
CHAPTER 3

Activities

3.1 Introduction

Work Programme

IAASA is required under section 910 of the Act to prepare and submit a three year Work Programme to the Minister. The Authority prepared its current plan for the years 2017-2019, and this is available on the IAASA website. The plan sets out IAASA's key strategies, activities and related outputs for the duration of the Programme. It also analyses the staff, resources and expenditure in the context of the plan.

Strategies

The Authority's strategies are as follows:

1. apply a risk-based approach to oversight and supervision;
2. promote ongoing improvements in practice;
3. use its supervisory tools and enforcement powers to best effect;
4. engage effectively with its stakeholders;
5. make the most of EU and domestic collaborations;
6. develop its employees; and
7. maximise the impact of finite resources.

Goals

These strategies are translated into activities and outputs, based on goals for each area of operation. These goals are as follows:

1. to examine and promote improvements in the quality of financial reporting;
2. to inspect and promote improvements in the quality of auditing of PIEs;
3. to oversee the RABs' performance of their functions in respect of statutory auditors and to examine and promote improvements in the quality of the PABs' regulatory activities;
4. to adopt and issue auditing standards and related guidance;
5. to respond to non-compliance within our remit, promptly and proportionately;
6. to promote adherence to high professional standards by accountants, auditors and preparers of financial reports; and

7. to provide specialist advice to the Minister for Business, Enterprise and Innovation and high quality information to our stakeholders on key auditing and accounting matters.

Business Plan

The Authority uses the Work Programme as a guide to prepare its annual Business Plan, setting out key objectives for the Authority. These key objectives, and how the Authority has set out to achieve them, are set out in the remainder of this Chapter.

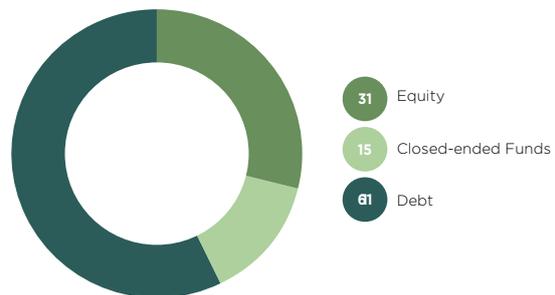
3.2 Supervision of financial reporting quality

3.2.1 Purpose

IAASA's Financial Reporting Quality function, operating through its Financial Reporting Supervision Unit, examines the periodic financial statements of equity issuers, debt issuers and closed-end fund issuers to ensure that they are compliant with the relevant financial reporting framework.

At 31 December 2017, the known financial reporting examination constituency comprised 107 (2016: 117) issuers made up of 31 equity issuers, 15 closed-ended fund issuers and 61 debt issuers.

Table 3.1: Financial reporting examination constituency at 31 December 2017



Depending upon risk factors identified and other relevant considerations, the scope of examinations undertaken by IAASA may be:

- (a) **Unlimited scope examination of financial information** – the evaluation of the entire content of the financial information in order to identify issues / areas that need further analysis and to assess whether the financial information is compliant with the relevant financial reporting framework;
- (b) **Focused examination of financial information** – the evaluation of pre-defined issues in the financial information and the assessment of whether the financial information is compliant with the relevant financial reporting framework in respect of those issues;
- (c) **Follow-up examination of actions** – ensuring that appropriate improvements are made to financial reports where the issuer has previously given an undertaking to IAASA to amend future reports;
- (d) **Thematic examination of financial information** – the evaluation of financial reporting practices adopted by a range of issuers in respect of one or more financial reporting matters. These examinations are desk-based and limited to examining publicly published information without issuer engagement; and
- (e) **Topical surveys** – these surveys, mandated by ESMA, comprise the examination of the financial reporting treatments applied by selected issuers based on parameters set by ESMA. These surveys are also desk-based and limited to examining publicly published information without issuer engagement. If, as a result of its findings from these surveys, IAASA subsequently engages with an issuer, that subsequent engagement is designated as a separate unlimited scope examination or focused examination as appropriate.

3.2.2 Significant developments

During 2017 IAASA completed 34 examinations with a further seven examinations in progress as at 31 December 2017. During 2017 it submitted seven issues to the EECS decisions database. A full list of issuers examined during the year is set out in Appendix 2.

Common areas of focus in 2017 examinations included, but were not limited to, judgements concerning Alternative Performance Measures ('APMs'), IAS 1 *Presentation of Financial Statements*, IFRS 13 *Fair Value Measurement*, IAS 12 *Income Taxes* (uncertain tax positions), IFRS 7 *Financial Instruments: Disclosures*, IAS 36 *Impairment of Assets*, IAS 34 *Interim Financial Reporting*, and IFRS 8 *Operating Segments*. IAASA continues to ensure convergence of enforcement decisions with our European accounting enforcers' views by considering relevant European decisions and submitting selected topics for discussion at EECS prior to our finalising enforcement decisions.

Thematic examinations conducted on equity issuers' during 2017

IAASA undertook four thematic reviews during 2017 as follows:

Description	Rationale
Impairment testing in Irish listed companies 2016/17 annual financial statements	A recurring examination topic and a recent ESMA common enforcement priority
Operating Segments	Recent amendment to IFRS 8 and a recurring examination topic
Alternative Performance Measures	A recent ESMA common enforcement priority, ESMA's <i>APM Guidelines</i> in force since July 2016 and the findings from recent IAASA examinations of APMs by issuers
Disclosures of the New Accounting Standards in issuers' 2016 annual financial statements	A recent ESMA common enforcement priority and the likely impact of the new IFRSs on a range of issuers

Significant themes for equity issuers

Two significant themes of the 2017 reporting season were the examination of reporting by issuers of APMs¹ and disclosure of the expected impact of new Standards (IFRS 9, IFRS 15 and IFRS 16). IAASA corresponded with several issuers concerning these topics during 2017. IAASA will continue to monitor issuers' financial statements for the impacts of *Brexit* as the exit date of 29 March 2019 approaches.

Significant themes for debt issuers and closed-ended fund issuers

The quality of financial reporting by these issuers varies considerably ranging from good to poor, and there remains a cohort of issuers which consistently present lower quality financial statements. IAASA will continue to examine the financial statements of selected debt and closed-ended fund issuers presenting lower quality financial statements and engage with those issuers to secure improvements in future reports.

How IAASA's financial reporting enforcement activity compares internationally

During 2017 ESMA published its *Peer Review on Guidelines on Enforcement of Financial Information* which included 31 European enforcement bodies including IAASA. All 31 national accounting enforcers contributed data about the nature and level of their enforcement activities. IAASA rated above average in several categories including the ratio of IFRS issuers per full time equivalent employee, the average number of issuers examined, and the average number of examinations completed. As noted favourably by ESMA, IAASA has responsibility for just 2% of the total of IFRS issuers in the EU but has contributed 14% of the decisions submitted to the EECS database.

Training

The new Standards are expected to have a significant impact on the recognition, measurement, presentation and disclosure of items and on key judgements including the amounts and timing of future cash flows. IFRS requires entities to communicate clearly their key judgements (and significant estimates) in implementing the new Standards and to explain how the accounting differs from current practice. For this reason, IAASA has taken a number of steps to prepare for the implementation of the new Standards including:

- i. continued professional development of staff;
- ii. participation at ESMA and IASB training workshops;
- iii. participating in EECS discussions of relevant emerging issues related to the new Standards;
- iv. participating in relevant ESMA sub-groups relevant to the implementation of the new Standards; and
- v. tailored in-house IFRS training.

¹ ESMA's APM guidelines are effective from 3 July 2016.

3.2.3 Activities arising from Business Plan

Business Plan Objectives	Outcomes
Conduct annual programme of examinations of financial reports	IAASA completed 34 examinations of annual and half- yearly financial reports in 2017. It also undertook four thematic examinations and five ESMA topical surveys.
Engage with directors to secure improvements, and take action where warranted	13 issuers provided 53 undertakings in respect of future financial reports. One issuer voluntarily re-filed its financial statements.
Develop best practice methodologies for review process	IAASA reassessed the operation and suitability of the risk scoring matrix used to assign risk scores to issuers to aid in the allocation of limited resources to those areas meriting greatest focus.
Engage effectively with our regulatory stakeholders	<p>IAASA submitted seven issues to the EECS database and presented seven issues for discussion. IAASA discussed one Irish case with representatives of the International Accounting Standards Board (IASB) and IFRS IC.</p> <p>IAASA presented five papers to EECS in the year.</p> <p>IAASA has a representative on the following EECS working groups:</p> <ul style="list-style-type: none"> ● IAS 12 Deferred Tax Asset sub-group; and ● IFRS 13 Fair Value Temporary Task Force <p>IAASA also attends the quarterly meetings of ESMA's Corporate Reporting Standing Committee to which EECS reports.</p> <p>IAASA is an active participant in the EECS Agenda Group.</p> <p>IAASA also acts as an observer at the Corporate Reporting Council of the FRC</p>
Engage in advocacy activities with our wider stakeholders	<p>IAASA published 21 financial reporting decisions on its website.</p> <p>IAASA published 11 reports and other publications including publication of the results of four thematic surveys on financial reporting matters.</p> <p>IAASA staff contributed one article on financial reporting matters to relevant publications.</p> <p>IAASA had face-to-face meetings with representatives of all of Big 4 audit firms on financial reporting issues during 2017.</p>

3.3 Supervision of audit quality

3.3.1 Purpose

IAASA's Audit Quality Unit sets auditing standards for use by all statutory auditors in carrying out statutory audits of Irish entities. The Audit Quality Unit is also responsible for the quality assurance of PIE auditors. At 31 December 2017, there were nine (2016: 10) PIE auditors, auditing approximately 1,000 (2016: 1,200) PIEs.

A PIE for the purposes of quality assurance is defined by SI 312 and includes entities listed on any European Union regulated market, credit institutions and insurance undertakings.

Each PIE audit firm is required to be inspected, at a minimum, once every three years, save where an audit firm audits only PIEs who are either 'small' or 'medium-sized undertakings' (as defined in points (17) and (18) of Article 2 of Directive 2006/43/EC), in which case, the audit firm must be inspected every six years. A quality assurance inspection includes an assessment of the internal quality control system of the audit firm and testing the effectiveness of that internal quality control system, through compliance testing and review of individual audits of public interest entities.

IAASA has implemented the Common Audit Inspection Methodology ('CAIM') for assessing the internal quality control systems of PIE audit firms. CAIM was developed within the European Audit Inspection Group, a pan-European platform for cooperation among audit regulators, to develop and promote a common audit inspection methodology across member states. The European Audit Inspection Group was dissolved upon establishment of the CEAOB. The CEAOB is now responsible for the maintenance and development of CAIM. IAASA has also developed a suite of working papers for the assessment of individual audits of PIEs.

3.3.2 Significant developments

Auditing Framework

On 31 January 2017, the Authority adopted the Auditing Framework for Ireland. Following consultation, the Authority decided to base the Auditing Framework for Ireland on the FRC Auditing Framework for the UK, with minimal amendments. This was on the basis that it was deemed to result in minimal disruption for auditors who have always used the UK Framework and who operate in both jurisdictions as well as the fact that the UK Framework provides more detail than the international equivalents and therefore provides more clarity for stakeholders. This decision will be kept under review on an ongoing basis to ensure this remains the most effective and efficient solution for the Irish market.

Inspections

The Authority commenced its inspection regime under the Audit Reform legislation in late 2016. As noted above, there were 10 PIE audit firms in Ireland in 2016 and nine in 2017. These include what are commonly known as the Big 4 auditors; Deloitte, EY, KPMG and PwC. The Big 4 audit approximately 95% of the PIEs in Ireland, earning approximately 98% of the PIE audit fees. As a result, the Authority decided to inspect these firms first before moving onto inspections of the other six PIE audit firms. One inspection was ongoing at 31 December 2016, this inspection was completed and inspections took place in each of the other Big 4 firms during 2017.

Each individual audit inspection results in a report detailing any recommendations for improvement. In each audit firm, an overall report follows the inspection detailing recommendations for improvement on the internal quality control systems as well as a summary of recommendations issued on individual audits. Audit firms must implement the recommendations with twelve months.

The inspection results show that, in most cases, the internal quality control systems and the quality of the audits reviewed were of a good standard with some recommendations for improvement. No matters were referred for investigation.

International Agreements

On 2 November 2017, the Authority announced that it had entered into an agreement with the PCAOB, the United States audit regulator, allowing for cooperation between the Authority and the PCAOB in the oversight of audit firms subject to the regulatory jurisdiction of both organisations. A joint inspection took place in one such audit firm in December 2017. Given the high level of US investment in Ireland, resulting in Irish auditors carrying out significant work on US issuers or components thereof, this was a significant development for the Authority and deemed of great importance to the audit market both in Ireland and in the US.

International Cooperation

IAASA believes that cooperating with international audit regulators is fundamental to our success. As the entities and firms within our remit often operate within global structures, it is vital that regulators cooperate effectively to share knowledge, experience and be consistent if

possible. Such activities contribute to regulators achieving their aim of effectively and efficiently contributing to continuing improvements in audit quality.

IAASA actively participates in both the CEAOB and the IFIAR. IAASA has representatives on all CEAOB sub-groups as well as a number of task forces and colleges. IAASA holds the chair of the sub-group on market monitoring.

In keeping with its commitment to international cooperation, IAASA hosted meetings of three CEAOB sub-groups in October. The Inspections sub-group agenda includes dialogue with senior members of the largest audit firms on a rotational basis and on this occasion, met with EY European representatives. Jointly with the International Auditing Standards sub group of the CEAOB, the Inspections sub-group met with the representatives of the International Auditing & Assurance Standards Board and International Ethics Standards Board for Accountants, an engagement sought on an annual basis. There was a separate meeting of the Market Monitoring sub-group.

3.3.3 Activities arising from Business Plan

Business Plan Objectives	Outcomes
Carry out inspection regime	Quality Assurance inspections took place in each of the four largest audit firms in Ireland during the year. In addition, a joint inspection was carried out with the PCAOB in December.
Develop and refine inspection methodology	IAASA has implemented the CAIM for assessing the internal quality control systems of PIE audit firms. In addition, IAASA has developed and continues to refine a suite of workpapers for the assessment of individual audits, taking into account the specificities of particular auditing standards as well as any relevant matters relating to the entity type or industry.
Adopt Auditing Framework	The Auditing Framework was adopted on 31 January 2017.
Engage effectively with our peers and stakeholders	IAASA hosted a meeting of three sub-groups of the CEAOB in October 2017. The sub-groups were: market monitoring, standards and inspections. Presentations were made to a number of stakeholders including audit firms and industry forums. IAASA issued a number of consultations during the year and continues to engage informally with stakeholders on matters as requested.

3.4 Supervision of the auditing and accounting profession

3.4.1 Purpose

IAASA's principal functions relating to the supervision of the accountancy profession are to:

- oversee the RABs' performance of the functions assigned to them in respect of statutory auditors; and
- examine and promote improvements in the quality of the PABs' regulatory activities.

A PAB is an accountancy body that comes within IAASA's supervisory remit. At 31 December 2017, there were nine PABs:

ACCA	Association of Chartered Certified Accountants;
AIA	Association of International Accountants;
CIMA	Chartered Institute of Management Accountants;
CIPFA	Chartered Institute of Public Finance and Accountancy;
CPA	Institute of Certified Public Accountants in Ireland;
ICAEW	Institute of Chartered Accountants in England and Wales;
ICAI	Institute of Chartered Accountants in Ireland;
ICAS	Institute of Chartered Accountants of Scotland; and
IIPA	Institute of Incorporated Public Accountants.

A RAB is a body of accountants that may authorise its members/member firms to practice as auditors in Ireland. In addition to the approval and registration of their members/member firms as auditors, SI 312 assigns responsibility to the RABs for continuing education, quality assurance and the investigation and discipline of auditors, to the extent that such activities are not required to be carried out by IAASA in respect of the audit of PIEs.

At 31 December 2017, six of the nine PABs were also RABs i.e., ACCA, CPA, ICAEW, ICAI, ICAS and IIPA. Details of the bodies' membership, student numbers, public practice profiles and their regulatory activities during the year are set out in a separate publication *Profile of the Profession 2017*, which will be available on the IAASA website.

3.4.2 Significant developments

Transfer of IIPA members to CPA

On 23 June 2017, both CPA and IIPA held Extraordinary General Meetings at which their members voted to approve a pathway for IIPA members to join CPA and, consequently, become subject to the latter's regulation and supervision. As part of this arrangement, there was also an agreed transitional pathway for IIPA students who chose to transfer to CPA.

IAASA engaged with both IIPA and CPA throughout the year in respect of:

- the orderly transfer of IIPA members to CPA;
- the assumption of responsibility for the regulation and supervision of former IIPA members by CPA; and
- IIPA's fulfilment of its outstanding regulatory obligations.

Most IIPA members elected to transfer their membership to CPA on 1 September 2017, and came under CPA's regulation and supervision with effect from that date. The IIPA revoked the membership of those individuals who chose not to transfer their membership to CPA.

By 31 December 2017 the IIPA was no longer discharging any statutory regulatory tasks in respect of accountants or auditors and was therefore, no longer operating as either a RAB or a PAB.

Companies (Statutory Audits) Bill 2017

The Companies (Statutory Audits) Bill 2017 ('the Bill'), which will replace SI 312, was published on 6 November 2017 and is currently proceeding through the legislative process. The principal provisions of the Bill which impact on IAASA and the RABs' respective roles in relation to auditors are that:

- the RABs are deemed to be recognised for the purposes of the Bill and shall be required to perform the tasks in respect of statutory auditors specified in the Bill unless prohibited from doing so by IAASA. Consequently, the RABs will be required to perform all tasks relating to the licensing and registration, quality assurance, CPD and investigation & discipline of statutory auditors except those in relation to PIE audits that are performed directly by IAASA;
- IAASA's functions shall include the supervision of how each RAB monitors the statutory auditors for which it has responsibility by virtue of performing the tasks assigned to it;
- the criteria for the RABs' recognition are to be amended to require each body to satisfy IAASA, both at the time of recognition and on an ongoing basis, in relation to their:
 - standards for training and qualification of auditors;
 - standards applied to members in areas such as independence and ethics;
 - capacity to ensure members' compliance with and the enforcement of its standards, having regard to its resources; and
 - effective performance of the tasks assigned to it in respect of statutory auditors.
- IAASA's powers shall include the ability to enquire into whether a RAB has performed a task in compliance with the requirements of the Bill, the EU Regulation or any other requirements set by IAASA; and
- where a RAB is not able to perform a task, IAASA will have the power to perform the task or assign it to another RAB.

During the year, IAASA staff liaised with both the Department and RABs to assess the impact of these provisions on the overall regulatory framework for the oversight of auditors and to plan for the enactment of the Bill, which is expected to take place in 2018.

Supervisory visits and desktop reviews

Given the level of reliance placed by various stakeholders on the work performed by PAB members, particularly those engaged in audit, it is essential that the PABs have robust and efficient systems in place to ensure the effective supervision of their members. One of the principal methods by which the Authority assesses the PABs' regulatory process is by means of on-site supervisory visits and thematic desktop reviews.

IAASA concluded three on-site supervisory reviews during the year (Appendix 3 refers) and three further on-site reviews were ongoing at 31 December 2017. Four of these visits related to the PABs' investigation and disciplinary processes, and the other two related to quality assurance processes for audit firms and auditor licensing.

Following supervisory visits, IAASA works with the PABs concerned to address the issues identified through improvements to their overall systems and processes. At year end, IAASA continued to actively consider a number of matters and to monitor the relevant PABs' actions to implement recommendations contained in previous supervisory visit reports.

In addition, a desktop review focussed on the PABs' CPD arrangements was commenced during the year. The review was undertaken by means of a written questionnaire. Review and collation of the PABs' responses was ongoing at 31 December and, on completion, it is intended to publish the principal findings of this review.

3.4.3 Activities arising from Business Plan

Business Plan Objectives	Outcomes
Supervision of the PAB's regulatory activities	<ul style="list-style-type: none"> ● IAASA actively oversaw the transfer of IIPA members to CPA. ● Four onsite supervisory visits were conducted in 2017 and three final reports were issued. ● A desktop review of the PABs' CPD arrangements was commenced.
Oversight of the RABs' functions in respect of statutory auditors	<ul style="list-style-type: none"> ● Periodic review meetings were held with each RAB, following which action points were issued and their progress monitored on a regular basis. ● IAASA had regular engagement with the FRC in relation to the RABs within our common remit ● The 2016 Annual Audit Programme and Activity (AAPA) Report was published in April 2017 (as Chapter 5 of IAASA's 2016 Annual Report). ● Two new conditions were imposed on the recognition of a RAB in 2017 and there was continued monitoring of the RABs' compliance with existing conditions.
Supervision of the Accounting Profession	<ul style="list-style-type: none"> ● A total of 17 (2016: 17) review meetings with PAB representatives took place during the year. ● 36 (2016: 32) new or revised PAB constitutional documents were approved. The review of amendments to three further documents was ongoing at 31 December 2017. ● 25 (2016: 12) complaints relating to four PABs and their members were dealt with and responses provided to 122 (2016: 127) queries from a range of stakeholders.
Prepare for revised oversight model and other environmental changes	<ul style="list-style-type: none"> ● Preparation continued throughout the year for the enactment of the Bill, including two roundtable meetings with the RABs, as well as engagement with the Department.
Engage effectively with our stakeholders and continue to enhance the quality of relationships with them	<ul style="list-style-type: none"> ● IAASA liaised with the FRC regarding the four RABs within our common supervisory remit (ACCA, ICAEW, ICAI, ICAS). ● Based on information supplied by the PABs, IAASA published the Profile of the Profession 2017. ● IAASA also engaged with the Department on a regular basis.

3.5 Other activities

3.5.1 Conduct

Conduct Unit

A Conduct Team Lead was recruited and commenced employment in October 2017. The Conduct Unit's role will expand in 2018 due to the introduction of new powers of investigation and enquiry under the Bill. IAASA advised on and supported the introduction of the Bill. The Conduct Unit commenced the development of processes and procedures to implement these new powers in 2017 and will continue this work in 2018.

Statutory Enquiries

Section 905(2)(d) of the Act provides that IAASA may conduct enquiries into whether a prescribed accountancy body has complied with its approved investigation and disciplinary procedures and, where appropriate, impose sanctions. Table 3.2 provides a summary of the Section 933 enquiry activity during the year.

Table 3.2: Summary of Section 933 enquiry activity

	Preliminary Enquiry Stage	Full Enquiry Stage	Total
Enquiries ongoing at 1 January 2017	-	1	1
New enquiries initiated during the year	1	-	1
Enquiries completed during the year	-	(1)	(1)
S.933 enquiries ongoing at 31 December 2017	1	-	1

Following the completion of a preliminary enquiry and the subsequent initiation of a full enquiry under Section 933 of the Act, IAASA and the ICAI agreed terms of settlement on the basis that it had been determined that ICAI failed to comply with its approved investigation and disciplinary procedures.

Further details of the outcome of statutory enquiries are available on the IAASA website.

3.5.2 Liquidations

During 2017 the Authority implemented its process for the registration of certain liquidators under section 633 of the Act ("Category 5 liquidators"). As part of this process it issued two Statutory Instruments. SI 302 of 2017 set out the prescribed form for persons to apply to be Category 5 liquidators, and SI 303 of 2017 set the standard fee at €2,500. By the deadline of 1 December the Authority had received 26 applications and these were all in the process of being reviewed at the year end.

3.5.3 Training and Development

During 2017, the Authority reviewed and revised its training support policy for staff. IAASA supports its staff through a range of programmes including CPD support, support for longer-term relevant education programmes, and where appropriate bespoke training. Where membership of international groups provides opportunities for training and development these are provided to staff. The Authority also actively seeks to provide further opportunities for development through cross-unit projects and similar activities. Specific in-house training was supplied for staff on the impact of IFRS 9.

3.5.4 Office expansion

As part of responding to its expanded remit, the Authority undertook a project to expand its floorspace in its current premises in Naas. During 2017 the Authority took possession of an additional floor in its offices in Willow House on lease. Relevant IT, security and office support facilities were all completed during the year. The new facilities include additional meeting spaces for staff. The Office also invested in securing enhanced broadband which was necessary both for in-house staff and also to support our teams increasingly working off site for extended periods of time.

3.5.5 Activities arising from Business Plan

Business Plan Objectives	Outcomes
Establish a system for the conduct of investigations into suspected irregularities	During the year IAASA recruited a Conduct Team Lead. It assisted the Department in their drafting of Companies (Statutory Audits) Bill 2017 in relation to powers for Conduct. In addition the Conduct Unit commenced work on detailed planning for single investigations process across the authority
Develop and operate a system for the authorisation of category 5 liquidators	A standard form and a fee for the authorisation of category 5 liquidators was set out in two Statutory Instruments. Applications received by deadline of 1 December were then put through a formal review process which was ongoing at the year end.
Implement a learning and development strategy for staff	The Authority revised its programme for staff support in engaging in ongoing training and development. It also provided bespoke training courses on specific issues relevant to the Authority's remit. As part of education support, 89 training days were taken by staff relating to some 70 training and development courses.