

2019

Statutory Reporting Quality

# **Audit Quality Unit FAQs**

**Disclaimer:**

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**Powers of Inspection:**

**What powers does IAASA rely upon in carrying out inspections?**

A. The Companies Act 2014 confers upon IAASA a number of powers to allow it to effectively carry out its functions. Some of the key powers utilised are listed below – please note that this list is not exhaustive.

**S 906(1)**

The Supervisory Authority has the power to do anything that appears to it to be requisite, advantageous or incidental to, or to facilitate, the performance of its functions and that is not inconsistent with any enactment.

**S 906(3)**

The Supervisory Authority may adopt rules and issue guidelines concerning any matter that relates to its functions (including its functions under Regulation (EU) No 537/2014).

**S 1494(1)**

The Supervisory Authority shall put in place a quality assurance system as set out in Article 26 of Regulation (EU) No 537/2014.

**S 1494(4)**

The Supervisory Authority may publish on its website the findings and conclusions of individual inspections undertaken as part of the quality assurance system referred to in subsection (1).

**S 1523(1)**

Where it considers it reasonably necessary to do so for the purposes of performing a particular function under the relevant provisions, the Supervisory Authority may request information and inspect and make copies of all relevant documents in the possession or control of a recognised accountancy body or a relevant person; for that purpose, it may, by notice in writing served on the recognised accountancy body or relevant person, require the recognised accountancy body or relevant person either (as shall be specified) to -

- (a) furnish to it specified documents or information, or
- (b) permit it to have access, under specified circumstances, to all relevant documents in the possession or control of the recognised accountancy body or relevant person, within a specified period.

## **What powers does IAASA have to review non-PIE information?**

A. Section 1523 of the Companies Act 2014 states that:

‘Where it considers it reasonably necessary to do so for the purposes of performing a particular function under the relevant provisions, the Supervisory Authority may request information and inspect and make copies of all relevant documents in the possession or control of a recognised accountancy body or a relevant person; for that purpose, it may, by notice in writing served on the recognised accountancy body or relevant person, require the recognised accountancy body or relevant person either (as shall be specified) to—

(a) furnish to it specified documents or information, or

(b) permit it to have access, under specified circumstances, to all relevant documents in the possession or control of the recognised accountancy body or relevant person, within a specified period.’

Regulation (EU) 537/2014 Article 26.7 requires that:

‘At least the following internal quality control policies and procedures of the statutory auditor or the audit firm shall be reviewed:

- compliance by the statutory auditor or the audit firm with applicable auditing and quality control standards, and ethical and independence requirements, including those set out in Chapter IV of Directive 2006/43/EC and Articles 4 and 5 of this Regulation, as well as relevant laws, regulations and administrative provisions of the Member State concerned;
- the quantity and quality of resources used, including compliance with continuing education requirements as set out in Article 13 of Directive 2006/43/EC;
- compliance with the requirements set out in Article 4 of this Regulation on the audit fees charged.

Article 26.7 does not place restrictions on the requirements set out in the Directive, Regulation or applicable auditing, quality control and ethical standards. As such, the quality control procedures set out there and in the auditing and ethical standards extend to all audits, not just PIE audits. In assessing quality control procedures, IAASA includes all policies, procedures, clients and staff in relevant populations for sampling and does not restrict the populations to be only those in connection with PIE audits. This allows for the relevant Recognised Accountancy Body to only inspect non-PIE audits and not to assess internal quality control in respect of non-PIEs which would be a duplication of effort for all parties.

## **Can a competent authority (‘counterpart authority’ as defined in Section 1553 of the Companies Act 2014) from outside the state request to visit an audit firm for the purposes of carrying out an audit inspection?**

A. A competent authority from outside the state would not normally contact individual audit firms in relation to audit inspections. If you are contacted by a competent authority (supervisory body) from outside of the state please contact the Audit Quality Unit.

## **Inspection process:**

### **What is the basis for the stated deadlines cited within the inspection process?**

- A. The 12 month recommendation implementation period is set out in Regulation (EU) 537/2014. All other timelines are set by IAASA to improve the efficiency of the inspection process. Section 1523 of the Companies Act 2014 gives IAASA the power to require a relevant person to provide specified documents within a specified period. Furthermore, section 906 of the Companies Act 2014 gives IAASA the power to adopt rules concerning any matter that relates to its functions and to do anything to facilitate the performance of its functions.

### **Are reports shared with CAI Professional Standards? If so, for what purpose and what safeguards are in place?**

- A. Yes, firmwide reports are shared with the CAI Professional Standards team, or other relevant RAB. The purpose of sharing the reports is to allow the Professional Standards team to understand any firmwide issues arising which may impact on their selections and/or procedures in relation to QA of non-PIE audits. The information is shared on condition that the Quality Assurance Committee and other non CAI employees, which includes practitioners, do not have access to the reports or extracts thereof. The Committee may be informed that the report has been shared and that it has impacted on the Professional Standards inspection approach. For any future entrants to the PIE market who may be members of other RABs, the structures of those RABs will be reviewed and similar safeguards considered. The reports are also used by CAI staff in performing their legislative functions of approval and registration of auditors and audit firms.

### **What are the consequences where repeat findings are identified within the 12 month implementation period?**

- A. For firmwide findings, where findings are identified on issues that have already been raised by IAASA in the preceding 12 months, no action will be taken. This is because the relevant areas would be assessed again in either a follow up visit or as part of a full inspection after the 12 month implementation period. If, following the 12 month implementation period, repeat findings are identified, the severity indicator assigned to the finding would be elevated and a more robust recommendation would be required.

This response is not generally applicable to individual audit inspection findings except in the rare circumstance where the same audit is selected for a second inspection within 12 months.

### **The inspection reports do not contain detailed ISA references. Why are these not included?**

- A. Findings contained in the inspection reports may relate to a number of ISAs or other requirements, all of which would not be disclosed in the report. Reports will however note whether a particular requirement comes from auditing standards, legislation or firm's own policies and procedures and this information will be considered in the rating process. Where a requirement is listed in more than one source, IAASA will reference the source highest on the following hierarchy:-

1. Legislation
2. Auditing standards
3. Firm policy

**IAASA may review compliance with a Firm's own policies and procedures. Where a firm has a policy which is stricter than standards/legislation, does IAASA raise findings where Firm policy is not complied with but the requirements of the standards/legislation have been?**

- A. IAASA may raise a finding where a Firm policy has been breached, even if the requirements of standards and legislation have not been breached. As set out in Article 26 of EU Regulation 537, an inspection assesses both the design of the internal control system and testing compliance with that control system. In instances where the Firm policy has been breached and the matter remains compliant with standards/legislation, this will be noted in the report and will be considered in the rating process.

## **PIE Definitions:**

**Which clients fall under the definition of PIEs ('public-interest entities')?**

- A. Public interest entities are defined per EU [Directive 2014/56/EC](#)

The definition states that public interest entities mean:

entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC;

credit institutions as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council, other than those referred to in Article 2 of that Directive; or

Insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC;

**Do branches fall under the definition of PIEs?**

- A. Branches of PIEs do not normally fall under the definition of PIEs in themselves, as they do not have a legal personality, see [EU Commission FAQs](#).

**I have a client whose parent is incorporated outside of the EEA - is it required to be listed in the template?**

- A. It depends, any client (e.g. a subsidiary) who meets the definition of public interest entity and whose audit is carried out in Ireland is a PIE. If the client group contains a PIE incorporated within the EEA, your client (the subsidiary) may fall within the definition of PIE. It is your responsibility to confirm that if this is the case or not.

**Do all listed entities clients fall under the PIE definition?**

A. Any entity

- whose transferable securities are admitted to trading on a regulated market of any Member State, whose audit (either group or component audit) is carried out in Ireland; and
- who is governed by the law of a member state;

is defined as a PIE. However if the transferable securities are only listed on a regulated exchange outside of the EEA it does not fall under the PIE definition. Also important is where the entity is incorporated. If the entity is incorporated outside of the EEA it is unlikely to fit the criteria of 'entities governed by the law of a Member State' and therefore falls out of scope of PIEs.

**My client, an EEA incorporated entity whose transferable securities are admitted to trading on an EU regulated market, does not have any securities traded. Is it still required to be included?**

- A. Yes, irrespective of whether the securities are actively traded or not, the entity meets the definition of a PIE by having transferable securities which are admitted to trading on an EU regulated market (as well as governed by the law of a member state).

**The entity's debt is listed on GEM (Global Exchange Market operated by Irish Stock Exchange) - do I need to include this on the PIEs Listing template?**

- A. GEM is not included in the regulated market listing as compiled by the [European Securities and Markets Authority](#) (ESMA). Any entity with debt solely listed on GEM does not fall under the PIE definition (unless it is captured in one of the other PIE definitions e.g. a credit institution).

**Are the Transparency Directive (Directive 2013/50/EU, Art. 1 Par. 6 amending Directive 2004/104/EC) if an issuer whose securities are admitted to trading on a regulated market only issues exclusively listed debt in denominations of at least €100,000 (€50,000 if debt is listed Audit Inspections Unit (AIU) before 31 December 2010) it is exempt from the Transparency Directive reporting requirements. Can I avail of this exemption for the template?**

- A. Under the rules of the Transparency Directive ([Directive 2013/50/EU](#), Art. 1 Par. 6 amending [Directive 2004/104/EC](#)) if an issuer whose securities are admitted to trading on a regulated market only issues exclusively listed debt in denominations of at least €100,000 (€50,000 if debt is listed before 31 December 2010) it is exempt from the Transparency Directive reporting requirements. Under [Directive 2014/56/EC](#), the definition of PIEs does not allow for any exemption for entities with exclusively listed debt in denominations of at least €100,000 (or denominations of at least €50,000 if the debt is listed before 31 December 2010).

**Do Irish Collective Asset-management Vehicles (ICAVs) fall under the PIE definition?**

- A. Similar to other fund vehicles, if the ICAV is listed on a regulated market e.g. the main securities market of the Irish stock exchange fall under the PIE definition.

**Are credit unions PIEs?**

- A. Article 2 of [Directive 2013/36/EU](#) where the definition of ‘credit institution’ (in respect of the current PIEs definition) originates from, specifically removes Irish credit unions as an entity type bound by the same Directive. This in turn is interpreted as exempting Irish Credit Unions from the PIEs (as defined in [Directive 2014/56/EC](#)) classification of b) ‘Credit Institution’.

**The audit firm audits an Insurance Undertaking that is operated under a Freedom of Service basis (as defined in [Directive 88/357/EEC](#) as amended). Is this required to be listed in the template?**

- A. If you are auditing a component that is not itself a legal entity, it is unlikely to be a PIE.

**Are captive insurance undertakings (as defined in Section 3, Art. 13 (2) of DIRECTIVE 2009/138/EC (Solvency II)) required to be listed in the PIEs Listing template?**

- A. Captives (as defined in Section 3, Art. 13 (2) of [DIRECTIVE 2009/138/EC](#)) fall under the definition of ‘insurance undertaking’, as detailed in Recital 10 of same directive, which brings them under the PIE definition.

**Is there any other information published by the EU in relation to audit reform and PIEs?**

- A. Information can be found under the links below  
Q&A - Implementation of the New Statutory Audit Framework (including PIE information)

[31<sup>st</sup> May 2016](#)

[1<sup>st</sup> February 2016](#)

[3<sup>rd</sup> September 2014](#)

[16<sup>th</sup> June 2014](#)