

Presentation to CAI Conference - 12 March 2013

IAASA – Navigating International Waters

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Disclaimer and confidentiality

Disclaimer

The views expressed are mine and do not necessarily reflect the views of the Board, individual Board members or the staff of IAASA

Section 31

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- a) is obtained in performing the functions or exercising the powers of the Supervisory Authority, and*
- b) has not otherwise come to the notice of members of the public"*

Certain exemptions provided for in law



Presentation structure

- A. Overview of IAASA
- B. UK / Irish GAAP recent developments
- C. Interaction in Europe on accounting enforcement
- D. Impact of the EU audit reform proposals



A. Overview of IAASA



Principal statutory functions

- Promoting adherence to high professional standards in the auditing and accountancy profession
- Examining listed entities' statutory financial reporting for compliance with relevant reporting frameworks
- Supervising the accountancy bodies' regulation and monitoring of their members and member firms
- Acting as a specialist source of advice on auditing and accounting matters to the Minister for Jobs, Enterprise and Innovation



Structure and staffing of IAASA



Recent publications

- Annual observations document on key financial reporting matters

http://www.iaasa.ie/publications/Obsdoc_Nov12.pdf

- Survey on the use of alternative performance measurements

<http://www.iaasa.ie/publications/APM2012.pdf>



10

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Supervision of the profession

- Self-regulation by the profession comprising nine prescribed accountancy bodies (PABs)
- The PABs monitor and regulate 30,890 accountants in Ireland including 6,107 Irish registered auditors
- IAASA supervises the nine PABs



11

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Supervisory tools used

- Approval of bye-laws, rules, regulations, standards, etc
- Supervisory reviews
- Complaints handling
- Statutory enquiries
- Attachment of conditions
- Annual return process



12

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Co-operation role

- Assisting the Board to discharge its functions as an advisor to the Minister on accounting and auditing related matters
- Development of accounting and auditing standards
- Cooperating with domestic regulators
- Cooperating with international counterparts

13



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B. UK / Irish GAAP - Recent Developments

14



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New standards

- Following extensive consultation, the FRC published two standards in November 2012 - FRS 100 and 101
- The FRC is expected to issue a further standard FRS102 in March 2013
- The mandatory effective date for the new framework of reporting is for financial years beginning on or after 1 January 2015
- Early adoption is permitted

15



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New standards – FRS 100 and 101

- FRS 100 ‘Application of Financial Reporting Requirements’ - sets out the requirements in the UK and Republic of Ireland
- FRS 101 ‘Reduced Disclosure Framework’ - outlines the reduced disclosure framework available for use by ‘qualifying entities’ choosing to report under IFRS

New standards – FRS 102

- FRS 102 is the Financial Reporting Standard (FRS) applicable in the UK and Republic of Ireland
- Known as the new UK / Irish GAAP
- This FRS is based upon the IASB’s IFRS for SMEs but has been significantly amended
- Expected to be issued during March 2013

Summary from an Irish perspective

Accounting Framework	Accounting Regime	Type/Nature of Entities
IFRS	IFRS (IASB issued and EU endorsed)	<ul style="list-style-type: none"> • EU listed – consolidated accounts • ESM listed • Any entity choosing to apply
Converged UK / Irish GAAP	<ul style="list-style-type: none"> • FRS 100 • FRS 101 • FRS 102 (issued by FRC and based on the IFRS for SME with significant amendments) 	<ul style="list-style-type: none"> • All other entities not required to apply IFRS • Small companies, who choose to apply
Converged UK / Irish GAAP	FRSSE (Issued by FRC. UK / Irish GAAP based)	Small companies without public accountability

Key implications of change

- Significant change for all preparers, users and reviewers of UK / Irish GAAP financial statements
- Comparatives will need to be restated and a reconciliation provided in respect of the opening balance sheet position
- Early planning is crucial
- Staff training required
- IT system updates



19

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C. Interaction in Europe on Accounting Enforcement



20

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European Securities and Markets Authority (ESMA)

- Independent EU Authority based in Paris
- Contributes to safeguarding the stability of the European Union's financial system
- Fosters supervisory convergence both amongst securities regulators and across financial sectors



21

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European Securities and Markets Authority (ESMA)

- **Board of Supervisors:** Full time Chair and members composed of the heads of 27 national authorities
- **Management Board:** Composed of Chair and six members of the Board of Supervisors
- Subsidiary standing committees



22

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ESMA and IAASA

- Central Bank is the Irish member of ESMA's Board of Supervisors
- Accounting enforcement issues are discussed at a forum under the sponsorship of ESMA called the European Enforcers' Coordination Sessions (EECS)
- IAASA is an active member of EECS



23

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EECS

- EECS is a forum which brings together all EU national accounting enforcers
- Enforcers meet to exchange views and discuss experiences of IFRS enforcement
- Analysis and discussion of decisions taken
- Purpose is to increase convergence



24

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EECS enforcement decisions database

- Members decisions recorded on a confidential database for members' future reference
- For information and not binding
- IAASA actively participates

25



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IAASA participation in EECS

- Attended 8 of the 8 (2011: 7 of the 8) EECS plenary sessions
- Submitted 8 (2011: 10) decisions to the database
- Presented 6 (2011: 8) decisions to the plenary sessions for discussion
- Submitted and presented 3 (2011: 3) emerging cases to the plenary sessions for discussion
- Presented IAASA publications to the plenary sessions

26



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EECS activities

- Common enforcement priorities for 2012 financial statements
- Survey on IAS 36 and impairment testing
- Survey on discount rates
- EECS agenda group
- EECS subgroup on materiality
- EECS / IFRS – Interpretation Committee meetings
- Revision of Enforcement Standards group

27



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ESMA common enforcement priorities for 2012 financial statements

- Financial assets (IFRS 7)
- Impairment of non-financial assets (IAS 36)
- Defined benefit obligations (IAS 39)
- Provisions (IAS 37)

<http://www.esma.europa.eu/system/files/2012-725.pdf>

28



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Impact of ESMA / EECS on IAASA's work

- Participation in EECS is resource intensive
- Implementation of ESMA enforcement priorities
- Standards for enforcement
- Chairperson of materiality subgroup
- Participation in ESMA initiatives / surveys
- Presentation and discussion of Irish specific enforcement decisions and actions at EECS

29



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D. Impact of the EU Audit Reform Proposals



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30

IAASA involvement to date

- Membership of European Group of Audit Oversight Authorities (EGAOB)
- Response to European Commission's green paper and later consultation
- Participant in the Department of Jobs Enterprise and Innovation ('DJEI') audit reform working group
- Bilateral interaction with DJEI
- Assistance to DJEI for the Irish presidency



Scope of audit reform proposals

Aspects of the current proposals will affect:

- All statutory auditors and audit firms
- Public interest entities ('PIEs')
- Statutory auditors and audit firms who audit PIEs
- Public oversight authorities, such as IAASA
- Banking and insurance supervisors
- Recognised accountancy bodies



Problems identified by the European Commission

1. Audit expectation gap
2. Independence in the audit process (real or perceived)
3. Market concentration and lack of choice of auditors
4. High level of administrative burden due to fragmented national regulation
5. Restrictions in cross border statutory audits
6. Lack of common standards across the EU
7. Lack of proportionality of auditing standards for SMEs
8. Associated problems regarding the supervision of non-PIE audits



Proposed strategies to address problems

1. Strengthen national supervisory authorities
2. EU-wide cooperation within the European Securities and Market Authority (ESMA)
3. Expand the information required to be provided by auditors to users and to audited entities
4. Improve the communication channels between auditors and supervisors of PIEs by increased interaction and reporting
5. Implement specific requirements for PIE audits
6. Introduce mandatory rotation for auditors of PIEs



Proposed strategies to address problems

7. Prohibit the provision of non-audit services to PIE clients;
8. Introduce rules for choosing a PIE auditor;
9. Restrict PIEs from employing previous auditors;
10. Increase transparency of audit firms and provide information regarding audit quality;
11. Remove the audit firms' ownership restrictions;
12. Introduce a European passport for the audit profession; and
13. Introduce International Standards on Auditing across the EU.



IAASA views on key issues

Proposal	IAASA's position
Mandatory rotation of audit firms	Supportive of mandatory rotation after 8 to 10 years.
Joint audits	Not supportive of mandatory joint audits.
Mandatory tendering	Supportive of regular tendering.
Ban on Big 4 clauses	Supportive of the proposal to ban Big 4 clauses (clauses requiring auditors to be from Big 4 only).



IAASA views on key issues

Proposal	IAASA's position
Non-audit services	Not supportive of an outright ban on the basis that it has implications for audit quality and the cost of audit. Supportive of the current APB model.
Voting rights in firms	Supportive of raising capital from external sources, subject to safeguarding of auditors' independence.
Transparency report	Supportive of proposals on transparency reporting from a public interest perspective, but note that the current system of transparency reporting still needs to be assessed.

37



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IAASA views on key issues

Proposal	IAASA's position
European passport	Not supportive of the European passport in the context that the success of existing system recently introduced should be assessed before making changes.
ISAs across Europe	Supportive of the introduction of International Standards on Auditing (ISAs) across Europe. The ISAs are already in use in Ireland.
Proportionate application of standards for SMEs	Not supportive of the concept of limited audits. The ISAs already allow for scalability. The expectation gap could be widened if limited audits were implemented. It was suggested that it may be preferable to increase audit exemption limits.

38



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IAASA views on key issues

Proposal	IAASA's position
Expanded audit report	Supportive of an expanded audit report. The view is that additional detail on audit methodology employed could narrow the expectation gap. It is suggested that auditors provide more detail on aspects of the audit where professional judgement was central and the considerations in arriving at such key judgements.

39



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Issues for IAASA arising from proposals

- Potential end of self-regulation by the profession
- Immediate applicability of the measures
- Broader definition of PIEs
- Significant powers to ESMA and IAASA not represented on ESMA
- Significantly increased responsibilities



40

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Examples of controversial issues

- Auditor rotation
- Prohibition of certain non-audit services
- The role of ESMA
- Cap on provision of related financial audit services
- Functions of the oversight body
- Expanded definition of a PIE



41

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Next steps for audit reform - Europe

- Commission's proposals are in the first stage of the EU process for the approval of legislation
- The European Parliament and the Council of Ministers are separately developing and agreeing amendments to the proposed EC legislation
- Conciliation Committee



42

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Next steps for reform of audit supervision in Ireland

- In May 2008, the EC recommended direct independent quality assurance ('QA') of PIE audit firms
- IAASA has advocated that the EC QA recommendation should be implemented
- A decision was taken in July 2010 by DJEI to implement the recommendation
- IAASA submitted a detailed plan in 2011 and we understand its implementation is under consideration by DJEI in cooperation with the Department of Public Expenditure and Reform

43



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Concluding remarks

- Challenges of increased responsibilities
- Scope for enhanced cooperation
- Increased use of focussed thematic supervision and regulation
- Transparency and reporting

44



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Contacts and further Information

Further information on IAASA and its activities may be obtained from www.iaasa.ie or www.iaasa.eu

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45



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