEs, as defined in the IRBA Code of Professional Conduct. There is also an Inspection Committee which consists of a maximum of eight suitably qualified and experienced members who are not directly or indirectly involved in public practice and are not members of the IRBA's Investigating Committee, Disciplinary Advisory

Key elements	Brief description
	Committee, or Disciplinary Committee. The Inspection Committee meets at least four times in a calendar year, and these meetings are closed to the public and registered auditors, without exception, due to confidentiality requirements. The function of the Inspection Committee is to independently participate in the inspections process by: ➢ Monitoring the progress of the inspections cycle; ➢ Considering whether the inspection reports and recommendations are consistent and of an appropriate quality (on an anonymous basis); ➢ Considering the recommendations made by the IRBA's inspectors and determining the outcome of inspections; and ➢ Providing guidance to and advising the Inspections Department on its strategy, challenges and contentious matters. Formal Inspections reports are tabled quarterly, on an anonymous basis, before the Inspection Committee. The Committee is responsible for determining the final outcome of the inspection and, in particular, whether any further action is required (including for example follow-up, specific conditions, or an investigation). The inspections process is also regularly updated in response to changes in the environment, and these may include new international standards of accounting and auditing, changes in relevant legislation, as well as trends identified in the political and economic landscape.
Data on Audit and Financial Market	Number of audit firms subject to inspections – approx. 1,576 Number of auditors subject to inspection – approx. 2,844
Website	https://www.irba.co.za/

Key elements	Brief description
Jurisdiction	INDONESIA
Name	**Finance Professions Supervisory Center (PPPK)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **50**/141 Strength of auditing and accounting standards = **74**/141
Basis for establishment	PPPK was established in 2002 (based on Minister of Finance's Regulation No. 206/PMK.01/2014 concerning Ministry of Finance Organization and Working Procedures) under the Directorate for Supervision of Accountants and Appraiser Services. The authority for audit oversight and quality assurance, PPPK is also responsible for oversight of accounting service firms (regulated external accounting services) and the actuary profession. PPPK **is a special mission unit administratively under the Secretariat General of the Ministry of Finance** with its head being appointed by the Finance Minister.
Mission and Responsibilities	In Indonesia only licensed public accountants may offer auditing services to the general public through a public accountant firm. In other words, public accountants are Indonesia's statutory auditors. PPPK is the regulator of the accountancy profession whose primary authorities includes issuing public accountant and public accountant firm licenses, conducting regular and investigative inspection, and imposing sanctions. PPPK is authorized to inspect all public accountants and public accountant firms. Inspections include both administrative (e.g. fulfilment of licensing requirements, reporting obligations, etc.) and technical matters. Inspection of technical matters includes reviews of firms' quality control systems and assurance services (mainly audit engagements) and working papers. PPPK is fully independent from the profession and can employ experts from the profession for specific assignments. PPPK invites experts from the Indonesian Institute of Certified Public Accountants to express expert opinions on specific issues and it can also hire specialist expertise for specific assignments in specialized areas. According to Public Accounting Law, PPPK delegate audit and/or ethics standard setting and continuing professional development for public accountants and auditors to the Institute of Certified Public Accountants.
Governing Body and Composition	PPPK is a special mission unit administratively under the Secretariat General of the Ministry of Finance. The Head of PPPK is appointed by the Finance Minister.
Eligibility criteria and requirements for Board's members	PPPK employees (including the Head) are full-time Government Employees (Ministry of Finance employees) whose backgrounds are in accounting and auditing. Many PPPK staff have passed the Indonesian Certified Public Accountant Examination. It is PPPK's policy to maintain and improve its staff's competences and capacity through, among others, providing internal training as well as external continuing professional education.
Funding Arrangements	PPPK's funding is directly from the state budget and it therefore operates independently from the profession. However, this means that PPPK is subject to the same budget spending rules as all other public-sector institutions (for example, all the staff are civil servants and are subject to limitations on the pay scale and skills that can be employed, although the

Key elements	Brief description
	remuneration of Ministry of Finance staff is the highest among civil servants). PPPK's budget for quality assurance activities (excluding remuneration) is over IDR 2 billion (~USD 177,000). The audit market or audit profession does not contribute to the funding of PPPK's audit oversight activities, but Institute of Certified Public Accountants quality assurance is funded by the profession through membership fees and charges. It charges IDR 0.5 million for compulsory quality assurance inspection, while a voluntary inspection is charged at the rate of IDR 15 million per inspection.
Inspection System	PPPK conducts regular and investigative inspections to obtain reasonable confidence that auditors and audit firms are in compliance with relevant regulations as well as to maintain high standards of quality in performing their services to the public. The priority of the inspections are auditors of PIEs (listed companies and financial institutions) although PPPK also conducts inspection on other audit firms. There is no regulation regarding the frequency of inspections. However, in practice, they inspect Big-10 firms annually, second-tier firms biannually, and other firms at least once in four or five years. PPPK has adopted a risk-based approach to selecting audit firms and engagements for review. It is based on criterion including: the number of audit clients, types of audit clients (PIEs and regulated industries audits are inspected more often), results of previous inspections, and the need for follow-up on previous findings. PPPK has over one hundred employees; 13 out of 17 inspectors (76%) have certified public accountants certification, and continuously maintain and improve their competency; 10 of 13 these certified inspectors have experience working within an audit firm (this includes senior level experience in international network audit firms). The challenge for PPPK to employ staff with substantial practical audit experience is due to (i) limitations of the civil service pay scale, and (ii) the fact that initially only candidates under 35 years of age can be employed as civil servants. For specific industry-related issues or experience PPPK can employ or consult external experts as necessary. PPPK staff are recruited as part of the Ministry of Finance's general recruitment. Staff members are encouraged to attend continuing professional development training and to formally qualify as certified public accountants. Specific criteria exist for inspectors focused on their having an accounting and auditing background. The minimum requirements for an inspector include a bachelor's degree in accounting and 2 years of audit experience. In addition to PPPK, quality assurance activities are performed by the Indonesian Institute of Certified Public Accountants and the Indonesia Financial Services Authority's Capital Market Department. The Institute of Certified Public Accountants performs quality assurance activities in line with the IFAC statement of membership obligations (SMO 1), while the Financial Services Authority performs quality assurance inspections of auditors that audit listed entities and registered entities (such as securities companies, mutual funds, etc.).
Data on Audit and Financial Market	There are nearly 1,300 auditors (public accountants) in Indonesia serving the statutory audit market of over 27,000 entities. Auditors (public accountants) are either members of audit firms (over 1,100), or practice as sole practitioners (nearly 200). There are 465 audit firms registered (public accountant firms), including 401 local firms, and 64 foreign affiliated firms. An audit firm can be established as a civil partnership or a firm (the limited liability legal form is not permitted), and 2/3rds of partners should be auditors. In foreign affiliated audit firms, a maximum of 1/5th of partners can be foreign citizens.
Website	www.pppk.kemenkeu.go.id

Key elements	Brief description
Jurisdiction	POLAND
Name	**Polish Agency for Audit Oversight** (PANA)
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **37**/141 Strength of auditing and accounting standards = **70**/141
Basis for establishment	The PANA was established by the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11, 2017, as amended. **It is an independent public oversight body** and is composed of the President and the Council as two decision-making bodies.
Mission and Responsibilities	The PANA performs public oversight of statutory auditors, audit firms, and of the Polish Chamber of Statutory Auditors. Minor tasks related to the functioning of the public oversight system (mainly relating to the registration of statutory auditors and continuous professional education) have been delegated to the professional body, the Chamber of Statutory Auditors. The PANA has the right of approval of Chamber decisions on auditor's education. The ultimate responsibility for the system falls upon the PANA and the main tasks within the oversight system are executed by the PANA (these concern all audit firms: PIE audit firms and non-PIE audit firms): ➢ Registration of audit firms; ➢ Inspections of audit firms; ➢ Investigations of audit firms.
Governing Body and Composition	As defined in the Act, the PANA is a separate and independent structure with two decision-making bodies, the President and the Council. The President represents and manages the Agency. The President is assisted and substituted by the Vice-President. The Council is composed of the President, the Vice-President, and eight other Members. The President, the Vice-President, and Members of the Council are designated by the Minister of Finance for a four-year tenure. They might be dismissed only in cases specified in the Act. The Council consists of (10 Members in total): ➢ The President; ➢ The Vice-President; ➢ 2 representatives of the Minister of Finance; ➢ 2 representatives of the Financial Supervision Authority; ➢ 1 representative of the Chamber of Statutory Auditors; ➢ 1 representative of the Minister of Justice; ➢ 1 representative of employers' organizations; ➢ 1 representative of the Warsaw Stock Exchange.

Key elements	Brief description
Eligibility criteria and requirements for Board's members	The Chamber of Statutory Auditors makes a recommendation for its representative during the nomination procedure but they are appointed by the Minister of Finance. They are subject to the same legal independence requirements as the President, the Vice-President, and other Council Members under the Act. The President, the Vice-President, and other Members of the Council are appointed by the Minister of Finance. Appointees must, inter alia: ➢ enjoy full civil rights; ➢ have an impeccable opinion; ➢ have not been sentenced by legally valid verdict for intentionally committed crime or fiscal crime; ➢ have completed higher education; ➢ possess authority, knowledge, and experience at a significant level in relation to audit which provides a guarantee for the proper execution of tasks. As defined in the Act, the President, the Vice-President, and other Members of the Council have to be independent from the profession for at least 3 years before their appointment and throughout their term in office, i.e. they cannot: carry out audits and other assurance services, be associated directly or indirectly with an audit firm, or be a member of decision-making bodies of the professional body, i.e. the Chamber of Statutory Auditors. The Code of Administrative Procedure is applied to the proceedings before the bodies of the PANA. The Code contains specific safeguards to guarantee impartiality of decisions, for example a person is disqualified from participation in the decision in a case where they could have a personal interest in the outcome. ***Note:*** Under IFIAR's definition, the Council member who is a representative of the professional body is not considered as independent, however, as defined in the Act, all the Members of the Council are appointed by the Minister of Finance and PANA treats them as independent.
Funding Arrangements	The PANA is directly funded from fees paid by audit firms. It may also be funded from the state budget, if needed. Each year audit firms pay a fee calculated in relation to revenues from audit and other assurance services. The obligation to pay a fee is defined by the provisions of general law and as such is not influenced by the professional body or audit firms.
Inspection System	The PANA has its own inspection department with full-time inspectors. It directly oversees all audit firms, including PIE-audit firms, and carries out inspections in the scope of statutory audit for PIEs and non-PIEs. Inspections are carried out on the basis of risk analysis. For audit firms carrying out statutory audits of the big PIEs - at least every three years; and in other cases - at least every six years.
Data on Audit and Financial Market	As at 31 December 2018, there were 6,061 statutory auditors, including 3,044 practicing statutory auditors, 1,515 audit firms, including 74 audit firms auditing PIEs and there were 1,277 PIEs. Market share of the largest Polish audit firms - revenues from audits and other assurance services in PIEs and non-PIEs (in 2018): E&Y - 16,1%; PwC - 13,3%; KPMG - 13%; Deloitte - 11,3%.
Website	https://pana.gov.pl/

Key elements	Brief description
Jurisdiction	SINGAPORE
Name	**Accounting and Corporate Regulatory Authority (ACRA)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **1**/141 Strength of auditing and accounting standards = **3**/141
Basis for establishment	The ACRA is the national regulator of business entities, public accountants, and corporate service providers in Singapore. Established under the ACRA Act, it was formed on April 1, 2004, following the merger of the former Registry of Companies and Businesses and the Public Accountants' Board. **A committee comprising** ACRA Board Members called the **Public Accountants Oversight Committee** (PAOC) is appointed to assist the ACRA Board with matters relating to the regulation of public accountants.
Mission and Responsibilities	ACRA seeks to promote a trusted and vibrant business environment in Singapore. With regard to public accountancy sector, ACRA aims to: 1. Promote high regulatory compliance (to raise the bar for quality audits and financial reporting); 2. Build strong public confidence in audit and financial reporting; 3. Provide influential contributions to audit regulatory developments regionally and internationally. Besides administering audit inspections, PAOC statutory responsibilities in respect of audit oversight include: 1. Considering all applications for the registration of public accountants; 2. Determining, prescribing, and reviewing the requirements to be satisfied by people seeking to be registered as public accountants; 3. Approving accounting corporations, accounting firms, and accounting limited liability partnerships; 4. Administering the continuing professional education programs for public accountants; 5. Determining, prescribing, and reviewing the codes of professional conduct and ethics for public accountants and the standards, methods, and procedures to be applied by public accountants when providing public accountancy services; 6. Inquiring into any complaint, or information relating to any professional misconduct, against any public accountant, accounting corporation, accounting firm, or accounting limited liability partnership, and, if necessary, institute disciplinary proceedings in accordance with the Accountants Act; 7. Advising ACRA on any matter which relates to the profession of public accountancy. All public accountants and public accounting entities seeking to provide public accountancy services are required to register with ACRA. To register as a public accountant, an applicant has to satisfy prescribed requirements relating to qualifications, practical experience, continuing professional education, and membership of the Institute of Singapore Chartered Accountants. The general requirements for the setting up of public accounting entities in

Key elements	Brief description
	Singapore include: (i) One of the primary objects of the entity must be to provide public accountancy services; (ii) The business of the partnership/corporation so far as it relates to the supply of public accountancy in Singapore must be under the control and management of one or more partners/directors who are ordinarily resident in Singapore; (iii) At least two-thirds of the partners/directors must be public accountants (if the partnership/corporation has two partners/directors, then one of those partners/directors must be a public accountant). ACRA's PAOC approves the applications for registration of public accountants and public accounting entities.
Governing Body and Composition	The highest governing body of ACRA is the Board whose members are appointed by Singapore's Minister of Finance. The Board comprises individuals from the business, investment, and regulation communities as well as the legal and audit profession. The Board comprises 16 members, including 2 audit practitioners and 14 non-audit practitioners. The PAOC is appointed to assist the ACRA Board with matters relating to the regulation of public accountants. The PAOC is responsible for registering, monitoring, and disciplining public accountants and their public accounting entities, as well as prescribing the code of ethics, professional conduct, and other standards applied by public accountants when providing public accountancy services (public accountancy services means the audit and reporting on financial statements and the doing of such other acts that are required by any written law to be done by a public accountant). The Committee comprises 7 members, including 2 audit practitioners and 5 non-audit practitioners. The majority of the ACRA Board and the PAOC are made up of non-practitioners, and hence ACRA's governing body and its committee overseeing audit regulation in Singapore are independent of the audit profession.
Eligibility criteria and requirements for Board's members	The Accountants Act provides that at least one member of the PAOC shall be a public accountant. ACRA ensures the PAOC's independence from the audit profession by ensuring that the majority of the PAOC comprise non-audit practitioners. The Chairman of the PAOC is also independent from the audit profession and is not a public accountant. As a general principle, ACRA Board members are required to declare all interests such as directorships and external committee appointments upon their appointments by ACRA and from time to time (arising from changes in appointments). They will also be recused from meetings / agenda items which they are deemed to be a conflict of interest. At the PAOC (the deciding authority on audit regulatory and oversight matters), the Accountants Act provides that at least one member of the PAOC shall be a public accountant. Independence is safeguarded with ACRA ensuring that the majority of the PAOC comprises non-practitioners. Further, the Chairman of the PAOC is independent from the profession and is not a public accountant. In the case of an equality of votes, the Chairman of the PAOC shall have a casting vote. PAOC members who are audit practitioners or former audit practitioners are recused from meetings / agenda items in which they are deemed to have an interest in (e.g. deliberation of audit inspections of their own / previous firms).
Funding Arrangements	ACRA is a statutory body established by Act of Parliament. The composition of funds and property of ACRA is set out in section 13 of the ACRA Act. In practice, ACRA is self-funding. Its main sources of income are from statutory fees payable for acts administered by ACRA (e.g. company, business, public accountant, and corporate service provider registration and related fees) and fees from the provision of information services related to such entities.

Key elements	Brief description
	On the setting and approval of budget, ACRA's finance department first seek inputs from the various departments. Following which, the finance department seek ACRA Board approval for the overall budget. Once approved, ACRA's parent ministry (Singapore's Ministry of Finance) will be informed of this budget, which will be gazetted as a public announcement. ACRA receives fees from the registration of public accountants and public accounting entities, renewal of public accountants' license, and audit inspections but these do not form a significant portion of ACRA's funding. Hence, ACRA's funding is not reliant on and cannot be reasonably influenced by the audit profession.
Inspection System	Public accounting entities with a client portfolio of more than 10% share of the market capitalization of listed entities in Singapore will be inspected annually. These are typically the Big Four audit firms. Other public accounting entities that audit listed entities will typically be inspected once every three years, unless a previous inspection result had not been satisfactory in which case, the following inspection may be brought forward. ACRA inspects public accountants in accounting entities that audit listed companies and other public interest entities (PIEs). It reviews the firm's quality control policies against the Singapore Standard on Quality Control 1 and recommends improvements where appropriate. The inspection of public accountants in the non-listed segment is performed by inspectors who are employed by the Institute of Singapore Chartered Accountants, under the oversight of ACRA. PAOC approves the appointment of these inspectors and decides on the outcomes of inspections in this segment. Hence, the same benchmark of compliance with the auditing standards is maintained across all inspections. A Practice Monitoring Sub-Committee, which comprises audit practitioners and lay members, assists the PAOC in reviewing inspection reports submitted by the inspectors. The Sub-Committee deliberates the inspection findings and provides recommended outcomes to the PAOC. The final decision authority on the inspection outcomes and sanctions lie with the PAOC.
Data on Audit and Financial Market	Number of registered public accounting entities and public accountants (as at 31 March 2019): (i) firms that audit listed entities: 16 public accounting entities (352 public accountants); (ii) firms that audit non-listed entities: 705 public accounting entities (770 public accountants).The Big Four audit firms collectively audit approximately 58% of the 741 entities listed on the Singapore Exchange as at 31 December 2018.
Website	https://www.acra.gov.sg/

Key elements	Brief description
Jurisdiction	SLOVENIA
Name	**Agency for Public Oversight of Auditing (APOA)**
IFIAR membership	YES
Global Competitiveness Index (2019)	Global Competitiveness Index = **35**/141 Strength of auditing and accounting standards = **57**/141
Basis for establishment	The **APOA is an independent body established** in 2008 under the Auditing Act (ZRev-2), regulating the audit profession in Slovenia. The APOA is directly responsible for the public oversight of the audit profession and audit regulation as well as appraisal profession and regulation in Slovenia.
Mission and Responsibilities	According to the Auditing Act, the APOA is responsible for: 1. the adoption of auditing rules (e. g. auditing standards, ethical professional standards, audit quality control standards); 2. providing training for obtaining the professional title of certified auditor and continuing education of certified auditors; 3. registration and licensing of statutory auditors and audit firms; 4. inspections and enforcement procedures against audit firms, statutory auditors and appraisals
Governing Body and Composition	Nine members of the Council are appointed by the Government of the Republic of Slovenia and subject to the same legal requirements for independence, which require that members have not performed statutory audits, have not hold voting rights in the audit firm, were not a member of the administrative or management body of the audit firm, and were not employed or otherwise associated with the audit firm for at least three years before the appointment.
Eligibility criteria and requirements for Board's members	A person with the title of independent expert who possesses appropriate knowledge related to auditing may be appointed Director of the APOA and a member of the Expert Council. The person must also: ➢ have completed at least a second level economic or law study program pursuant to the law governing higher education or have an education in the field of economics or law that is at least equivalent to this level; ➢ have worked on the theoretical or practical fields of accounting, auditing, finance, or law for at least eight years; ➢ not be employed at the professional body and not be a member of any bodies of the professional body; ➢ for at least three years prior to appointment, not have carried out statutory audits, not held voting rights in an audit company, not been a member of the management board or management body of an audit company, and not have been employed at an audit company or otherwise associated with one; ➢ not have been convicted of a crime against property or an economic crime not yet been expunged from the record. Holding office as the APOA Director or a member of the Expert Council is incompatible: ➢ with membership of the management or supervisory bodies of a bank, insurance company, stock brokerage company, management company, or all other companies subject to statutory audits; ➢ with a function in the bodies of political parties, state bodies, and local authorities;

Key elements	Brief description
	➢ with the performance of profitable activities, if such an activity is or could be incompatible with carrying out the independent public oversight of auditing or interests of the APOA. ***Note:*** Under IFIAR's definition, the Council member who is a representative of the professional body is not considered as independent, however by virtue of the Slovenian Auditing Act, all the Members of the Council are appointed by the Government of the Republic of Slovenia and treated as independent by the APOA.
Funding Arrangements	Funding for carrying out the APOA's tasks is provided from the state budget and from audit firms for APOA's supervisory activities (approximately 50% each). The Ministry of Finance prepares the APOA budget based on planned labor costs and costs of services/material. APOA's employees are civil servants and salaries are determined by the law. Audit firms pay a fee on an annual basis in accordance with the fee schedule, 0,9% of their annual income.
Inspection System	The APOA is responsible for carrying out inspections of all audit firms and statutory auditors in Slovenia (from the beginning of 2019, the professional body does not perform inspections of audit firms according to the new Auditing Act). The regular supervision cycle is three years for audit firms carrying out statutory audits of PIEs and six years for all other audit firms. In case of detected increased risks inspections are performed more frequently. The Agency itself is divided into 3 departments, one of them is the inspections department, with an inspection team of 4 inspectors performing inspections full time. The Deputy Director is the head of the inspection team.
Data on Audit and Financial Market	As of December 31, 2019, there were 48 audit firms and 9 PIE audit firms. The number of other statutory audits of individual financial statements was 1,600. The definition of PIE was extended from 2020 to include also entities that are minimum 50% owned by the state and community (directly and indirectly) and pension funds. The Big Four share in 2018 was 64 % (PWC 13 %, Deloitte 17 %, EY 20 %, KPMG 15 %).
Website	http://www.anr.si/

Key elements	Brief description
Jurisdiction	UNITED KINGDOM
Name	**Financial Reporting Council (FRC)**
IFIAR membership	YES
Global Competitiveness Index	Global Competitiveness Index = **9**/141 Strength of auditing and accounting standards = **31**/141
Basis for establishment	The FRC was designated the competent authority for audit regulation in the UK on 17 June 2016 by the Statutory Audit and Third Country Auditor Regulations. The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality. The FRC reports annually on the results of this work in a report to the Secretary of State for Business, Energy & Industrial Strategy.
Mission and Responsibilities	As the Competent Authority for audit regulation in the UK, the FRC regularly monitors the developments in the market for providing statutory audit services to PIEs. The FRC's statutory responsibilities for oversight of the regulation of statutory auditors are discharged by: ➢ recognizing professional bodies to act as recognized supervisory bodies and/or to offer a recognized professional qualification for statutory auditors; ➢ assessing periodically that each recognized supervisory body carries out the key regulatory tasks delegated to it by the FRC as Competent Authority in accordance with the requirements of the delegation agreement. These functions relate to registration/authorization of statutory auditors and audit firms, audit monitoring, complaints and discipline, and professional development; ➢ assessing periodically that the recognized supervisory bodies continue to meet the requirements for recognition in the Companies Act 2006 as amended, carrying out of functions not delegated to the recognized supervisory bodies such as independent monitoring of audits of PIEs and independent investigation and disciplinary arrangements for public interest cases; ➢ assessing periodically that the qualifications offered by a recognized qualifying body continue to meet the requirements of the Companies Act 2006; ➢ carrying out specific reviews of aspects of audit regulation. The FRC has the following statutory powers in relation to the oversight of audit regulation: ➢ to recognize and derecognize supervisory bodies and qualifying bodies; ➢ to require information from recognized supervisory bodies and recognized qualifying body; ➢ to assess whether recognized supervisory bodies continue to meet the conditions of the delegation agreements; ➢ to serve an enforcement order on a recognized supervisory body or recognized qualifying body that is failing to meet its statutory responsibilities; ➢ to impose a financial penalty on a recognized supervisory body or recognized qualifying body that fails to meet its statutory responsibilities.

Key elements	Brief description
Governing Body and Composition	The governance of the FRC is being streamlined in accordance with the Kingman Review recommendations. In the first half of 2020, FRC will implement a two-tiered governance system, removing entirely the existing third tier and moving to more executive led decision making where appropriate. The number of Board members is being reduced and refreshed through natural changes in rotation, producing leaner decision making and oversight arrangements. FRC will enhance stakeholder's management capability during the year to ensure that it takes account of a wide range of views on FRC's work, including the development of codes and standards, best practice, and innovation. FRC will continue to ensure there is appropriate consultation on its work to feed into the new governance arrangements. The Board of the Financial Reporting Council is made up of non-executive and executive directors and is collectively responsible for the long-term success of the FRC. Currently, the FRC Board comprises the Chairman, the Deputy Chairman, the Chief Executive, the Chair of the Codes and Standards Committee, the Chair of the Conduct Committee, and other non-executive directors (including the Chairs of the Corporate Reporting and Actuarial Councils). The Chairman and Deputy Chairman are appointed by the Secretary of State for Business, Energy & Industrial Strategy. The FRC Board is supported by three governance committees - the Audit, Nominations and Remuneration Committees – and two regulatory committees - the Codes and Standards Committee and the Conduct Committee.
Eligibility criteria and requirements for Board's members	Non-executive board members are subject to the obligations set out in the Articles and to any code of conduct adopted by the Board and as amended from time to time. Members should discharge their responsibilities in the public interest and with integrity, objectivity, and independence. They must notify the FRC if they are subject of a disciplinary sanction by any professional or other body or tribunal if found guilty of an offence by any court, declared bankrupt, enter into an arrangement with creditors, or are disqualified from acting as a Member. It is accepted and acknowledged that non-executive board members may have business interests other than those of the FRC. Any potential conflicts between own interests and the interests of the FRC should be declared to the Chairman of the Board and the FRC's Company Secretary on appointment. In the event that a member becomes aware of any additional potential conflicts of interest, the member should refer to the obligations detailed in the code of conduct and disclose the potential conflict to the Chairman or Company Secretary as soon as they become apparent. If, during a term a non-executive board member considers accepting an appointment to any public company, other public interest entities or a high-profile position, they should follow the process set out in the FRC's code of conduct. Should a non-executive board member be offered any additional outside commitment, the Chairman and the Nominations Committee should be notified as soon as possible and before the commitment is accepted. If, during the period of appointment, the member's circumstances were to change in a way that suggested it was no longer appropriate to continue with their role at the FRC, the Chairman is asked to review the position.
Funding Arrangements	The FRC is funded by the audit profession, who are required to contribute under the provisions of the Companies Act 2006 and, with the agreement with HM Government, by other groups subject to, having regard to, or benefiting from FRC regulation.

Key elements	Brief description
	The audit and accountancy profession's contributions are paid by the members of the Consultative Committee of Accountancy Bodies[21] and by the Chartered Institute of Management Accountants (which contributes to the FRC's funding requirement under the terms of a separate agreement with the FRC). The activities of the FRC's Audit Quality Review team are also funded through the National Audit Office and fees levied on recognized auditors registered in the Crown Dependencies.
Inspection System	An audit quality review team monitors the quality of the audit work of statutory auditors and audit firms in the UK that audit PIEs and certain other entities within the scope retained by the FRC (these are currently large AIM/ Lloyd's Syndicates/Listed Non-EEA). Monitoring of all other statutory audits is delegated by the FRC to Recognized Supervisory Bodies under a series of Delegation Agreements. The overall objective of audit quality review work is to monitor and promote continuous improvements in audit quality in the UK. All UK audit firms that undertake PIE and large Alternative Investment Market/Lloyd's Syndicate/Listed Non- European Economic Area audits are subject to audit quality review inspections in respect of this audit work. The frequency of audit quality review inspections varies, with larger firms inspected annually while other firms are generally inspected once every three years. In certain cases, the inspection cycle can be extended to six years. Audit quality review also inspects audits of entities incorporated in Jersey, Guernsey, or the Isle of Man whose securities are traded on a regulated market in the European Economic Area (this is not done in its capacity as UK competent authority, but rather by private, contractual arrangements with the relevant regulatory authorities in the Crown Dependencies). Audit quality review's activity comprises inspections of a sample of audits and related procedures supporting audit quality (firm-wide procedures) at individual audit firms. In addition, audit quality review periodically undertakes thematic inspections which focus on particular aspects of audit across a sample of audits and firms. In selecting individual audits to inspect, account is taken of a number of factors including the assessed risk in relation to the entity and particular priority sectors they wish to focus on. In respect of the FTSE 350, the Competition and Markets Authority has recommended that audit quality review inspects audit engagements on average every five years, with each individual engagement inspected at least every seven years. Reviews of individual audits focus on the appropriateness of key audit judgments made in reaching the audit opinion and the sufficiency and appropriateness of the audit evidence obtained. Reviews of firm-wide procedures are wide-ranging in nature and include an assessment of how the culture within firms impacts on audit quality. Audit quality review identifies areas where improvements are required to safeguard or enhance audit quality and/or comply with regulatory requirements and seeks to agree an action plan with each firm inspected to achieve the improvements needed. The adequacy of the progress made by the firm in addressing our findings is assessed periodically.
Data on Audit and Financial Market	As of June 30, 2017, there were 23,026 registered auditors.

[21] Association of Chartered Certified Accountants, Chartered Institute of Public Finance and Accountancy, Institute of Chartered Accountants in England and Wales, Chartered Accountants Ireland, Institute of Chartered Accountants of Scotland

Key elements	Brief description
	UK listed companies (main and alternative investment market) total market capitalization as of May 31 2017 is £4,2tr.
Website	https://www.frc.org.uk/

Key elements	Brief description
Jurisdiction	UNITED STATES OF AMERICA
Name	**Public Company Accounting Oversight Board (PCAOB)**
IFIAR membership	YES
Global Competitiveness Index	Global Competitiveness Index = **2**/141 Strength of auditing and accounting standards = **17**/141
Basis for establishment	The PCAOB was created by the Sarbanes-Oxley Act of 2002, as amended. Section 101(a) of the Act states that the PCAOB is established "to oversee the audit of companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports." Consequently, the PCAOB **oversees the audits of public companies and Securities and Exchange Commission-registered brokers and dealers** (broker-dealers); **in order to protect investors** and further the public interest in the preparation of informative, accurate, and independent audit reports.
Mission and Responsibilities	The PCAOB has four primary responsibilities: 1. Registration of accounting firms that audit issuers (essentially, public companies that have certain U.S. reporting obligations under the Securities and Exchange Act of 1934), or broker-dealers; 2. Inspection of registered accounting firms; 3. Establishment of standards for auditing, quality control, ethics, and independence, as well as attestation, relating to audits of issuers and broker-dealers; and 4. Investigation and discipline of registered accounting firms and their associated persons for violations of law, rules, or professional standards relating to audits of issuers or broker-dealers. The Securities and Exchange Commission has oversight authority over the PCAOB, including the approval of the Board's rules, standards, and budget.
Governing Body and Composition	The five members of the PCAOB Board, including the chairman are independent of the profession.
Eligibility criteria and requirements for Board's members	Pursuant to Section 101 of the Sarbanes-Oxley Act, the members of the Board, including a Chairman, are appointed by the Securities and Exchange Commission after consultation with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the U.S. Department of Treasury. The PCAOB Chairman cannot have been a practicing certified public accountant for at least five years prior to appointment to the Board. The Act provides that the Board shall have five members and that two, and only two, members shall be or have been certified public accountants. The Act provides that a vacancy does not affect the powers of the Board. The Act also requires that all members of the Board serve on a full-time basis, and may not, concurrent with service on the Board, be employed by any other person or engage in any other professional or business activity. The Board's ethics code provides that, for a period of 12 months from the date of appointment, a Board member may not participate in the making of any decision which is

Key elements	Brief description
	reasonably likely to have a material effect, direct or indirect, on the Board member's former employer, business partner, or client. This rule applies to the Board member's employers, business partners, and clients during the five years preceding the Board member's appointment. In addition to this "cooling off" period, the Ethics Code provides that the Board member shall recuse himself or herself from any Board function or activities if a Board member becomes, or reasonably should become, aware of facts that would lead a reasonable person to believe that he or she, or his or her spouse, spousal equivalent, or dependents, may have a financial or personal interest which might reasonably create the appearance of affecting his or her independence or objectivity with respect to the Board's function or activities. Board members shall be restricted from practice before the Board, and the Commission with respect to Board-related matters, for one year following termination of Board membership. In addition, former Board members shall not practice before the Board, or the Commission with respect to Board-related matters, on a particular matter in which the Board member participated personally and substantially as a Board member. The chairperson may not have been a practicing certified public accountant for at least five years prior to his or her appointment to the Board. Information on Board members is available on the PCAOB corporate webpage.
Funding Arrangements	Section 109 of the Act provides that funds to cover the Board's annual budget (less registration fees and annual fees paid by public accounting firms as mentioned below) are to be collected from issuers and broker-dealers. The amount due from such companies is referred to in the Act as the Board's accounting support fee. Once each year, the Board compute the aggregate amount of such fees that will be assessed to issuers and broker-dealers based on the Board's budget for that year, as approved by the Securities and Exchange Commission. Failure to pay constitutes a violation of the Securities Exchange Act of 1934, as amended, and the Board refers such failures to the Securities and Exchange Commission. In addition to the accounting support fees, fees are also collected from public accounting firms to cover the costs of processing and reviewing registration applications, and for the costs of processing and reviewing periodic reports that firms are required to submit.
Inspection System	The PCAOB inspects registered public accounting firms to assess compliance with the Sarbanes-Oxley Act, the rules of the Board, the rules of the Securities and Exchange Commission, and professional standards, in connection with the firm's performance of audits, issuance of audit reports, and related matters involving U.S. public companies, other issuers, brokers and dealers. The PCAOB's inspection authority encompasses only matters related to audits of issuers or audits of broker-dealers. The Act requires the Board to conduct inspections annually for registered firms that provide audit reports for more than 100 issuers and at least triennially for registered firms that regularly provide audit reports for 100 or fewer issuers. Board rules also require the Board to inspect, in each year, at least five percent of registered firms that play a substantial role in the audits of issuers but do not issue audit reports for issuers. The Act authorizes the Board to conduct inspections of broker-dealers' auditors. The Board currently conducts such inspections pursuant to Board rules governing an interim program

Key elements	Brief description
	of such inspections. The interim program does not include an inspection frequency requirement.
Data on Audit and Financial Market	As of January 30, 2020, there were 1,789 firms registered with the PCAOB, including 926 domestic firms and 863 non-U.S. firms located in 86 countries. There are 11 firms that are inspected annually. Since it began inspecting audit firms in non-U.S. jurisdictions in 2005, the PCAOB has conducted inspections in 51 non-U.S. jurisdictions, including joint inspections with audit regulators in 22 non-U.S. jurisdictions.

Fiscal Year 2018 Opinions and Audit Fees by Firms Headquartered in the U.S. (Excludes Mutual Funds and Trusts)

	% Share of:		
Audit Firms	**Audit Opinions Issued (approx. 6,350 opinions)**	**Market Capitalization (approx. $27.5 trillion)**	**Audit Fees (approx. $11.6 billion)**
Deloitte & Touche LLP	14%	21%	22%
Ernst & Young LLP	16%	35%	25%
KPMG LLP	11%	15%	17%
PricewaterhouseCoopers LLP	12%	26%	29%
BDO USA, LLP	4%	0%	2%
Grant Thornton LLP	5%	1%	2%
GPPC[22] Firms	60%	99%	96%
Non-GPPC Firms	40%	1%	4%
Total	**100%**	**100%**	**100%**

Website	https://pcaobus.org/

[22] Global Public Policy Committee

ANNEX B: IFIAR Core Principles of public oversight systems

According to IFIAR's membership criteria, public oversight systems should be:

- Independent of the audit profession, which means that a majority of the relevant governing body should be non-practitioners and funding should be free of undue influence by the profession[23]; and
- Engaged in audit regulatory functions in the public interest and responsible for the system of recurring inspection of audit firms undertaking audits of public interest entities, exercising that responsibility either directly or through oversight of inspections undertaken by professional bodies.

IFIAR further specifies 11 core principles of public oversight systems arranged around three themes:

The structure of audit oversight:

1. Principle 1: The responsibilities and powers of audit regulators should serve the public interest and be clearly and objectively stated in legislation.
2. Principle 2: Audit regulators should be operationally independent.
3. Principle 3: Audit regulators should be transparent and accountable.

The operations of audit oversight:

4. Principle 4: Audit regulators should have comprehensive enforcement powers which include the capability to ensure that their inspection findings or recommendations are appropriately addressed; these enforcement powers should include the ability to impose a range of sanctions including, for example, fines and the removal of an audit license and/or registration.
5. Principle 5: Audit regulators should ensure that their staff is independent from the profession and should have sufficient staff of appropriate competence.
6. Principle 6: Audit regulators should be objective, free from conflicts of interest, and maintain appropriate confidentiality arrangements.
7. Principle 7: Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other third parties.

Audit inspection principles:

8. Principle 8: Audit regulators should as a minimum, conduct recurring inspections of audit firms undertaking audits of PIEs in order to assess compliance with applicable professional standards, independence requirements and other laws, rules and regulations.
9. Principle 9: Audit regulators should ensure that a risk-based inspections program is in place.
10. Principle 10: Audit regulators should ensure that inspections include effective procedures for both firm wide and file reviews.
11. Principle 11: Audit regulators should have a mechanism for reporting inspections findings to the audit firm and ensuring remediation of findings with the audit firm.

[23] Profession includes, for example, audit firms, professional bodies and bodies or entities associated with the profession.

ANNEX C: Audit oversight activities and allocation of responsibility

Good international practice	PAC/KZ (according with the recent amendments)	MOF	PAO/KZ	Comments
The competent authority shall have the ultimate responsibility for the oversight of:	Article 13-1. Professional Board	Article 7. Competence of the authorized body	Article 11. Rights and duties of professional auditing organizations	
The approval and registration of statutory auditors and audit firms.	5) Agree on the aspiring auditor certification program. 10. Quality Control Committee, Qualification Commission, and Executive Collegiate Body shall be the executive bodies of the professional board. Article 14. Qualification Commission 1. The Qualification Commission shall comprise a representative from the authorized body and an equal number of representatives from professional bodies so that the Qualification Commission comprises an odd number of members.	1-1) Maintain the auditor registry. 1-2) Develop and approve minimum requirements for auditing entities engaged in statutory audits, as agreed on by the authorized financial market and financial institutions regulatory, control, and supervisory body. 4) Develop qualification requirements for licensing audit activities. 5) License audit activities and maintain the auditing entities' registry. 6) Publish information about issued, suspended, revoked, or terminated audit licenses in mass media in Kazakh and Russian. 7) Approve the aspiring auditor certification procedure. 8) Approve the Qualification Commission establishment and operational rules.		Responsibility for the approval and registration of statutory auditors and audit firms is envisaged to be split between PAC/KZ and Ministry of Finance. Their exact roles and ultimate responsibility for the different elements (e.g. examination, registration of auditors, licensing of audit firms, evaluation of practical experience) should be clearly described in a bylaw/regulation.

Good international practice	PAC/KZ (according with the recent amendments)	MOF	PAO/KZ	Comments
The adoption of standards on professional ethics, internal quality control of audit firms, and auditing.		9) Create environment for auditing standards dissemination.		PAC/KZ does not have either a direct or oversight role over adoption of the standards and codes.
Continuing education.		9-3) Develop and approve (i) auditor continuing professional development rules and (ii) the procedure to obtain the auditor continuing professional development course certificate, and what form this takes.	1. Professional auditing organizations are obliged to: 5-1) ensure completion of auditor continuing professional development courses and, once completed, issue course completion certificates as provided for by the authorized body.	PAC/KZ has no direct or oversight role of continuing professional education. If this function is delegated to PAOs/KZ, the public oversight regulator should have at least an indirect oversight role and there should be some reporting line from PAOs/KZ to PAC/KZ on this task.
Quality assurance systems.	6) Approve requirements for entities subject to external quality control by the professional council. 7) Agree on the external quality control procedure for auditing entities. 9) Coordination of the results of external quality control over the entities subject to external quality control by the professional council. 13) Review and coordinate the findings of control exercised through inspection of	9-2) Develop and approve model rules for external quality control over audit firms, including inspection criteria for audit firms and professional auditing organizations;	1. Professional auditing organizations are obliged to: 1-1) exercise external quality control over audit firms not subject to external quality control by the professional board in compliance with this Law.	While the quality assurance inspection of the selected public interest entities audits (as defined by the amendments to Auditing Law) is the key function of the PAC/KZ the ultimate responsibility should be clearly articulated in a bylaw, as all key stakeholders are involved in this process with

Good international practice	PAC/KZ (according with the recent amendments)	MOF	PAO/KZ	Comments
	auditing entities and professional bodies for compliance with the external quality control procedure for auditing entities, provided there are no objections and/or there is a decision issued by the appeals commission. Article 13-2 2. Exclusive competence of the quality control committee shall include: 1) Exercising control through inspection of entities subject to external quality control by the professional board for compliance with the requirements to the entities subject to external quality control by the professional council as approved by the board. 2) Exercising external quality control over the entities subject to external quality control by the professional council. 3) Submitting to the board for approval findings of the external quality control of the entities subject to external quality control by the professional council. 4) Developing and approving, as agreed on by the board, the procedure for external quality control over auditing entities in compliance with the model rules for external quality control over auditing entities, including inspection criteria for auditing entities and professional bodies as approved by the authorized body.			various roles. PAC/KZ needs to have a role over monitoring quality assurance inspections, performed by PAOs/KZ and there should be a reporting line from PAOs/KZ on this task.

Good international practice	PAC/KZ (according with the recent amendments)	MOF	PAO/KZ	Comments
	5) Posting the findings of the external quality control over the entities subject to external quality control by the professional council on the website. 6) Engaging with the Prosecutor's Office and criminal prosecution authorities when exercising external quality control over auditing entities. 7) Filing with the board an application for expulsion of an auditing entity from a professional body. 8) Exercising control through inspection of auditing entities and professional bodies for compliance with the procedure for external quality control over auditing entities, except as provided for in subparagraph 1) hereof.			
Investigative and administrative disciplinary systems.	9) Reviewing and providing recommendations regarding the application for expulsion of an auditing entity from a professional body filed by the quality control committee. 10) Reviewing requests regarding professional bodies, auditing entities, and auditors. 12) Approving the operational rules for the professional council appeals commission.	6) Publish information about issued, suspended, revoked, or terminated audit licenses in mass media in Kazakh and Russian.		The responsibilities are split between PAC/KZ and the Ministry of Finance. The bylaw/regulation should be developed in such a way to ensure that there is an effective system of investigations and sanctions in place to detect, correct, and prevent inadequate execution of the statutory audit.

ANNEX D: Proposed qualification and eligibility requirements for the Board Members of PAC/KZ

Article 13-1. Professional Board

5. The Board shall comprise representatives from:

1) Professional auditing organizations, their numbers being equal;
2) Authorized body (head or their deputy who is the management board chair) — regarding matters related to the state regulation of auditing;
3) Kazakhstan Stock Exchange Joint-Stock Company — regarding audit-related matters;
4) Astana International Financial Centre;
5) Universities and/or research institutions; and
6) Independent director who holds an auditor qualification certificate and/or an international auditing certificate recognized by the International Federation of Accountants.

6. Board membership shall be an odd number with that of professional auditing organizations' representatives accounting for 1/3 of the total board membership.

Proposed eligibility criteria and qualification requirements:

1. Board members should be subject to a X-year cooling-off period (good practice suggests a 3-year period) prior to appointment from having conducted any statutory audit activities, or having held any voting rights, or having taken part in the administrative or supervisory body or having been employed by an audit firm.

2. In addition to the "cooling off" period, or where this requirement cannot be applied to all Board members (e.g. representative of the authorized body (Article 13-1(5)(2) or where the final decision will be to accept 1-2 practicing auditors, or where each PAO/KZ will be represented by a practicing auditor on the Board), the Board member shall be required to recuse themselves from any Board function or activities if a Board member becomes, or reasonably should become, aware of facts that would lead a reasonable person to believe that he or she, or his or her spouse/partner, or dependents, may have a financial or personal interest which might reasonably create the appearance of affecting his or her independence or objectivity with respect to the Board's function or activities.

   Note: If national legislation provides that in the case of an equality of votes, the Chairman of the Board (person mentioned in Article 13-1(5)(2)) shall have a casting vote, his/her independence from the profession is very important.

3. During the period of appointment Board members may not be responsible for conducting statutory audits, may not be solely or jointly responsible for the day-to-day management of an audit firm, may not be a voting member of the board of an audit firm, and may not be employed in key managerial or professional positions of a professional auditing organization.

4. In addition, Board membership should be incompatible with the function of member of the management or supervisory bodies of PIEs, as defined by national legislation, with a function in the bodies of political parties.

5. Board Members should be knowledgeable in areas relevant for statutory audits, i.e. accounting, auditing, finance, tax, or law, etc. and have minimum 7-10 years of practical experience in such areas.

6. The representatives of universities/scientific organizations should be specialized in legal, economic, or financial matters and hold a PhD diploma.

7. The proposed Board Members should, inter alia:
   - enjoy full civil rights;
   - have an impeccable reputation;
   - not have been sentenced by legally valid verdict for intentionally committed crime against property, or fiscal or economic crime that has not yet been expunged from the record;
   - have completed higher education in the field of economics, finance, legal, tax, or other relevant field;
   - possess authority, knowledge, and experience at a significant level in relation to audit which provides a guarantee for the proper execution of tasks;
   - possess Kazakh and Russian languages and, ideally, English language.

8. A Board member may not serve more than two consecutive terms.

ANNEX E: Audits subject to quality assurance review by PAC/KZ, compared to PIEs audits and statutory audits

Public interest entities [24] (Accounting and Financial Reporting Law of the Republic of Kazakhstan No. 234 of 28 February 2007)[25]	Law on auditing activity — **Entities subject to external quality control by the PAC/KZ** (auditing entities that audit the following companies)	**The following are subject to statutory audit** (Law on Auditing activity of the Republic of Kazakhstan No. 304 of 20 November 1998)[26]
There are about **3,773** companies which are PIEs	There are about **904** companies audits of which will become subject to external quality control by the professional board	The information on the total number of entities subject to statutory audit is not available.
Financial institutions **[Except:** Legal entities which operate solely through money changers based on a foreign currency exchange operations license from the National Bank of the Republic of Kazakhstan.]	Auditing entities engaged in: Audit of financial[27] institutions[28] [**Except**: Legal entities which operate solely through money changers based on a foreign currency exchange operations license from the National Bank of the Republic of Kazakhstan; and Legal entities engaged solely in the encashment of banknotes, coins, and valuables.]	Banks, bank holdings, and entities in which a bank and/or bank holding is a major stakeholder; Insurance (re-insurance) entities, insurance holdings, and entities in which an insurance/re-insurance entity is a major stakeholder, insurance broker; Single accumulated pension fund; Insurance payments guarantee fund; Major stakeholders in an investment portfolio manager
Joint-stock companies (except non-profit ones);	National management holdings, national holdings, national companies	Joint-stock companies;
	Issuers of securities which have been or are expected to be formally listed on the stock exchanges operational in the territory of the Republic of Kazakhstan;	Professional securities market participants constituted as joint-stock companies;

[24] PIEs are typically defined as listed companies, banks, insurance companies and other entities that have significant public interest because of nature of their business, their size or the number of their employees
[25] http://adilet.zan.kz/rus/docs/Z070000234_
[26] http://adilet.zan.kz/rus/docs/Z980000304_
[27] Financial institution is a legal entity engaged in the entrepreneurial activities to provide financial services
[28] Financial services are activities carried out by insurance market or securities market participants, voluntary accumulated pension fund, banking activities, activities of entities engaged in selected types of banking operations carried out based on licenses obtained under the legislation of the Republic of Kazakhstan, and activities not subject to licensing carried out by the single accumulated pension fund; central depository; single public property accounting operator related to the functions of nominee holding of securities owned by the government, quasi-public sector entities list of which shall be approved by the authorized public property management body, or the government or the specified quasi-public sector entities have property rights to; and mutual insurance companies; http://adilet.zan.kz/rus/docs/Z030000474_

Subsoil users (except entities engaged in the extraction of commonly occurring mineral resources);	Subsoil users (except entities engaged in the extraction of commonly occurring mineral resources).	In cases described in the Subsoils and Subsoil Use Code of the Republic of Kazakhstan, legal entities which have subsoil use right to engage in the exploration and extraction of hydrocarbons or exploration and extraction of solid minerals;
Grain receiving stations;		Grain receiving stations;
Entities with government-owned stake in their authorized capital; and		Social medical insurance fund;
State-owned enterprises established as of right of operational management.		State-owned enterprises established as of right of operational management with supervisory board in education and health care;
		Civil aviation entities, except airlines engaged in the aviation activities as per the list determined by the Government of the Republic of Kazakhstan;
		Legal entities of the Republic of Kazakhstan which entered into an investment contract which provides for investment preferences;
		Cotton processing entities;
		Special financial companies under the Law on Project Financing and Securitization of the Republic of Kazakhstan;
		Developers and authorized companies under the Law on Equity Participation in Housing Construction of the Republic of Kazakhstan;
		Settlement and financial center for support of renewable energy sources under the Law on Support of Renewable Energy Sources Use of the Republic of Kazakhstan;
		Authorized economic operators under the Code of the Republic of Kazakhstan on Customs Regulation in the Republic of Kazakhstan;
		Limited liability partnerships provided the following conditions are met concurrently […]:

ANNEX F: Preliminary action plan for implementation of the public oversight and quality assurance system in Kazakhstan[29]

No.	Actions	Timeframe	Expected Outcomes
1.	Adopt amendments to Law on Auditing of the Republic of Kazakhstan No. 304 of 20 November 1998 and Law on Non-Profit Organizations No. 142-II of 16 January 2001 of the Republic of Kazakhstan which provide for the implementation of the professional auditing council model. The rationale for the proposed amendments is set out in the Concept Paper on the Law of the Republic of Kazakhstan on Amendments to Some Legislative Acts on Auditing of the Republic of Kazakhstan.	**July 2020**	Amendments adopted to Law on Auditing of the Republic of Kazakhstan No. 304 of 20 November 1998 and Law on Non-Profit Organizations No. 142-II of 16 January 2001 of the Republic of Kazakhstan which provide for the implementation of the professional oversight and quality assurance system.
2.	Develop qualification requirements for representatives of the Board and those of the Executive Body and determine their selection, nomination and recruitment procedure.	**July 2020 – July 2021**	Competent Board and Executive Body established.
3.	Develop the Charter of the PAC/KZ, have it signed by founders, and registered with justice bodies.	**July 2020 – July 20121**	Legal entity registered.
4.	Search for premises to register legal entity seat.		*De facto* and legal address of the PAC/KZ determined.
5.	Select, appoint, and recruit (where applicable) representatives of the Board, Qualification Commission, and Collegial Executive Body.		Board established and person responsible for the Executive Body appointed.
6.	Have the legal entity registered with justice authorities.	**July 2020 - September 2021**	The PAC/KZ registered as a legal entity.
7.	Have the legal entity registered at its location with justice authorities.		The PAC/KZ registered at its location.
8.	Select staff as per Executive Body structure.		Executive Body staff formed.
9.	Obtain banking details for the legal entity.	**October 2021**	Non-cash settlements conducted with service providers, staff, and to accept payments for paid services.
10.	Have founders make their contributions of assets.		The PAC/KZ's assets formed.
11.	Register with the government revenue department to obtain General Classifier of Economic Activities.		The PAC/KZ activity type registered.
12.	Enter into agreements with municipal utility bodies.		Utility services received.
13.	Draft and approve Regulation (in-house document) on the activities of the supreme management body of the professional council (Board) and in-house document (regulation) on the Executive Body activities.	**October 2021**	In-house regulations governing the professional board's activities approved: operational procedure,

[29] The draft action plan will be finalized during the second phase of the technical assistance (July 2020-June 2021)

No.	Actions	Timeframe	Expected Outcomes
			responsibilities of the Board members, staff, their rights and duties approved.
14.	Develop and approve as agreed with the board the procedure for external quality control over auditing entities in line with the model auditing entities external quality control rules, including inspection criteria for auditing entities and PAOs/KZ as approved by the authorized body.		External quality control methodology approved.
15.	Qualification Commission will develop, approve, and coordinate with the Board the aspiring auditor certification program compliant with the International Educational Standards.		Aspiring auditor certification program governing substance and procedure for aspiring auditor certification approved.
16.	Develop work plan for the first three months of the PAC/KZ's activities.	**November - December 2021**	Work plan for first three months implemented and able to be used as basis for work plan for following nine months
17.	Have the **Board** approve requirements to entities subject to external quality control.		Requirements to entities subject to external quality control determined.
18.	Approve operational rules for the PAC/KZ appeals commission.		Regulation governing appeals commission's activities approved.
19.	Exercise control through **the Quality Control Committee** inspecting the entities subject to external quality control for compliance with the requirements to entities subject to external quality control as approved by the Board.		Quality Control Committee inspection of entities subject to external quality control for compliance with the requirements to entities subject to external quality control completed.
20.	Exercise external quality control over the entities subject to external quality control.	**2021 - 2022**	First quality control findings made available.
21.	Submit findings of external quality control over the entities subject to external quality control to the Board for agreement.	**2021 - 2022**	
22.	Agree on the findings of external quality control over activities of the entities subject to external quality control.		
23.	Post findings of external quality control over the entities subject to external quality control by the PAC/KZ on its website.	**2021 - 2022**	First quality control findings publicly available on website.

ANNEX G: Proposed areas to be covered by the bylaw regulating the activity of the PAC/KZ in respect of the Board

In addition to the standard provisions, as required by the national legislation, the bylaw regulating the activity of the PAC/KZ should cover specific aspects, as highlighted in the table below.

Item	Short description
Board composition and size	Number of representatives to be nominated by each institution in accordance with Article 13-1(5). Size of the Board or at least lower and upper and limits (e.g. minimum five members, maximum nine members).
Nomination and Appointment of Board Members	Recommendations on how the nomination process should be organized and by whom (e.g. advertising on the corporate webpage of the PAC/KZ, or of the Ministry of Finance; establishment of a Nomination Committee). For members to be nominated by the Ministry of Finance, Kazakhstan Stock Exchange, and Astana International Financial Center – by who and how the nomination procedure should be initiated for the initial establishment of the Board and subsequent appointments and re-appointments. For members to be selected as representatives of universities and/or research institutions - by who and how the selection procedure should be initiated, similarly for selection of an independent director. Which authority will have the final responsibility to appoint, remove, or re-appoint the Board members. Eligibility and qualification requirements (see Annex D for additional details).
Vacation and removal of Board Members	Conditions under which a Board member could be removed.[30] Actions to be taken when a Board member nominated by an institution, listed in Article 13-1(5), is removed from office or ceases to be in the position required as a nomination criteria (e.g. independent director, Deputy Minister of Finance), or ceases to be a member of the nominating institution (e.g. practicing auditors, if they are allowed on the Board).
Decision making	Quorum of Board meetings – if the quorum is not meet, no proposal is to be voted on, except a proposal to call another meeting.

[30] The professional audit council of the oversight institution will include representatives of the government bodies and business. For each member of the council the laws of the Republic of Kazakhstan foresee his/her responsibility (for example articles 250 “Abuse of authority”, 361 “Abuse of office”, and 450 “Abuse of power” of the Criminal code of the RK). Therefore, the mechanism of removal should be foreseen in internal documents of the council.

Item	Short description
	Number of votes to take a decision, considering situations where one or more Board members need to recuse themselves for decision-making process and where 1/3 of members are practicing auditors, to ensure that the independence principle is not affected.
Calling a meeting and participation	How and by whom a Board meeting may be called. Consideration of participation in a Board meeting by means of a conference telephone, video conferencing facility, or similar communications method which allows all persons participating in the meeting to hear each other.
Chair of the Board	Key responsibilities of the Chair and who may act as substitute in his/her absence or where the respective function (i.e. Minister and/or Deputy Minister in the field of audit) within the Ministry of Finance is vacant. In addition, where there is an intention to establish a position of Deputy Chair and Secretary to the Board, how they will be elected, and description of their key responsibilities.
Key rights and responsibilities of the Board Members	To be detailed in accordance with the provisions of the law.
Reimbursement of Board members' expenses	Where Board members are entitled to some reimbursement of expenses[31], incurred in connection with their attendance at meetings or otherwise in connection with the exercise of their powers and responsibilities, the conditions for reimbursement should be described.
Committee	The composition and membership of any committees to which the directors delegate any of their powers.
Appointment and key responsibilities of the Collegial Executive Body	Recommendations on how the selection process for the members of the Collegial Executive Body should be organized (e.g. advertising in newspaper or/and on the corporate webpage of the PAC/KZ; establishment of a Nomination Committee within the PAC/KZ). Eligibility and qualification requirements for the members of the Collegial Executive Body (these should be very close to the requirements for Board members and independence from the profession is desirable) and the term of appointment. Collegial Executive Body Head's role at Board meetings. Collegial Executive Body Head key functions and responsibilities. These might typically include:

[31] According to the law, no remuneration is paid to Board members.

Item	Short description
	➢ leading the executive, all of whom report to the executive director as one team; ➢ supporting the Chairman in fulfilling their responsibilities; ➢ establishing and maintaining a relationship between the executive team and the Board; ➢ managing the day to day operations of the organization; ➢ proposing a budget and financial plan for three years (or other period as required by national legislation and internal regulations) as well as an annual operating budget; ➢ responsibility for signing the financial statements and ensuring proper records are kept relating to the accounts and that the accounts are properly prepared and presented; ➢ developing and maintaining an effective risk control framework; ➢ ensuring that effective procedures are in place for handling complaints about the oversight body from external and internal sources, including appropriate protections for whistleblowers, and that they are well known and easily accessible; ➢ managing the development of the executive team and their capabilities and skills, including hiring any required replacements or additional resources; ➢ leading the representation of the institution with external stakeholders including media, industry bodies, government and companies.