

# Irish Auditing & Accounting Supervisory Authority



Annual Report 2006

## Table of Contents

	Page
Mission	3
At a Glance	5
Chairperson's Statement	6
Chief Executive's Review	9
Governance	12
Principal Goals & Organisational Structure	18
 <b>Chapter 1</b> - Supervision of how the prescribed accountancy bodies regulate and monitor their members	 21
<b>Chapter 2</b> - Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts	43
<b>Chapter 3</b> - Promotion of adherence to high professional standards in the auditing and accountancy profession and acting as a specialist source of advice to the Minister on auditing and accounting matters	63
<b>Chapter 4</b> - Ensuring the Authority's adherence to its legal and governance obligations	67
<b>Chapter 5</b> - Profile of the prescribed accountancy bodies	71
 <b>Financial Statements and Related Statements</b>	
Report of the Directors	114
Report of the Comptroller & Auditor General	116
Statement of Directors' Responsibilities	118
Statement on the System of Internal Financial Control	119
Statement of Accounting Policies	121
Income & Expenditure Account	123
Balance Sheet	124
Cash Flow Statement	125
Notes to the Financial Statements	126
 Appendices	 135
Glossary of Abbreviations	151





## Mission

To support and enhance public confidence  
in the accountancy profession and in financial reporting  
through the exercise of effective, independent oversight and  
the promotion of adherence to high standards



## At a Glance

- IAASA was incorporated as a company limited by guarantee on 20 December, 2005 and was conferred with the majority of its statutory functions and powers on 3 February, 2006.
- The Board held its first meeting on 3 January, 2006 and met on a total of 13 occasions during the year.
- Nine prescribed accountancy bodies come within IAASA's supervisory remit. The combined membership of the nine bodies residing within the State is in excess of 24,000 while their combined student numbers resident in the State exceeds 17,500.
- The aggregate number of prescribed accountancy body members located in Ireland that have been granted practising certificates is 3,452.
- The number of registered audit firms with offices in the State is 1,464. The corresponding number of registered auditors is 120.
- IAASA's financial statement review constituency, as provided for by the Companies (Auditing and Accounting) Act, 2003 is in excess of 4,100 companies and other undertakings.
- During the year, detailed reviews of four of the nine prescribed accountancy bodies were initiated. In addition, IAASA granted its approval for a number of amendments to prescribed accountancy bodies' constitutional documents.
- During 2006, the Minister for Trade & Commerce, Mr. Michael Ahern, T.D., designated IAASA as a competent authority for the purposes of the financial reporting enforcement aspects of the EU Transparency Directive.
- By the end of 2006, interim procedures governing enquiries under section 23 of the Act had been adopted by the Board with a view to their early issue for public comment.
- IAASA secured the Ministerial prescription of 37 of its European and international counterparts during 2006, thereby rendering it possible for the Authority to enter into information sharing arrangements with those organisations.
- In preparation for the enactment of the EU 8<sup>th</sup> Company Law Directive on statutory audit, IAASA was nominated as Ireland's representative on the European Group of Auditors' Oversight Bodies ('EAOB'), an expert group established by the EU Commission to provide assistance in EU-wide preparations for the Directive's transposition into Member States' domestic legislation.
- IAASA became a founding member of the International Forum of Independent Audit Regulators ('IFIAR'), which was established during 2006 to foster communication and co-operation between international audit regulators.
- In the context of EU-wide efforts to ensure the consistent enforcement of IFRS, IAASA became a member of the European Enforcer Co-ordination Sessions ('EECS'), a forum established on foot of the IAS Regulation.
- In response to a request from the Minister, IAASA undertook a major consultative exercise on the issue of whether the term '*accountant*' should be afforded legal recognition.
- During the period, IAASA took a range of steps to ensure its compliance with both its legal obligations and the governance requirements applicable to State bodies.

## Chairperson's Statement

### Introduction

I am pleased to submit the first report of the Irish Auditing & Accounting Supervisory Authority ('IAASA') to Mr. Michael Ahern, T.D., Minister for Trade & Commerce, in accordance with section 22(1) of the Companies (Auditing and Accounting) Act, 2003 ('the Act').

### Context for IAASA's activities

The Act, which, in broad terms, gave effect to the recommendations of the Review Group on Auditing, provided for the establishment of IAASA. Moreover, by providing IAASA with the key role of supervising the manner in which the prescribed accountancy bodies regulate and monitor their members, the Act brought to an end the era of self regulation of the accountancy profession in Ireland and allocated to IAASA a very clear set of regulatory responsibilities under national policy.

### IAASA's first year of activity

Having been conferred with its statutory functions in February, 2006, the year under review represented the Authority's first year of operations on a statutory footing. As a consequence, it was a very busy and challenging time for the Board and saw, amongst other things, the detailed consideration and adoption of a three year Work Programme (2006/08) following extensive consultation with interested parties. Whilst the Board dealt with a wide array of issues during the period, its activities can be summarised as having principally related to overseeing the implementation of Year 1 of the Work Programme and putting in place the requisite measures to ensure that the Authority has in place the corporate governance arrangements required of, and indeed befitting, a body established under statute.

Conferral of statutory functions was accompanied by the implementation of the Authority's first Work Programme, including the commencement of review visit activities *vis a vis* the prescribed accountancy bodies, the number of which increased from six to nine during the year on foot of the Minister's



Karen Erwin, Chairperson

prescription of three additional bodies. Momentum thereafter was considerable, with substantial progress being made during the year in conducting initial detailed reviews of a number of prescribed accountancy bodies and in the consideration of their constitutions, bye-laws, regulations and standards. These activities, which generated a range of findings (details of which are set out in Chapter 1 of this Report), gave rise to consideration by the Board of a range of related regulatory, strategy and policy issues and such matters were a regular feature of the Board's discussions during the year.

Based on the review work conducted by IAASA to date with regard to a number of the prescribed accountancy bodies, the Board is satisfied that, in the main, those bodies' regulatory and monitoring processes are operating in a manner that provides a sound basis for the discharge of their public interest remits. That having been said, the Authority's review activities to date have given rise to a number of significant findings which have resulted in the Authority taking appropriate action in response,

## Chairperson's Statement

thereby underscoring the importance of, and need for, independent oversight of the profession in the public interest. In the context of the foregoing, in addition to considering the nature and implications of issues arising, the Board also devoted a significant element of its time during the year to assessing the nature and substance of the responses received from those charged with managing and governing the prescribed accountancy bodies.

Significant progress was also made by the Board during the year in preparation for the commencement of the remaining sections of the Act of relevance to the Authority, notably section 26, which provides for IAASA's financial reporting supervision remit. By year end, the Board had established the scale and composition of the review constituency, had developed detailed proposals for apportioning the accompanying levy across constituents and had developed risk assessment and selection policies in readiness for commencement. Moreover, during the year the Minister for Trade & Commerce took the decision to confer further financial reporting supervision functions on the Authority by designating IAASA as a competent authority for the purpose of certain aspects of the EU Transparency Directive.

The development of external relationships was also prioritised by the Board during the year with IAASA taking the decision to participate actively in various regulatory fora of relevance to its remit, thereby ensuring that the Authority is, and remains, at the forefront of such developments during these times of unprecedented change for the profession.

### The future

These are exciting times to be charged with the supervision of the auditing/accounting profession and financial reporting. Significant revisions to the EU 8<sup>th</sup> Company Law Directive on statutory audit were adopted by the European Parliament and Council during the year and Ireland, together with other Member States, now faces the challenge of transposing and implementing the Directive by mid

2008. In addition to continuing to work with the EU Commission and other Member States' oversight authorities in preparing the way for transposition at an EU-wide level, the Authority looks forward to engaging with the Minister, his Department and the profession as the transposition process gathers pace. Given that the manner in which the Directive is transposed is likely to determine in large measure how Ireland's public oversight and regulatory regime is perceived into the future, not least by our EU and international counterparts, the Board looks forward to sharing its perspective on transposition with Government over the coming year.

As alluded to above, Minister Ahern also designated IAASA as a competent authority for the purpose of the financial reporting enforcement aspects of the EU Transparency Directive during 2006. While not underestimating the challenges that lie ahead for a small organisation in being charged with reviewing the financial statements of Ireland's largest companies for compliance with, *inter alia*, international financial reporting standards, the Board looks forward to implementing its new role and will be giving priority to seeking to source additional professional staff of the requisite calibre to enable IAASA to meet those challenges in an effective and credible manner.

### In conclusion

As is evident from this report, the Authority has achieved much since it was conferred with its statutory functions in February, 2006 - this has been possible only because of the dedication, commitment and professionalism of the Chief Executive and of the Authority's staff. Based on the solid foundation that has now been laid, I and my Board colleagues look forward to building further towards the attainment of the Authority's objectives in 2007 and beyond.

## Chairperson's Statement

Finally, I would like to take the opportunity to thank:

- Minister Michael Ahern, T.D., Minister for Trade & Commerce for his continued support for the Authority and for his ongoing interest in our activities;
- my Board colleagues for their ongoing support and their willingness to bring their considerable experiences and expertise to the Board table;
- the Authority's staff for their commitment, dedication and professionalism;
- John Corcoran, Brendan Dennehy, Ann Fitzgerald, Ronald Long and Ben Power who served as members of the Interim Board and who made a considerable contribution to bringing IAASA's establishment to fruition; and
- Brendan Moylan, Geraldine Hurley and Nuala Moloney for their respective service to the Interim Board.

**Karen Erwin**  
**Chairperson**  
**30 April, 2007**

## Chief Executive's Review

### Supervisory approach and activity

A strong and credible oversight system is essential if the Authority is to meet its core objective of providing a source of assurance to the public that:

- the accountancy profession is regulating and monitoring its members in a consistent manner and to the highest standards;
- constituent entities' financial reports are being prepared in accordance with applicable reporting frameworks; and
- where weaknesses, deficiencies or instances of non-compliance are identified or otherwise come to light, they are addressed, where necessary by way of sanction, in a timely and effective manner.

For reasons explained elsewhere in this Report, the bulk of the Authority's supervisory activities in the relatively short period since statutory functions were conferred upon it have related to the activities of the prescribed accountancy bodies. In that context, and having regard to the Authority's objects, IAASA has sought to strike an appropriate balance by:

- recognising that responsibility, in the first instance, for regulating and monitoring members of the profession continues to reside with the prescribed accountancy bodies under the model provided for by the Act; while also
- reflecting the fact that the Oireachtas has charged the Authority with a major public interest remit which requires that supervisory activities be conducted in a sufficient level of depth and detail to enable the Authority to understand, assess, reach conclusions on, table recommendations regarding and, where necessary, require changes to the prescribed accountancy bodies' regulatory and monitoring operations.



Ian Drennan, Chief Executive

In seeking to implement a system of balanced and proportionate supervision, IAASA has further committed itself to conducting subsequent reviews of individual prescribed accountancy bodies based on an assessment of relevant risk indicators, including, *inter alia*, the results of our first cycle of reviews. By adopting such an approach, the Authority aims to ensure that its limited resources are targeted towards those activities most likely to result in tangible benefits accruing to our stakeholders.

Given that, at this time, reviews of a number of the prescribed accountancy bodies are well advanced or have been completed, the Authority has already begun building up an overall picture of regulatory and monitoring activities across the bodies and feeding that data into the benchmarking process provided for in the Work Programme. By virtue of having a remit *vis a vis* nine prescribed accountancy bodies, the Authority is uniquely placed to add value

## Chief Executive's Review

by offering constructive insight to each with a view to ensuring that their respective systems and processes operate to a common and consistent high standard - an objective that is central to the Authority's strategy over the period 2006/08.

### International activity

Given the increasingly international dimension of audit and financial reporting, it is not possible for the Authority to discharge its functions without having regard to developments in the EU and internationally. For that reason the Authority has, from the outset, sought to involve itself in a range of EU and international fora, whereby IAASA, as a small organisation, can share experiences with, and learn from, our financial reporting and audit regulatory colleagues elsewhere around the globe. In that context, the Authority is proud to have been a founding member of the International Forum of Independent Audit Regulators - a grouping that will undoubtedly assume greater importance in the coming years - and is equally pleased to be an active participant in other co-operative fora, including the European Group of Auditors' Oversight Bodies and the Committee of European Securities Regulators ('CESR') sponsored European Enforcer Co-ordination Sessions, a forum where EU/EEA financial reporting enforcement authorities come together to share experiences and discuss enforcement decisions taken in their respective jurisdictions. Participation in these fora has already yielded substantial benefits to the Authority, particularly in the context of our input to preparations for the transposition of the EU 8<sup>th</sup> Company Law Directive, our preparations for assuming a role under the EU Transparency Directive and in facilitating our continued building and cementing of relationships with our EU and 3<sup>rd</sup> country oversight and financial reporting enforcement counterparts.

### Profile of the prescribed accountancy bodies

With a view to establishing certain key facts regarding the prescribed accountancy bodies and the scale of IAASA's supervisory remit, the Authority

developed an annual reporting mechanism during the year, through which the prescribed accountancy bodies will provide the Authority with specified data on an annual basis. While certain of this data is for supervisory purposes and is not, therefore, appropriate for publication, Chapter 5 of this Report sets out a detailed analysis of the scale and activities of the nine prescribed accountancy bodies and will, it is hoped, serve as a useful reference tool for Authority stakeholders now and into the future.

### Advisory activity

The referral to the Authority by the Minister for Trade & Commerce, Mr. Michael Ahern, T.D., of the question as to whether the term '*accountant*' should be afforded statutory protection resulted in our undertaking a major consultative exercise during the year with a view to ensuring that the Board's deliberations would be informed by the widest possible range of views on the issue. By year end, in excess of twenty contributors' views had been elicited, the Minister had been advised of the Authority's preliminary conclusion that there is merit in some form of action being taken to address the underlying issue of consumer protection and the Board's formulation of detailed recommendations was well advanced.

### Staffing

Given the nature of the Authority's activities, the degree to which we successfully fulfil our mandate is heavily reliant upon our ability to attract and retain professional staff of the highest calibre. While we have been successful in recruiting staff of the highest quality, the buoyancy of the employment market for suitably experienced staff is such that recruitment has proven very difficult and has taken considerably longer than we would have wished. While the foregoing has given rise to challenges for the organisation, with the support of the Minister and his Department we have been able to address a number of those challenges and the Authority looks forward to recruiting a number of additional professional staff in the coming year.

## Chief Executive's Review

### Decentralisation

In January, 2006 the Authority relocated from temporary accommodation on the Citywest Business Campus to Millennium Park in Naas, Co. Kildare. The fit out of the Authority's premises in Millennium Park was completed within budget and ahead of schedule.

### Acknowledgements

In conclusion, I would like to thank:

- the Chairperson and my fellow Board members for their support, guidance and insight; and
- my colleagues for their commitment, enthusiasm, dedication and, above all, professionalism.

**Ian Drennan**  
**Chief Executive**  
**30 April, 2007**

## Governance

### 1. Legal structure

Pursuant to the provisions of section 5 of the Companies (Auditing and Accounting) Act, 2003 ('the Act')<sup>1</sup>, the Authority discharges its functions and exercises its powers through a company limited by guarantee designated for that purpose by the Minister for Trade & Commerce, Mr. Michael Ahern, T.D. ('the Minister').

While the Act refers to the Minister for Enterprise, Trade & Employment, the Government has delegated all Ministerial functions provided for by the Act to the Minister. This delegation was effected by the Enterprise, Trade and Employment (Delegation of Ministerial Functions) (No. 2) Order 2004 (Statutory Instrument No. 808 of 2004)<sup>2</sup>.

### 2. Company membership

In accordance with the Act, the following are members of the company, which was incorporated on 20 December, 2005:

Association of Chartered Certified Accountants\*  
Association of International Accountants\*  
Chartered Institute of Management Accountants\*  
Chartered Institute of Public Finance & Accountancy\*  
Director of Corporate Enforcement  
Financial Regulator  
Institute of Certified Public Accountants in Ireland\*  
Institute of Chartered Accountants in England & Wales\*  
Institute of Chartered Accountants in Ireland\*  
Institute of Chartered Accountants of Scotland\*  
Institute of Incorporated Public Accountants\*  
Irish Association of Investment Managers  
Irish Business & Employers' Confederation

Irish Congress of Trade Unions  
Irish Stock Exchange  
Law Society of Ireland  
Pensions Board  
Revenue Commissioners

\* Denotes a prescribed accountancy body

### 3. Commencement of statutory functions

Following its incorporation in December 2005, the majority of IAASA's functions, as provided for by the Act, were conferred on 3 February, 2006 by way of Statutory Instrument No. 56 of 2006 (Companies (Auditing and Accounting) Act, 2003 (Commencement) Order, 2006)<sup>3</sup>.

### 4. Board of Directors

#### 4.1 Appointment of the Board of Directors

In accordance with the provisions of section 11 of the Act, the Authority is governed by a Board of fifteen directors. Fourteen of the Authority's directors are appointed by the Minister, having been nominated in accordance with Table 1 below. The remaining director is the Chief Executive, who is appointed by the aforementioned fourteen directors.

1. A copy of the Act can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/companies\\_auditing\\_and\\_accounting\\_act\\_2003.pdf](http://www.iaasa.ie/legislation/companies_auditing_and_accounting_act_2003.pdf)

2. A copy of S.I. 808 of 2004 can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/si808\\_2004.pdf](http://www.iaasa.ie/legislation/si808_2004.pdf)

3. A copy of S.I. 56 of 2006 can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/si56\\_2006.pdf](http://www.iaasa.ie/legislation/si56_2006.pdf)

**Table 1 - Board of Directors - Nominating Bodies**

Nominating body	Nominees
Minister for Trade & Commerce	2 <sup>4</sup>
Prescribed accountancy bodies (jointly by agreement)	3
Director of Corporate Enforcement	1
Financial Regulator	1
Irish Association of Investment Managers	1
Irish Business & Employers' Confederation	1
Irish Congress of Trade Unions	1
Irish Stock Exchange	1
Law Society of Ireland	1
Pensions Board	1
Revenue Commissioners	1

As further stipulated by the Act, a maximum of five directors, including the Chief Executive, may be members of the prescribed accountancy bodies.

### 4.2 Board procedures

The Board holds regular meetings (typically monthly) and its procedures further provide for the convening of unscheduled meetings should the need arise in order to progress the Authority's business. The directors receive regular and timely information in a form and of a quality appropriate to enable the Board to discharge its duties. The Board has put in place a formal Schedule of Matters specifically reserved to it for decision, which covers key areas of the Authority's work and statutory functions/powers. Certain additional matters are delegated to Board Committees, as outlined in section 5 below. The Board has also put in place a system of formal delegations of authority to the Chief Executive.

The nature of service on a Statutory Board such as IAASA requires a high degree of integrity, independence, objectivity and good faith on the part of the members of the Board. Whilst it is recognised that members of the Board have responsibilities to their nominating organisations, their overriding responsibility as directors is to act in accordance with the relevant legislation and to act in, and protect and promote, the best interests of the Authority. In this regard, all of the directors bring independent judgement to bear on issues dealt with by the Board. The Board has a formal policy in place for dealing with conflicts of interest that may arise, including disclosure obligations and requirements that directors absent themselves from discussions or decisions involving any such conflicts.

### 4.3 Board meetings

During 2006, the Board held 12 scheduled meetings, together with one unscheduled meeting. The membership of the Authority's Board of Directors, together with the number of meetings attended by individual directors, is set out in Table 2 below.

4. The Minister's nominees include the Chairperson of the Authority

## Governance

Table 2 - Board of Directors - Details

Director	Occupation	Nominated by	Meetings attended
Karen Erwin (Chairperson)	Founder & Principal, Erwin Mediation Services	Minister for Trade & Commerce	13/13
Ian Drennan*	Chief Executive	Other directors	13/13
Paul Appleby	Director of Corporate Enforcement	Director of Corporate Enforcement	12/13
Helene Coffey	Partner, Coffey & McMahon Solicitors	Law Society of Ireland	10/13
Marie Daly	Head of Legal & Regulatory Affairs, IBEC	Irish Business & Employers' Confederation	9/13
Michael Deasy*	Head of Financial Institutions and Funds Authorisation	Financial Regulator	13/13
Sean Hawkshaw	Managing Director, KBC Asset Management Limited	Irish Association of Investment Managers	8/13
Tom Healy	Chief Executive, Irish Stock Exchange	Irish Stock Exchange	11/13
Pat A. Houlihan	Assistant Principal, Company Law/EU Section, Department of Enterprise, Trade & Employment	Minister for Trade & Commerce	10/13
Jim Kelly	Principal, Office of the Revenue Commissioners	Revenue Commissioners	10/13
Tony Kelly*	Partner, Byrne Curtin Kelly, Certified Public Accountants & Registered Auditors	Prescribed accountancy bodies	10/13
Anne Maher	Company Director	Pensions Board	12/13
David Martin*	Company Director	Prescribed accountancy bodies	11/13
Donal O'Connor*	Senior Partner, PricewaterhouseCoopers, Chartered Accountants & Registered Auditors	Prescribed accountancy bodies	11/13
Senator Joe O'Toole	Member of Seanad Éireann (Upper House of Parliament)	Irish Congress of Trade Unions	11/13

Note: \* Denotes membership of a prescribed accountancy body.

### 5. Committees

The Board has also established a number of Committees to assist it in discharging its functions and responsibilities. All Committees have written terms of reference and report regularly to the Board. Details of Committees' memberships are set out below.

**Recognition Committee** (*charged with examining applications for recognised accountancy body status received by the Authority and for reporting recommendations to the Board*).

Members:

Michael Deasy (Chair)

Ian Drennan

Tom Healy

Secretary: Jane Meehan

**Investigations Committee** (*charged with determining whether the Authority should initiate an Enquiry into (i) a decision by a prescribed accountancy body not to undertake an investigation into a possible breach of its standards by a member; (ii) the conduct of an investigation by a prescribed accountancy body into a possible breach of its standards by a member; or (iii) any other decision of a prescribed accountancy body relating to a possible breach of its standards by a member*).

Members:

Sean Hawkshaw (Chair)

Marie Daly

David Martin

Secretary: Jane Meehan

**Audit Committee** (*charged with monitoring the integrity of the Authority's financial statements, the effectiveness of the Authority's internal control and risk management systems and with monitoring and reviewing the effectiveness of the internal and external audit processes*).

Members:

Donal O'Connor (Chair)

Helene Coffey

Jim Kelly

Secretary: Jane Meehan

**Remuneration Committee** (*charged with assessing the performance of the Chief Executive and making recommendations to the Board regarding the Chief Executive's and directors' remuneration*).

Members:

Senator Joe O'Toole (Chair)

Paul Appleby

Karen Erwin

Anne Maher

Secretary: Jane Meehan

### 6. Public sector governance obligations

The directors are committed to maintaining the highest standards of corporate governance and compliance. As a body established under statute, IAASA is subject to the provisions of the Code of Practice for the Governance of State Bodies ('the Code') issued by the Department of Finance, which sets out the principles of corporate governance applicable to State bodies. Further information regarding the steps taken by IAASA to comply with its governance obligations is provided in Chapter 4 of this Report.

## The Board of Directors



Karen Erwin



Ian Drennan



Paul Appleby



Helene Coffey



Marie Daly



Michael Deasy



Séan Hawkshaw

## The Board of Directors



Tom Healy



Pat Houlihan



Jim Kelly



Tony Kelly



Anne Maher



David Martin



Donal O'Connor



Joe O'Toole

## Principal Goals & Organisational Structure

### 1. IAASA's genesis

Following publication of the First Report of the Dáil<sup>5</sup> Public Accounts Committee's Parliamentary Inquiry into DIRT<sup>6</sup> (on 15 December, 1999), the then Tanaiste<sup>7</sup> and Minister for Enterprise, Trade & Employment, Ms. Mary Harney, T.D., established the Review Group on Auditing ('RGA'), which was chaired by Senator Joe O'Toole. The RGA was charged with examining, *inter alia*:

- self regulation in the auditing profession;
- auditor independence;
- the auditing of financial institutions; and
- the role of the auditor in ensuring compliance with statutory provisions.

The RGA's report, which set out a substantial number of recommendations regarding the foregoing, was published in July, 2000 and was subsequently endorsed by Government in December, 2000. The Companies (Auditing and Accounting) Act, 2003 - the statute under which IAASA was established - broadly gives effect to the RGA's recommendations.

### 2. Principal goals

Pursuant to the requirements of section 13 of the Act, the Authority has developed a three year Work Programme, which covers the period 2006/08, which, as required by the Act, has been furnished to the Minister. The Authority's first Work Programme was drawn up having regard, *inter alia*, to:

- the Authority's objects, as set out in section 8 of the Act;
- the Authority's functions, as set out in section 9 of the Act;

- the Authority's powers, as set out in section 10 of the Act; and
- ancillary considerations including, for example, the Authority's obligations and responsibilities as a statutory body and a company incorporated under the Companies Acts.

Having regard to the foregoing considerations, the Work Programme identifies, *inter alia*, the following key goals:

- I. to supervise how the prescribed accountancy bodies regulate and monitor their members;
- II. to monitor whether the financial statements of certain classes of companies and other undertakings comply with the Companies Acts;
- III. to promote adherence to high professional standards in the auditing and accountancy profession and act as a specialist source of advice to the Minister on auditing and accounting matters; and
- IV. to ensure the Authority's adherence to its legal and governance obligations.

The Authority's activities during the period in seeking to achieve the foregoing goals are elaborated upon in Chapters 1 to 4 of this Report.

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5. Lower House of Parliament

6. Deposit Interest Retention Tax

7. Deputy Prime Minister

## Principal Goals & Organisational Structure

### 3. Organisational structure

In reflecting the work streams that flow from the foregoing goals, the Authority is structured into four Units, *viz.*

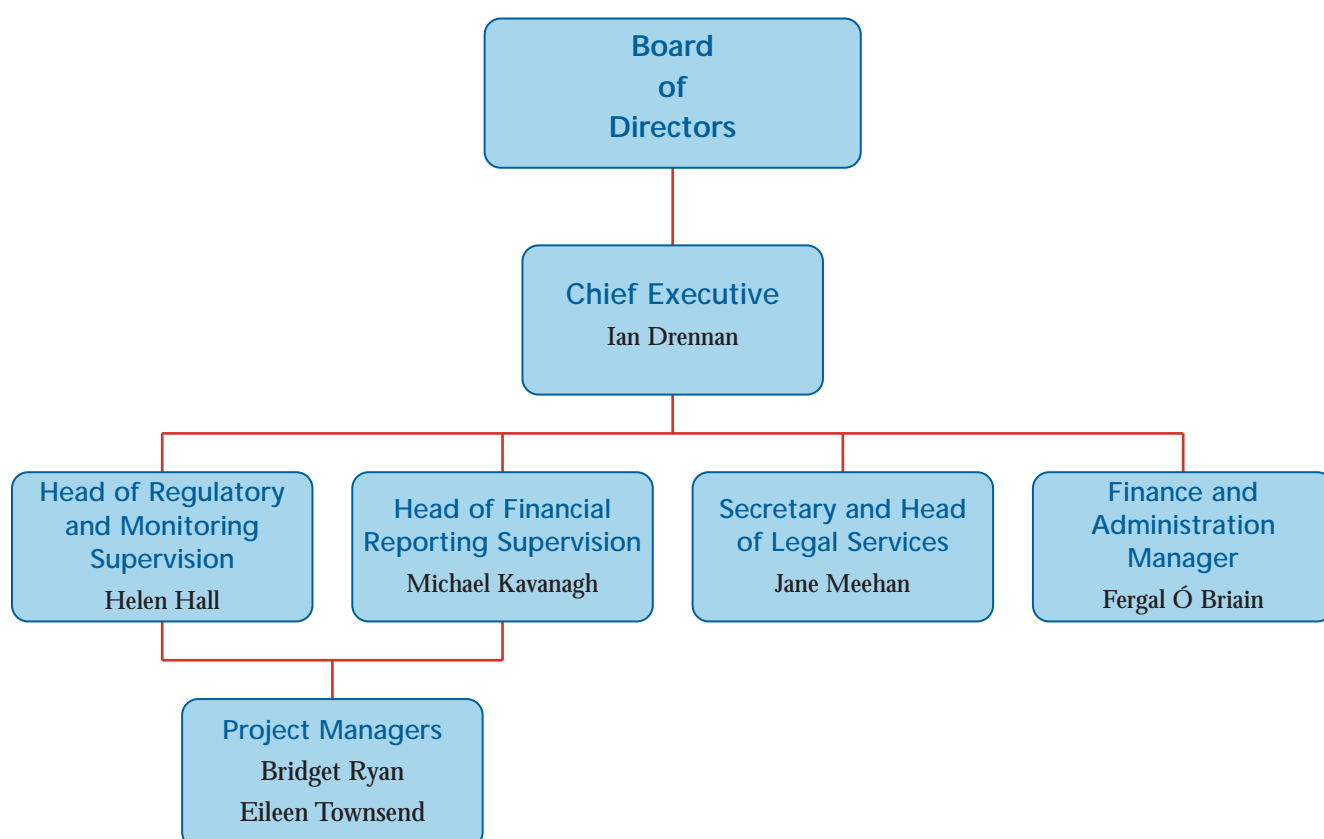
- Regulatory & Monitoring Supervision, which is concerned principally with supervision of the prescribed accountancy bodies and ancillary activities;
- Financial Reporting Supervision, which is concerned principally with financial statement review and ancillary activities;
- Secretariat & Legal Services, which provides a Secretariat to the Board and its Committees and

also provides in-house legal services to the Authority; and

- Finance & Administration, which provides corporate services support to the Authority.

While many of the activities flowing from the Authority's goals fall logically into the preceding structure, it is also the case that the nature of certain activities - taken together with the scale of the Authority - is such that more than one Unit may be involved.

The Authority's organisational structure as at 31 December, 2006 is set out in the diagram below.





# Chapter 1

Supervision of how the prescribed accountancy  
bodies regulate and monitor their members

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

#### 1. Supervision of the prescribed accountancy bodies

##### 1.1 Legislative context

IAASA's remit to supervise the prescribed accountancy bodies derives principally from sections 8 and 9 of the Act (the term 'prescribed accountancy body' is explained in section 1.2 below). In summary, IAASA's principal functions *vis à vis* the prescribed accountancy bodies include:

- granting recognition to bodies of accountants for audit purposes and attaching conditions to such recognition;
- granting approval for the prescribed accountancy bodies' constitutions and other related instruments and for amendments thereto;
- conducting statutory enquiries and investigations into prescribed accountancy bodies and their members;
- supervising the manner in which the recognised accountancy bodies monitor their members (the term 'recognised accountancy body' is explained in section 1.2 below); and
- supervising the prescribed accountancy bodies' investigation and disciplinary procedures.

A more detailed account of the relevant provisions of sections 8 and 9 of the Act is set out at Appendix 1 to this Report.

##### 1.2 Scope of IAASA's supervisory remit

###### 1.2.1 Definition of a prescribed accountancy body

The term 'prescribed accountancy body' is defined by section 4 of the Act as being:

*'(a) a recognised accountancy body, or*

*(b) any other body of accountants that is prescribed under section 48(1)(a) for the purposes of this Act'.*

###### 1.2.2 Recognised accountancy bodies

There are currently six recognised accountancy bodies (i.e. accountancy bodies that have been granted recognition under section 191 of the Companies Act, 1990), *viz*:

- I. Association of Chartered Certified Accountants ('ACCA');
- II. Institute of Chartered Accountants in England & Wales ('ICAEW');
- III. Institute of Chartered Accountants in Ireland ('ICAI');
- IV. Institute of Chartered Accountants of Scotland ('ICAS');
- V. Institute of Certified Public Accountants in Ireland ('ICPAI'); and
- VI. Institute of Incorporated Public Accountants ('IIPA').

A body of accountants recognised under section 191 of the Companies Act, 1990 is permitted to authorise its members to carry out statutory audits - provided that those members have met certain additional criteria (additional information regarding the requirements to be fulfilled before an individual can act as an auditor under the Companies Acts can be found in section E of Chapter 5 of this Report). By virtue of having been recognised, the six bodies referred to above are also deemed to be prescribed accountancy bodies and, as a consequence, automatically came within the remit of the Authority on the commencement of its statutory functions in February 2006.

###### 1.2.3 Other prescribed accountancy bodies

Prior to the establishment of IAASA on a statutory footing, the Interim Board of IAASA<sup>8</sup> ascertained the identities of those other accountancy bodies having a presence in the State who, by virtue of not having been recognised under the 1990 Act, would not fall within the Authority's supervisory remit

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

unless specifically prescribed by the Minister. Three accountancy bodies were identified, all of whom wished to be prescribed by the Minister, *viz*:

- I. Association of International Accountants (AIA);
- II. Chartered Institute of Management Accountants ('CIMA'); and
- III. Chartered Institute of Public Finance & Accountancy ('CIPFA').

With a view to making recommendations to the Minister as to whether these bodies should be prescribed, the Interim Board:

- had regard to the role of IAASA as a supervisory body and the desirability of all accountancy bodies having a presence in the State being subject to a similar level of oversight in the interests of equity and promoting public confidence;
- engaged in discussion with the three affected bodies and explained the implications of being prescribed (which include the obligation to contribute towards the Authority's funding); and
- performed a high level review of the three bodies' constitutions and bye-laws with a view to identifying whether, in the Authority's view, any major issues required to be addressed in advance of recommendations issuing to the Minister.

On its appointment in December, 2005, the Board of the Authority adopted the Interim Board's conclusions in this regard and recommended to the Minister that all three bodies be prescribed. Further to that advice, the Minister prescribed the three aforementioned accountancy bodies on 2 February, 2006 by way of Statutory Instrument 57 of 2006 (Companies (Auditing and Accounting) Act, 2003 (Prescribed Accountancy Bodies) Regulations, 2006)<sup>9</sup> thereby bringing them within the Authority's remit from that date.

#### 1.3 Work Programme provisions regarding the ongoing supervision of the prescribed accountancy bodies

In developing its first three year Work Programme<sup>10</sup>, the Authority adopted the following proposed *modus operandi* towards the supervision of the prescribed accountancy bodies:

- I. Each of the nine prescribed accountancy bodies would be the subject of an initial review, with reviews encompassing examination<sup>11</sup> of each body's:
  - constitution (i.e. Charter or Memorandum and Articles of Association, as applicable depending on the legal structure of the relevant body<sup>12</sup>);

8. The Interim Board of IAASA was established in April, 2001, arising out of recommendations contained in the Report of the RGA. The Interim Board was chaired by Ms. Karen Erwin, and included representatives of various stakeholder groups, i.e. social partners, regulators/users of financial statements and the accountancy profession. The primary function of the Interim Board was to advise the Minister in relation to the drafting of legislation to give effect to the recommendations of the RGA and to draw up a Work Programme for the statutory Supervisory Authority.

9. A copy of S.I. 57 of 2006 can be accessed on the Authority's website at <http://www.iaasa.ie/legislation/index.htm>

10. Section 13 of the Act provides that the Authority shall prepare an initial Work Programme, the duration of which shall be specified by the Minister. Having discussed the matter with the Department of Enterprise, Trade & Employment, it was agreed between the Department and the Authority that the first Work Programme would cover a three year period. Section 13 provides that, thereafter, each subsequent Work Programme should cover a three year period.

11. Where certain aspects of a prescribed body's operations are excluded from the Authority's initial review on grounds of the scale of the undertaking, these matters will be examined during the course of subsequent reviews.

12. The prescribed accountancy bodies broadly fall into two classes of legal structure, *viz* bodies incorporated under Charter and bodies incorporated under company law.

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

- governance arrangements;
  - bye-laws;
  - standards - '*Standards*' are defined by the Act as '*...the rules, regulations and standards that [a prescribed accountancy] body applies to its members and to which, by virtue of their membership, they are obliged to adhere*'. While the prescribed accountancy bodies have varying rules and regulations detailing members' obligations across a range of topics, examples of such standards include codes of professional conduct and ethics and regulations regarding, *inter alia*.
    - licensing (authorisation) of members to offer services to the public, other than services in 'reserved areas' such as audit or investment business;
    - audit registration (the effect of which is to entitle members to conduct statutory audit work);
    - disciplinary matters;
    - professional indemnity insurance;
    - continuing professional development;
    - admission to membership and education;
    - handling of, and accounting for, client monies; and
    - investment business activities; and
  - other standards applied to members and with which members are required to comply by virtue of their membership, including, for example:
    - accounting standards;
    - auditing standards;
    - auditors' ethical standards; and
  - processes and procedures pertaining to:
    - complaints handling;
    - investigation, discipline and appeals;
    - monitoring the quality of practising members' work, particularly in the area of statutory audit;
    - the granting and renewal of licences/certificates, particularly in the area of public practice and statutory audit; and
    - the monitoring of members' compliance with continuing professional development ('CPD') requirements.
- II.** Having performed its initial review of each prescribed body, the Authority would consider whether it is appropriate to grant its approval of each body's constitution and bye-laws, including its investigation and disciplinary procedures and standards.
- III.** Thereafter, through ongoing risk based supervisory activity, the Authority would monitor, *inter alia*.
- a.** action(s) taken by affected prescribed accountancy bodies on foot of Authority findings, conclusions and recommendations;
  - b.** the prescribed bodies' ongoing adherence to their approved constitutions, bye-laws, investigation and disciplinary procedures and standards; and
  - c.** the scope, nature and robustness of the bodies' quality assurance processes and procedures.
- IV.** On completion of the initial reviews of the nine prescribed accountancy bodies, the Authority would perform a benchmarking exercise, whereby the respective strengths and weaknesses of the bodies would be compared and, if applicable, additional recommendations would issue to relevant bodies for the purpose of effecting amendments/improvements judged necessary by IAASA to bring all to a similar high standard across all areas of their activities. In this context,

it is important to note that the nine prescribed accountancy bodies vary greatly in terms of scale, membership numbers, areas of activity of members and resources. Accordingly, in seeking to ensure that all operate to a similar high standard across all areas of activity, IAASA will have regard, to the extent considered necessary and/or appropriate, to such inherent variations.

#### 1.4 Reviews of the prescribed accountancy bodies - approach and methodology

During 2006 the Authority initiated first reviews of four of the nine prescribed accountancy bodies. Based on IAASA's review methodologies, initial prescribed accountancy body reviews include, *inter alia*, the following elements:

- a planning phase, which typically involves:
  - obtaining certain key information and documentation from each body in advance of the commencement of the review proper;
  - a preliminary desk based review of the aforementioned material;
  - the preliminary identification of areas of activity of greatest significance to the Authority's remit;
- an opening meeting with senior personnel of the prescribed accountancy body for the purpose of explaining the Authority's review approach, methodologies and reporting policy;
- an in-depth desk based review of the full suite of documentary and other material provided by each body;
- on-site inspections to the bodies' premises, which include reviews of:
  - selected files such as complaints, investigation, licensing and quality assurance review files as applicable and relevant;

- regulatory committee<sup>13</sup> minutes;
- documented procedures/methodologies for quality assurance reviews, complaints handling and licensing;
- follow up action taken on foot of unsatisfactory quality assurance reviews:
- meetings and interviews with the prescribed accountancy bodies' management and staff;
- attendance, in an observer capacity, at selected meetings of relevant regulatory committees<sup>13</sup>;
- accompanying the recognised bodies' quality assurance staff on review visits to member firms (in an observer capacity), the purpose of such exercises being to observe the bodies' quality review processes as opposed to forming a view on the quality of members'/firms' work; and
- resolution of queries and other issues arising through liaison with the relevant prescribed accountancy bodies' staff, management and/or those charged with governance of the body (usually the Council), depending on the significance of the issues.

Based on the foregoing methodology, initial reviews focussed, *inter alia*, on bodies':

- constitutions and governance arrangements and their resultant impact on the regulation of members;
- systems for monitoring members engaged in public practice;
- complaints handling and disciplinary procedures; and
- processes and procedures for licensing and registration of members.

13. While the prescribed accountancy bodies have varying mechanisms for dealing with the regulation of their members, many utilise a committee structure for decision making on complaints, disciplinary, licensing and quality assurance matters. For this purpose they are referred to here as "regulatory committees", and such committees may include quality assurance, licensing, investigation, complaints, disciplinary and appeals committees and/or tribunals.

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

#### 1.5 Reporting - IAASA policy

IAASA policy is that review findings and associated conclusions and recommendations are dealt with as follows:

- a closing meeting is held with bodies' senior management to discuss review findings, conclusions and proposed recommendations;
- following the closing meeting, and prior to a final draft report being tabled to the Authority's Board for consideration, findings, conclusions and recommendations are communicated in writing to the relevant prescribed accountancy body and the recipient is afforded an opportunity to:
  - draw attention to any matters in respect of which factual accuracy is disputed;
  - furnish responses to issues raised; and
  - furnish any additional information not provided during the course of the review;
- upon completion of the foregoing process, draft reports, which reflect any responses provided by the prescribed accountancy bodies, are tabled for detailed consideration by the Authority's Board. If adopted by the Board, a copy of the final Report is furnished to the prescribed accountancy body concerned;
- depending on the nature of matters arising in Authority reports, the Board or Executive may, concurrent with the issuance of a final report, seek further details of the proposed timeframe for the effecting of corrective/remedial actions or, alternatively and depending on the circumstances, set such timetables.

#### 1.6 Supervision of the prescribed accountancy bodies - findings and IAASA responses

Set out in the following table, on a non-body specific basis, is an overview of the nature of the principal issues that have arisen during the Authority's reviews to date, together with an overview of IAASA's responses to same.

By identifying issues during the course of reviews, and working with those charged with the management and governance of the relevant prescribed accountancy bodies, IAASA's supervisory activities seek to further improve the efficacy of those systems and processes in a timely fashion, thereby:

- contributing to the promotion of the public interest; and
- contributing to the enhancement of public confidence in the manner in which the profession is regulating and monitoring its members.

While, as evident from the foregoing, IAASA seeks to adopt a collaborative approach towards addressing matters arising from its supervisory activities, where such an approach is not considered to be effective or appropriate having regard to the circumstances, the Authority has the necessary statutory powers to require that the necessary actions be taken by the prescribed accountancy bodies.

Similarly, where issues arising result in IAASA making recommendations to the prescribed accountancy bodies to the effect that certain actions be taken, the Authority's ongoing supervisory activities - including follow up reviews - monitor the extent to which such actions have in fact been effected.

In studying the following table, readers should be cognisant of the fact that the findings set out therein may relate to one specific prescribed accountancy body or to a number of bodies.

Table 3 - Summary of principal review findings - Prescribed Accountancy Bodies

Category/Summary Finding	IAASA response
1. Monitoring (i.e. recognised bodies' monitoring of the quality of members' and member firms' audit work)	
1.1 Partial progress only in the monitoring of members'/member firms' implementation of International Standard on Quality Control (UK and Ireland) No. 1 ('ISQC 1') <sup>14</sup> which requires audit firms to establish, document and communicate their quality control systems.	IAASA sought the broadening of the scope of the monitoring process with a view to ensuring appropriate coverage of compliance by member firms with ISQC1.
1.2 Non-compliance with internally set monitoring visit cycles regarding member firms.	<p>Having established the causes of non-compliance with internally set targets, IAASA sought details as to whether measures had been put in place to address same and, if so, the nature of such measures and the timelines associated therewith. Where there was no evidence of corrective/remedial actions being in train, the design and implementation of appropriate responses was sought.</p> <p>In addition to considerations regarding non-compliance with internally set targets, enquiries were made as to bodies' respective states of preparedness for the transposition of the EU 8<sup>th</sup> Company Law Directive<sup>15</sup> (which must be transposed by EU Member States by mid 2008 at the latest and which will, <i>inter alia</i>, require the performance of quality assurance reviews of auditors and audit firms to take place at least every six years (other than in respect of the auditors of public interest entities, where reviews are required to be performed at least every three years)).</p> <p>Where the presence of action plans to meet the quality assurance requirements of the Directive was not evident, IAASA recommended that action plans be formulated and implemented in sufficient time to ensure that the Directive's requirements can be fully satisfied<sup>16</sup>.</p>

14. Issued by the Auditing Practices Board ('APB')

15. The provisions of the 8<sup>th</sup> Directive are summarised in further detail in section 5 below.

16. This recommendation was, of necessity, based on an assumption that the transposition of the Directive will not alter the currently prevailing quality assurance arrangements. However, Government's intentions regarding how those of the Directive's provisions relating to quality assurance will be transposed are not known at this time.

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

Category/Summary Finding	IAASA response
1.3 Weaknesses and deficiencies identified in the audit trail between specific monitoring review visit findings and the grades subsequently awarded to members/member firms.	<p>IAASA recommended that certain specified procedures and other measures be put in place as a matter of priority for the purposes of ensuring that:</p> <ul style="list-style-type: none"> <li>• rationale for grades awarded to members/member firms on foot of review visits is comprehensively documented on each visit file; and</li> <li>• in particular, such documentation provides a clear link between specific visit findings and overall grades awarded, including details of reviewers' judgements and the basis for same.</li> </ul>
1.4 Deficiencies identified in the process of ensuring that follow-up actions considered necessary on foot of monitoring review visits are effected.	<p>In addition to emphasising the importance of timely follow up as a means of ensuring that member firms effect necessary improvements on an expeditious basis, IAASA sought details of the reasons for delays, the measures being taken to address same and the proposed timeframe for actions.</p>
1.5 Inadequate documentation to support work performed on monitoring review visits.	<p>IAASA recommended that specified actions be taken to ensure that monitoring work performed is properly evidenced, thereby contributing to a strengthening of the quality assurance process and facilitating external review.</p>
1.6 Weaknesses and deficiencies identified in the internal review of bodies' monitoring files. In particular, deficiencies were identified regarding the evidencing as to whether, and if so how, issues raised by internal reviewers had been cleared/resolved prior to finalisation of monitoring visit reports.	<p>In response, IAASA recommended that:</p> <ul style="list-style-type: none"> <li>• where a system of internal review is not in place, that such a system be introduced as a matter of priority; and</li> <li>• where a system of internal review is in place but where reviews are not adequately evidenced on visit files that the performance of such internal reviews be more comprehensively documented in future.</li> </ul> <p>It was further indicated that internal review documentation should be sufficiently detailed to:</p> <ul style="list-style-type: none"> <li>• identify all material issues raised by internal reviewers and to record whether, and if so how, such issues have been cleared/resolved prior to finalisation of visit reports; and</li> <li>• facilitate external review and, in particular, to enable external reviewers to understand the key judgements and conclusions arrived at by internal reviewers in completing their reviews.</li> </ul>

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

Category/Summary Finding	IAASA response
<b>2. Discipline</b>	
2.1 Delays identified in the processing of complaints received from members of the public regarding members and member firms.	IAASA established the cause of such delays, the steps being taken to address same and the timeframes within which such measures will be effected. Certain specific recommendations also issued with a view to effecting improvements in complaints handling processes and reducing future delays.
2.2 Issues of varying significance identified regarding the interpretation of, and compliance with, the provisions of bodies' constitutions, bye-laws and regulations.	<p>IAASA's responses to these findings varied and had regard, <i>inter alia</i>, to the significance of the issues in question. In a number of cases the significance of the issues arising resulted in IAASA seeking advice before taking further action.</p> <p>Actions included seeking immediate amendments/improvements to current practices and, at period end, a number of these matters remained under active consideration.</p>
<b>3. Licensing</b>	
3.1 Weaknesses and deficiencies were identified in the processing of applications for practising certificates and audit registrations - in particular the absence of documentary evidence to support members' compliance with applicable criteria was noted to be an issue.	In response, IAASA issued a range of recommendations aimed at ensuring that the requirements of bye-laws and/or regulations are fully complied with in advance of certificates and registrations being granted to members.
<b>4. Constitutions and bye-laws etc.</b>	
4.1 Issues identified included: <ul style="list-style-type: none"> <li>• conflict and/or inconsistency between the provisions of individual constitutional documents;</li> <li>• ambiguity in the drafting of certain provisions of constitutional documents; and</li> <li>• unnecessary repetition and duplication of provisions between individual documents.</li> </ul>	In response, IAASA has worked with bodies' management and governing bodies with a view to addressing the issues arising and, in a number of cases, was continuing to do so at period end.

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

Category /Summary Finding	IAASA response
4.2 Non-compliance with the requisite process and procedures for obtaining approval of constitutional documents.	As any failure to observe requisite process and procedures regarding the securing of approval of constitutional documents has the potential to give rise to significant implications, IAASA required the immediate implementation of specified measures designed to ensure that such issues do not recur in the future. With regard to issues arising in the past, the actions taken by IAASA in relation to these findings, and level at which they were raised, varied and had regard, <i>inter alia</i> , to the significance and seriousness of the issues in question and in certain cases resulted in the Authority seeking advice before taking further action. At the end of 2006, a number of these matters were under active consideration.

#### 1.7 Approval of amendments to the prescribed accountancy bodies' constitutions, bye-laws and regulations

As detailed earlier in this Chapter, the Authority's functions *vis a vis* the prescribed accountancy bodies also include '*...to require changes to, and approve...any amendments to the approved constitution or bye-laws of each prescribed accountancy body, including amendments to its investigation and disciplinary procedures and to its standards.*'

Pursuant to the foregoing, in addition to giving consideration to a number of the prescribed accountancy bodies' extant constitutions, bye-laws, regulations and standards in the context and during the course of review visits, the Authority also processed a number of requests for approval of amendments to such instruments during the period. In processing such applications for approval, the Authority, *inter alia*:

- undertakes a detailed review of the nature of the proposed amendments and seeks to satisfy itself that the proposed amendments are consistent with the relevant body's constitution and other relevant instruments;

- has regard to the purpose of the proposed amendments; and
- considers whether the proposed amendments, if approved, could adversely affect the quality of the regulatory processes in place and/or the public interest.

The Authority granted approval in respect of the following during the period:

- amendments to one prescribed accountancy body's bye-laws;
- amendments to one prescribed accountancy body's Memorandum & Articles of Association;
- amendments to one prescribed accountancy body's regulations; and
- one prescribed accountancy body's extant constitution, bye-laws, regulations and standards.

In addition to the foregoing, the Authority was also considering a number of additional requests for approval at period end.

### 1.8 Complaints received by the Authority

During the period the Authority received a number of complaints. Broadly speaking, complaints related to:

- the prescribed accountancy bodies;
- members of the prescribed accountancy bodies; and
- persons who are not members of the prescribed accountancy bodies (who, generally, do not fall within the Authority's supervisory remit<sup>17</sup>).

An analysis of the complaints received by IAASA during the period under review, the nature of same and the manner in which those complaints were dealt with is set out in the tables below.

Table 4

Complaints received	
Cases on hand at 3 February, 2006	0
Complaints received during the period ended 31 December, 2006	27
Complaints closed during the period ended 31 December, 2006	(23)
<b>Complaints under consideration at period end</b>	<b>4</b>

Table 5

Closed complaints - manner of closure	
Referral to relevant prescribed accountancy body <sup>18</sup>	21
Referral to another regulatory/enforcement body	1
Complaint withdrawn by complainant	1
<b>Number of complaints closed during the period</b>	<b>23</b>

17. Certain persons, while not being members of the recognised accountancy bodies, are entitled to perform statutory audit work on foot of individual Ministerial authorisations granted prior to 3 February, 1983 and registered under the provisions of section 199(3) of the Companies Act 1990. By virtue of such authorisations, those persons are, following the enactment and commencement of the 2003 Act, deemed to be authorised to act in that capacity by the Authority. Other persons providing accounting services to the public, but who are not members of the prescribed accountancy bodies, are not subject to the Authority's supervisory remit to any extent and, accordingly, the Authority has no authority to deal with complaints relating to such persons.

18. As the statutory role of the Authority is to supervise, *inter alia*, the prescribed accountancy bodies' complaints handling procedures rather than to supplant same, where complaints received by the Authority have not, in the first instance, been referred to the body in question, in accordance with Authority policy, complainants are (i) apprised of the Authority's and the prescribed accountancy bodies' respective roles; and (ii) are generally referred to the appropriate prescribed accountancy body and advised to lodge their complaint for attention with the relevant body's approved complaints handling procedures. It is nevertheless the case that, were the facts of a complaint sufficiently serious in the Authority's estimation as to warrant direct intervention, the Authority has the powers to act accordingly under sections 23 or 24 of the Act.

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

Table 6

Nature of issues giving rise to complaints			
	Active at period end	Closed	Total
Failure to release client documentation	-	1	1
Allegation of unsatisfactory work	-	19	19
Alleged delays in prescribed accountancy bodies' disciplinary processes	-	2	2
Dissatisfaction with some aspect of the prescribed accountancy bodies' disciplinary processes	3	1	4
Alleged breach of prescribed accountancy bodies' bye-laws	1	-	1
<b>Total</b>	<b>4</b>	<b>23</b>	<b>27</b>

#### 1.9 Enquiries received

In addition to complaints received, the Authority received a total of 45 enquiries from members of the public during the period. The tables below set out details of the volume of enquiries received, together with the nature of same and how they were dealt with by the Authority.

Table 7

Enquiries received	
Enquiries on hand at 3 February, 2006	0
Enquiries received during the period ended 31 December, 2006	45
Enquiries closed during the period ended 31 December, 2006	(45)
<b>Enquiries on hand at period end</b>	<b>0</b>

Table 8

Nature of enquiries received	
Enquiries regarding the Companies (Auditing and Accounting) Act, 2003 and/or the Companies Acts generally	12
Enquiries relating to prescribed accountancy bodies or individual accountants	13
Enquiries regarding the Authority's role and the Authority's and prescribed accountancy bodies' respective roles	8
Enquiries regarding how to lodge a complaint with the Authority and/or the prescribed accountancy bodies	8
Enquiries relating to the functions of other regulatory bodies	2
Miscellaneous enquiries	2
<b>Total</b>	<b>45</b>

#### 1.10 Prescribed accountancy bodies' annual reports

Prior to the Authority's establishment, the six recognised accountancy bodies were required to provide the Minister with certain information on an annual basis regarding their regulatory and monitoring activities. This information was subsequently made public on an annual basis by the Minister through the inclusion of same in the Department of Enterprise, Trade & Employment's annual Companies Report<sup>19</sup>.

With the enactment and commencement of the Act, the prescribed accountancy bodies no longer come within the Minister's supervision but, rather, now fall within the Authority's remit. In this context, the Authority has developed revised annual reporting formats for use by the nine prescribed accountancy bodies. A detailed analysis of the first annual reports furnished to IAASA is set out in Chapter 5 of this Report.

#### 2. Authority's powers of enquiry and investigation vis a vis the prescribed accountancy bodies and their members

In addition to its general powers, the Authority has specific powers under sections 23 and 24 of the Act for the purpose of conducting:

- enquiries into whether a prescribed accountancy body has complied with its approved investigation and disciplinary procedures (under section 23); and
- investigations into possible breaches of a prescribed accountancy body's standards<sup>20</sup> by a member of that body (under section 24).

The aforementioned sections grant the Authority considerable powers of enquiry and investigation as well as significant powers to impose sanctions where breaches are determined to have occurred. For that reason, the Act requires that the Authority develop regulations governing how such investigations and enquiries will be conducted.

During the year the Authority committed significant resources to the development of regulations to govern the Authority's actions under section 23. This resulted in interim section 23 procedures having been adopted by the Board by year end with a view to their early issue for public comment<sup>21</sup>. By year end, initial work had also been undertaken regarding the development of procedures to govern the Authority's investigations under section 24 of the Act.

#### 3. Application for recognised accountancy body status

Prior to the Authority's establishment on a statutory basis, the Minister received an application for recognised accountancy body status from a body of accountants. At that time, the Minister requested the, then, Interim Board to review the application with a view to making recommendations to him. As that review was ongoing at the time that the relevant sections of the Act were commenced - which had the effect of transferring the authority to grant recognised accountancy body status from the Minister to IAASA - responsibility for considering the application formally transferred to IAASA at that time.

During the period under review, IAASA continued its review of the application through the Board's Recognition Committee. The Committee's review is

19. Previous years' Companies Reports can be accessed on the Department's website at <http://www.entemp.ie>

20. 'Standards' is defined by section 4 of the Act as "Standards, in relation to a prescribed accountancy body, means the rules, regulations and standards that body applies to its members and to which, by virtue of their membership, they are obliged to adhere".

21. The Authority's interim section 23 procedures can be accessed on the Authority's website at [http://www.iaasa.ie/publications/CP\\_1-07.pdf](http://www.iaasa.ie/publications/CP_1-07.pdf)

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

being conducted against the criteria for recognition as provided for by the Companies Act, 1990 and as set out hereunder:

Section 191 of the Companies Act, 1990 (as amended) provides that *'The Supervisory Authority may grant recognition to a body of accountants but only if satisfied -*

- (a) that the standards relating to training, qualifications and repute required by that body for the awarding of a practising certificate to a person are not less than those specified in Articles 3 to 6, 8 and 19 of the Council Directive [i.e. the original EU 8<sup>th</sup> Company Law Directive], and*
- (b) as to the standards that body applies to its members in the areas of ethics, codes of conduct and practice, independence, professional integrity, auditing and accounting standards and investigation and disciplinary procedures.'*

The Committee's review of the aforementioned application was ongoing at year end.

#### 4. IAASA's legal entitlement to share information

##### 4.1 Overview of IAASA's statutory confidentiality obligations

Section 31 of the Act provides, *inter alia*, that *'No person shall disclose, except in accordance with law, information that:*

- (a) is obtained in performing the functions or exercising the powers of the Supervisory Authority, and*
- (b) has not otherwise come to the attention of the public.'*

Notwithstanding the foregoing, the Act does recognise that the Authority may from time to time, and for legitimate purposes, need to share information with others and, in that context, provides for certain exceptions to the general prohibition on disclosing information. There are three such exceptions, *viz.*

- I.** if the disclosure is, in the Authority's opinion, necessary in order to enable it to state the grounds on which it has made a decision under:
  - a. section 23 (enquiry into whether a prescribed accountancy body has complied with its approved investigation and disciplinary procedures);
  - b. section 24 (investigation into whether a member of a prescribed accountancy body has breached the standards of that body); or
  - c. section 26 (financial statement enforcement);
- II.** if the information is, in the Authority's opinion, connected with the functions of, and the disclosure is made to one of the following named parties:
  - (i) the Minister;
  - (ii) the Minister for Finance;
  - (iii) An Garda Síochána (police force);
  - (iv) the Director of Public Prosecutions;
  - (v) the Director of Corporate Enforcement;
  - (vi) the Revenue Commissioners;
  - (vii) the Comptroller & Auditor General;
  - (viii) the Central Bank and Financial Services Regulatory Authority of Ireland;
  - (ix) the Irish Takeover Panel;
  - (x) the Irish Stock Exchange;
  - (xi) the Pensions Board;
  - (xii) a prescribed accountancy body;
  - (xiii) a member of a recognised accountancy body who is qualified for appointment as an auditor; and/or
  - (xiv) an inspector appointed under any other enactment; and/or

III. if the information is, in the Authority's opinion, connected with the functions of, and the disclosure is made to, a party that has been prescribed by the Minister for the purposes of section 31 of the Act.

#### 4.2 Memoranda of Understanding with named parties

During the period, IAASA and the Office of the Director of Corporate Enforcement ('ODCE') concluded a Memorandum of Understanding. This document<sup>22</sup> sets out the parties' agreement as to how, and under what circumstances, information will be shared as well as the use to which such information may be put on receipt of same. In addition, the Authority also initiated contact during the period, with the Financial Regulator with a view to concluding similar information sharing arrangements.

#### 4.3 Constraints encountered by IAASA in exchanging information with counterparts and the resultant Ministerial prescription of additional authorities for section 31 purposes

As set out above, the effect of section 31 of the Act, as enacted, is that, in the absence of the Ministerial prescription of authorities other than those specifically named in the section, the Authority is precluded from sharing information with its counterparts, and specifically in the context of supervision of the prescribed accountancy bodies, with other oversight bodies with whom the Authority might legitimately wish to co-operate. This difficulty was particularly relevant in a UK context given that a number of the prescribed

accountancy bodies also fall within the remit of the UK's Professional Oversight Board, a subsidiary Board of the Financial Reporting Council<sup>23</sup>.

In the context of the foregoing, the Authority requested the Minister to prescribe certain additional parties for section 31 purposes. In response, the Minister prescribed a list of additional authorities with whom the Authority may now share information, subject to the abovementioned conditions being satisfied, with effect from 14 December, 2006. The Minister's decision in this regard was effected by Statutory Instrument 619 of 2006 (Companies (Auditing and Accounting) Act, 2003 (Prescribed Bodies for Disclosure of Information) Regulations, 2006)<sup>24</sup>.

The additional parties now prescribed for section 31 purposes are set out in Appendix 2. As can be seen from same, the Authority's increased latitude to share information is of application not only to its functions *vis a vis* the prescribed accountancy bodies but also in the context of its financial reporting supervision role (Chapter 2 of this Report refers).

### 5. Revised EU 8<sup>th</sup> Company Law Directive on statutory audit

#### 5.1 Background to the revised Directive

EU wide requirements regarding statutory audit and the qualifications necessary for eligibility to perform such audits were set out in the EU 8<sup>th</sup> Company Law Directive<sup>25</sup>. These requirements were subsequently incorporated into Irish law, principally *via* the Companies Act, 1990.

22. The text of the Authority's Memorandum of Understanding with the ODCE can be accessed on the Authority's website at [http://www.iaasa.ie/publications/IAASA\\_ODCE\\_MoU.pdf](http://www.iaasa.ie/publications/IAASA_ODCE_MoU.pdf).

23. The relevant bodies are the:

Association of Chartered Certified Accountants ('ACCA'); Association of International Accountants ('AIA'); Chartered Institute of Management Accountants ('CIMA'); Chartered Institute of Public Finance & Accountancy ('CIPFA'); Institute of Chartered Accountants in England & Wales ('ICAEW'); Institute of Chartered Accountants in Ireland ('ICAI'); and Institute of Chartered Accountants of Scotland ('ICAS').

24. A copy of S.I. 619 of 2006 can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/si619\\_2006.pdf](http://www.iaasa.ie/legislation/si619_2006.pdf)

25. 84/253/EEC

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

In 1998, and on foot of what was perceived at that time to be a lack of an EU-wide harmonised approach to statutory audit, the EU Commission established a Committee on Auditing to develop proposals for further action in co-operation with Member States and the profession. On foot of the Committee's work, the EU Commission published:

- a Recommendation on minimum requirements for quality assurance of the statutory audit in the European Union (2000); and
- a Recommendation on fundamental principles regarding statutory auditors' independence in the EU (2002).

In addition to the foregoing, a number of corporate reporting scandals around the world had the effect of severely damaging public confidence in the accountancy profession, financial reporting and the capital markets. While several non-EU countries reacted to these events, unquestionably the most high profile reaction was the enactment of the Sarbanes Oxley Act, 2002 in the US, which, *inter alia*, provided for the creation of the Public Company Accounting Oversight Board ('PCAOB') which is charged with overseeing the audits of public companies that are subject to US securities law and which does so by conducting independent inspections of affected audit firms. It was against the backdrop of the aforementioned reports and other countries' reactions to these scandals that the revised EU 8<sup>th</sup> Company Law Directive<sup>26</sup> ('the Directive') was developed and adopted by the European Parliament and Council.

#### 5.2 Transposition timeframe

Under Article 53, the Directive entered into force 20 days after it was published in the Official Journal of

the EU and Member States are required to transpose the Directive into domestic law within a further two years, i.e. on or before 29 June, 2008. In Ireland, the Department of Enterprise, Trade & Employment has responsibility for effecting the Directive's transposition into domestic legislation.

#### 5.3 Directive's principal provisions - summary<sup>27</sup>

While the Directive - which is a lengthy and complex document - builds upon, and adds to, the requirements set out in the original Directive, it contains a number of provisions of particular significance, which are briefly set out hereunder:

- The Directive introduces a requirement whereby Member States are required to establish effective systems of public oversight for all statutory auditors<sup>28</sup> and audit firms<sup>29</sup>;
- Member States are required to ensure that their regulatory arrangements for public oversight permit effective co-operation at EU level between their public oversight systems;
- Member States' regulatory arrangements shall respect the principle of '*home country regulation*' and oversight by the Member State in which the statutory auditor or audit firm is approved and the audited entity has its registered office;
- Member States shall require statutory auditors and audit firms to perform statutory audits in compliance with international auditing standards, as adopted by the EU Commission;
- While a Register of Auditors is currently maintained by the Registrar of Companies, the Directive requires that certain additional information will be required to be made publicly

26. Directive 2006/43/EC

27. Relevant provisions of the Directive are summarised in Appendix 3 and the full text of the Directive can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/8th\\_Co\\_Law\\_published.pdf](http://www.iaasa.ie/legislation/8th_Co_Law_published.pdf).

28. The term '*statutory auditors*' refers to natural persons as opposed to firms.

29. Article 32(1)

available regarding statutory auditors and audit firms.

- The Directive provides that the competent authorities of a Member State shall register every 3<sup>rd</sup> country auditor/audit entity<sup>30</sup> that provides an audit report on the statutory financial statements of a company that, while incorporated outside the EU, has had its transferable securities admitted to trading on a regulated market in that Member State<sup>31</sup>.
- Member States shall submit 3<sup>rd</sup> country audit entities to their systems of oversight, quality assurance and investigations and penalties. However, Member States may disapply or modify this on the basis of reciprocity in circumstances where the 3<sup>rd</sup> country audit entities are deemed to be subject to systems of public oversight, quality assurance and investigations and penalties in the 3<sup>rd</sup> country that meet requirements judged to be equivalent to the Directive's requirements regarding EU auditors. The assessment of equivalence referred to above shall be conducted by the Commission<sup>32</sup>.
- Under specific conditions, Member States may permit the transfer of audit working papers and other documents held by statutory auditors and audit firms approved by them to the competent authorities of 3<sup>rd</sup> countries.
- Member States shall ensure that statutory auditors and audit firms may only be dismissed where there are proper grounds. In the context of the foregoing, divergence of opinions on accounting treatments or audit procedures shall

not constitute proper grounds for dismissal. The Directive further requires that the audited entity and the auditor will both be required to inform the oversight authority of the dismissal (or resignation) of the auditor during the auditor's term and to provide an adequate explanation of the reasons therefor.

- The Directive provides that, prior to 1 January, 2007, the EU Commission will publish a report on the impact of Member States' respective rules regarding auditor liability and, if considered appropriate, subsequently issue a recommendation to Member States<sup>33</sup>.

The Directive further lays down principles to which Member States' systems of quality assurance will be required to comply, which include, *inter alia*.

- the quality assurance system shall be organised in such a manner that it is independent of the reviewed statutory auditors and audit firms and is subject to public oversight;
- the funding of the quality assurance system shall be secure and free from any possible undue influence by statutory auditors or audit firms;
- the quality assurance system shall have adequate resources;
- the persons carrying out quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting, combined with specific training on quality assurance reviews;

30. Article 2(4) of the Directive defines a 'third country audit entity' as '...an entity, regardless of its legal form, which carries out audits of the annual or consolidated accounts of a company incorporated in a third country'. Article 2(5) defines a 'third country auditor' as '...a natural person who carries out audits of the annual or consolidated accounts of a company incorporated in a third country'.

31. The Directive does not, however, extend to companies that are exclusive issuers of debt where the denomination per unit is at least €50,000 (i.e. wholesale debt issuers).

32. Pending an assessment by the Commission, Member States may assess equivalence themselves or, alternatively, rely on assessments carried out by other Member States.

33. Further to the above provision, the EU Commission issued both a report and a subsequent consultation paper on the issue of auditor liability. These and other relevant documents can be accessed on the Commission's website at [http://ec.europa.eu/internal\\_market/auditing/liability/index\\_en.htm](http://ec.europa.eu/internal_market/auditing/liability/index_en.htm)

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

- the selection of reviewers shall be effected in accordance with an objective procedure designed to ensure that there are no conflicts of interest between reviewers and the auditor/firm under review;
- the scope of quality assurance review, supported by adequate testing of selected audit files, shall include an assessment of:
  - compliance with applicable auditing standards;
  - compliance with independence requirements;
  - the quantity and quality of resources spent;
  - the audit fees charged; and
  - the firm's internal quality control system;
- the quality assurance review shall be the subject of a report which shall contain the main conclusions of the review;
- quality assurance reviews of auditors and audit firms shall take place at least every six years (other than in respect of the auditors of public interest entities<sup>34</sup>, where reviews are required to be performed at least every three years);
- overall results of the quality assurance system shall be published annually; and
- recommendations arising from quality reviews shall be followed up by the statutory auditor/audit firm within a reasonable period and, if this is not the case, the auditor/firm shall be subject to a system of disciplinary actions and penalties.

#### 5.4 IAASA's involvement in the EU wide preparations for the implementation of the Directive

In advance of the Directive coming into force, the EU Commission established a group comprising of Member State experts. That group, which is referred to as the European Group of Auditors' Oversight Bodies ('EAOB') was established by Commission Decision in December, 2005<sup>35</sup>. The EAOB's principal tasks are to:

- facilitate co-operation between Member States' public oversight systems and to bring about an exchange of good practice concerning the establishment and ongoing co-operation of such systems;
- contribute to the technical assessment of public oversight systems of third countries and to the international co-operation between Member States and 3<sup>rd</sup> countries in this area; and
- contribute to the technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption at EU level.

In response to an invitation to Member States, the Department of Enterprise, Trade & Employment nominated IAASA as Ireland's member of the EAOB. Other Member States have nominated oversight bodies to be members of the Group where such entities exist at this time and, where such entities do not exist, the relevant Member States are represented by appropriate Ministries.

Much of the Group's work is performed through Sub-Groups and during 2006 the Group established three Sub-Groups, *viz*: Co-operation, Quality

34. Recital 13 of the Directive defines 'public interest entities' as '...entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State..., [and] credit institutions... Member States may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees.'

35. The Commission Decision establishing the EAOB can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/2005\\_909\\_EC.pdf](http://www.iaasa.ie/legislation/2005_909_EC.pdf)

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

Assurance and International Standards on Auditing ('ISAs'). IAASA is a member of both the Co-operation and Quality Assurance Sub-Groups and participates actively in their work.

#### 5.4.1 Co-operation Sub-Group

The principal issues that the Co-operation Sub-Group was concerned with during the year included:

- the practical implications of the provisions of Article 45 for oversight bodies, i.e. Member States' requirement to register 3<sup>rd</sup> country auditors and related issues, for example, the potential for 3<sup>rd</sup> country auditors to have to register in several Member States (i.e. by virtue of having a portfolio of clients that have listings in more than one Member State);
- seeking to establish the number of 3<sup>rd</sup> country auditors affected by the Directive and to prepare an analysis thereof by Member State;
- the identification of those 3<sup>rd</sup> country jurisdictions likely, based on the aforementioned analysis, to be of most relevance to the EU;
- the performance of preliminary assessments of 3<sup>rd</sup> countries' audit and relevant regulatory regimes in the context of possible equivalence and transitional provisions determinations being made by the Commission;
- evaluation of Member States' competent authorities' current ability to exchange information with their EU counterparts, i.e. in advance of transposing legislation being enacted by Member States; and
- preliminary consideration of selected 3<sup>rd</sup> countries' data protection regimes.

In the context of seeking to establish the number of 3<sup>rd</sup> country auditors that might be of relevance to Ireland under Article 45 of the Directive, IAASA, with the assistance of the Irish Stock Exchange ('ISE') established that companies incorporated in the countries scheduled in Table 9 below have securities listed on the ISE.

Table 9

#### Schedule of 3<sup>rd</sup> countries whose issuers are listed on the ISE

Cayman Islands  
Jersey  
Bermuda  
British Virgin Islands  
Guernsey  
Netherlands Antilles  
Bahamas  
Isle of Man  
Mauritius  
USA  
Canada  
Lebuan (Malaysia)  
Nevis<sup>36</sup>

Source: Irish Stock Exchange

The Sub-Group had, by year end, performed preliminary assessments of a number of 3<sup>rd</sup> countries referred to above as well as other 3<sup>rd</sup> countries affecting other Member States.

#### 5.4.2 Quality Assurance Sub-Group

The Quality Assurance Sub-group is charged with detailed consideration of the issues arising from the Directive's provisions regarding Member States' requirement to ensure that quality assurance systems, that meet certain criteria, are in place. The sub-group met for the first time in October 2006 and matters considered during the period to 31 December 2006 included:

36. Nevis is an island located off the coast of Puerto Rico and west of Antigua.

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

- ascertaining and documenting Member States' current quality assurance systems and arrangements;
- considering the minimum requirements for Member States' quality assurance systems that might be necessary in order to enable Member States to reach mutual recognition arrangements with 3<sup>rd</sup> countries' authorities; and
- Member States' ongoing co-operation with 3<sup>rd</sup> countries' oversight authorities.
- the provision of a focus for contacts with other international organisations having an interest in audit quality.

#### 5.5 IAASA's involvement in domestic preparations for the implementation of the Directive

In addition to being involved in EU-wide preparations for the transposition of the Directive, given the likelihood that IAASA will have a key role to play under the Directive as transposed into Irish law, the Authority continued to liaise closely with the Department of Enterprise, Trade & Employment on Directive related issues during the year.

### 6. Contact and co-operation with international oversight bodies

#### 6.1 International Forum of Independent Audit Regulators

At a meeting in Paris in September, 2006, IAASA, together with audit regulatory bodies from 17 other countries, established the International Forum of Independent Audit Regulators ('IFIAR'). The purpose of the Forum is to facilitate:

- the sharing of knowledge of the audit market environment and practical experience of independent audit regulatory activities, including in the areas of:
  - the framework for audit regulation;
  - the environment for audit regulation; and
  - audit regulatory practice;
- the promotion of collaboration in regulatory activity; and
- IFIAR's relationship with other international organisations having an interest in audit quality.

In addition to IAASA, the other founding members of IFIAR were independent audit regulatory authorities from Australia, Austria, Brazil, Canada, Denmark, France, Germany, Italy, Japan, Mexico, The Netherlands, Norway, Singapore, South Africa, Spain, Sweden and the United Kingdom. The Paris meeting was also attended by observers from the PCAOB, the Financial Stability Forum ('FSF'), the World Bank, the International Organisation of Securities Commissions ('IOSCO'), the Basel Committee of Banking Supervisors, the International Association of Insurance Supervisors (IAIS), the Public Interest Oversight Board ('PIOB') and the European Commission.

Since its establishment, IFIAR members have considered a range of topics including:

- audit regulatory developments in the EU and internationally;
- members' ability to access information and to share same with each other;
- the drivers of audit quality and the threats to those drivers; and
- IFIAR's relationship with other international organisations having an interest in audit quality.

Under terms agreed by IFIAR members, membership of IFIAR is confined to regulatory agencies which are:

- independent of the audit and accountancy profession, which means:
  - a majority of the relevant governing body should be non-practitioners; and
  - funding should be free from undue influence by the profession; and

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

- engaged in regulatory functions in the public interest, and, in particular:
  - responsible for the system of recurring inspection of audit firms undertaking audits of public interest entities; and
  - exercise that responsibility either directly or through oversight of inspection undertaken by professional bodies.

#### 6.2 US PCAOB

Given that a number of Irish audit firms are registered with the US PCAOB, the Authority has, from its inception, sought to develop close working relations with the PCAOB. In this context, during the period the Authority:

- provided the PCAOB with a copy of its Work Programme; and subsequently
- met with PCAOB representatives for the purposes of gaining a better understanding of each others' respective mandates and methodologies.

#### 7. Co-operation in the development of auditing and ethical standards

##### 7.1 Auditing Practices Board

Section 9(2) of the Act provides that IAASA's functions include:

- co-operation with the recognised accountancy bodies and other interested parties in the development of standards relating to the independence of auditors; and
- co-operation with the prescribed accountancy bodies and other interested parties in the development of auditing standards and practice notes.

In light of these provisions and the uncertainty that they gave rise to among interested parties prior to the Authority's establishment (i.e. as to how IAASA might interpret them), the Authority took the opportunity at an early stage to clarify that:

- in its view the extant arrangements whereby the UK's Auditing Practices Board's ('APB') standards and guidance are applied to Ireland are working well and, for that reason, do not require amendment; and
- in its view, the establishment of an Irish auditing standard setter would run counter to international trends.

In seeking to discharge its role of co-operating in the standard setting process, and given that the APB sets both:

- auditing standards; and
- auditors' ethical standards (including auditors' independence requirements),

in respect of both UK and Irish auditors, IAASA approached the Department of Enterprise, Trade & Employment<sup>37</sup> and the APB with a view to obtaining observer status at that forum. The logic underpinning the Authority's approach was that observer status would, *inter alia*:

- assist the Authority in discharging its statutory role in this regard;
- provide the Authority with a greater understanding of the standard setting process; and

37. Prior to the Authority's establishment, the Department of Enterprise, Trade & Employment had an observer seat at APB meetings.

## Chapter 1

### Supervision of how the prescribed accountancy bodies regulate and monitor their members

- facilitate the early identification by the Authority of issues arising that might have a particular importance/relevance to the Irish context and, in conjunction with the prescribed accountancy bodies, Government and other interested parties, draw attention to same in order that detailed consideration might be given to the issues arising in sufficient time to enable the APB to fully consider Irish contributors' views in the course of its deliberations.

Further to that approach, the APB granted the Authority observer status at its meetings, which are held monthly.

#### 7.2 EU adoption of international standards on auditing

As referred to at section 5.4 above, the EGAOB, of which the Authority is a member, is charged with, *inter alia*, contributing to the technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption at EU level pursuant to the provisions of the revised 8<sup>th</sup> Company Law Directive. IAASA therefore discharges its abovementioned statutory functions through these activities also.

# Chapter 2

Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

#### 1. Financial statement review remit

##### 1.1 Context for IAASA's financial statement review remit

###### 1.1.1 Context

Section 9(2) of the Act provides that IAASA's functions include *'...to review under section 26 whether the accounts of companies and undertakings referred to in that section comply with the Companies Acts and to make applications to the High Court to ensure compliance.'*

In addition, Statutory Instrument 116 of 2005 ('S.I. 116')<sup>38</sup> (which gave effect to EU Regulation (EC) No. 1606/2002 ('the IAS Regulation')<sup>39</sup> in domestic legislation) expanded the review remit to be given to IAASA under the Act by conferring an additional role regarding the IAS Regulation<sup>40</sup>. The IAS Regulation is expanded upon further at section 1.1.3 below.

###### 1.1.2 Relevant legislative provisions regarding financial statement review - the Act

The legislative provisions contained in the Act pertaining to IAASA's financial statement review remit are:

- section 26, which details, *inter alia* with:
  - the scope of the review remit, i.e. the review constituency;
  - circumstances in which IAASA can require an entity's directors to explain financial statements or to prepare revised financial statements;
  - circumstances under which IAASA can require an entity to recoup the Authority's costs;

- circumstances under which IAASA can apply to the High Court for a declaration of non-compliance regarding a set of financial statements;
- the High Court's powers in circumstances where an order of non-compliance is granted;
- the requirements regarding drawing the public's attention to actions taken under the section; and
- section 15, which provides IAASA with the power to levy review constituents for the purposes of funding the Reserve Fund<sup>41</sup>.

###### 1.1.3 Relevant legislative provisions regarding financial statement review - IAS Regulation

Article 4 of the IAS Regulation provides that, for each financial reporting period starting on or after 1 January, 2005, companies governed by the laws of EU Members States:

- whose securities are admitted to trading on a regulated market at their balance sheet dates; and
- who are required to prepare consolidated financial statements,

must prepare those consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted for use by the European Union<sup>42</sup>.

Article 9 of the IAS Regulation further provides that, by way of transitional provisions, Member States are permitted to defer the aforementioned requirement - but only respecting companies whose debt securities are admitted to trading on a regulated

38. International Financial Reporting Standards and Miscellaneous Amendments Regulations, 2005, the text of which can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/si116\\_2005.pdf](http://www.iaasa.ie/legislation/si116_2005.pdf)

39. The text of the IAS Regulation can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/eu\\_ias\\_regulation\\_1606\\_2002.pdf](http://www.iaasa.ie/legislation/eu_ias_regulation_1606_2002.pdf).

40. Specifically, S.I. 116 amended sections 8, 9 and 26 of the Act.

41. See section 1.3 of this Chapter for further details of the Reserve Fund.

42. Further details regarding the EU adoption of IFRS and the process involved can be accessed on the EU Commission's website at [http://ec.europa.eu/internal\\_market/accounting/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/index_en.htm).

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

market in a Member State - until financial reporting periods commencing on or after 1 January, 2007. As Ireland elected to take advantage of this deferral, this latter category of companies became subject to the aforementioned requirements with effect from 1 January, 2007.

#### 1.1.4 Ireland's proposed approach to its enforcement obligations under the IAS Regulation

While, as set out above, S.I. 116 of 2005 expanded IAASA's review remit as provided for by the Act, the revised requirement was not accompanied by more detailed provisions. Accordingly, it was envisaged by the Department of Enterprise, Trade & Employment (the Department with responsibility for transposing the IAS Regulation into domestic law) that the Authority's enforcement role in this regard would be discharged *via* section 26 of the Act, an approach which was envisaged would be possible by virtue of the fact that those entities affected by the IAS Regulation (i.e. listed companies preparing consolidated financial statements) are, in any event, a subset of the constituency provided for by section 26.

### 1.2 Section 26 financial statement review remit - scope, constituency & exemptions

#### 1.2.1 Compliance with the Companies Acts

In the context of compliance of companies' financial statements with specified requirements, the term '*comply with the Companies Acts*' refers to compliance with the Companies Acts 1963 to 2006, together with all Regulations<sup>43</sup> to be construed as one with those Acts. The Companies Acts require the directors of all Irish registered companies, *inter alia*, to:

- ensure that the company maintains proper books of account; and
- prepare financial statements on an annual basis which give a '*true and fair view*' of the company's profit or loss during the period in question and of the company's state of affairs (i.e. its assets and liabilities) at the end of that period.

The term '*true and fair view*' is not, however, defined in law. However, it is generally accepted that financial statements will give a true and fair view when they have been prepared in accordance with:

- the Companies Acts;
- any other applicable law; and
- applicable accounting standards.

#### 1.2.2 Applicable accounting standards

Currently, there are two main bodies of applicable accounting standards available for use by Irish registered companies in respect of accounting periods beginning on or after 1 January, 2005. These are:

- 'IFRS accounts'; and
- 'Companies Act accounts',

further details of which are set out hereunder.

#### IFRS accounts

For accounting periods beginning on or after 1 January, 2005, all Irish listed companies<sup>44</sup> are required by the IAS Regulation (as transposed by S.I. 116 of 2005) to prepare their consolidated financial statements in accordance with IFRS, as adopted for use in the European Union.

43. 'Regulations' refers to both Statutory Instruments and Regulations. All Statutory Instruments and Regulations to be construed as one with the Companies Acts, together with the text of each, is available at <http://www.irishstatutebook.ie>. Selected Statutory Instruments and Regulations of particular relevance to the Authority's remit are also accessible on the Authority's website (<http://www.iaasa.ie/legislation/index.htm>).

44. The effective date for the application of IFRS to debt listed parent companies was deferred to financial reporting periods beginning on or after 1 January, 2007.

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

#### Companies Act accounts

All other Irish companies may, if they so wish, prepare their consolidated and individual financial statements using IFRS. They are not, however, required to do so. Those that do not opt for IFRS are required to prepare what are known as 'Companies Act Accounts.' Companies Act accounts are accounts prepared in accordance with the formats and accounting and disclosure rules of Irish company law and applicable accounting standards. Applicable accounting standards in this context are the accounting standards issued by the Accounting Standards Board ('ASB')<sup>45</sup> for use in Ireland.

Certain other Irish entities<sup>46</sup> are also permitted to prepare their financial statements using *Alternative Bodies of Accounting Standards* ('ABAS'), specifically the accounting standards of the United States of America, Canada and Japan.

#### 1.2.3 Initial intentions regarding the timing of commencement of section 26

Having regard to the fact that:

- identifying the scale and composition of IAASA's financial statement review remit was expected to be a major undertaking;
- a determination had to be made on the matter of what, if any, exemptions would be granted from the scope of section 26 (the matter of exemptions is dealt with at section 1.2.5 below); and
- IAASA would not be in a position to formulate levy proposals and to consult publicly thereon until the foregoing facts had been established,

it was agreed by IAASA and the Department of Enterprise, Trade & Employment that section 26 would not be included in the second *tranche* of sections of the Act to be commenced (i.e. in February, 2006) but, rather, that the relevant provisions would be commenced once these matters had been addressed and the necessary consultative processes with interested parties had been undertaken and concluded.

#### 1.2.4 Scale and composition of the Section 26 review constituency

Section 26 provides that those companies and other undertakings coming within certain specified classes of entity come within the remit. Those classes of entities include, for example, all public limited companies and their subsidiaries and all private companies whose turnover and balance sheet totals exceed specified monetary thresholds. Full details of the statutory provisions regarding the composition of the section 26 review constituency are set out in Appendix 4 to this Report.

With a view to establishing the scale and composition of the review constituency, IAASA worked with an independent research consultancy during 2006. This exercise indicated that the scope and composition of the constituency was - at the time that the research was conducted - as set out in the table below<sup>47</sup>.

45. The Accounting Standards Board ('ASB') is an independent standard setter. It is a subsidiary of the UK's Financial Reporting Council ('FRC').

46. Investment companies, as defined by Part XIII of the Companies Act, 1990 are permitted to use Alternative Bodies of Accounting Standards by virtue of section 28 of the Investment Funds, Companies and Miscellaneous Provisions Act, 2005.

47. The figures set out above are before any exemptions that might be granted by the Minister pursuant to the provisions of section 48(1)(j) of the Act.

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

Table 10

Section 26 review constituency - research findings	
Class of entity - as per section 26	Number of entities
Public limited companies ('plcs')	1,447
Subsidiaries of plcs	1,882
Private companies satisfying monetary thresholds	46
Private groups satisfying monetary thresholds	101
Subsidiaries of private groups	649
Regulation 6 <sup>48</sup> undertakings satisfying monetary thresholds	4
Regulation 6 groups satisfying monetary thresholds	2
Subsidiaries of Regulation 6 undertakings	5
<b>Total</b>	<b>4,136</b>

#### 1.2.5 Provisions regarding exemptions from the scope of section 26

Section 48(1)(j) of the Act provides that the Minister may make regulations for the purpose of exempting certain entities that would otherwise qualify as relevant undertakings (and, as a

consequence, come within the remit of the section). Per the Act, the classes of entities in respect of which the Minister may make exempting regulations are:

- qualifying companies within the meaning of section 110 of the Taxes Consolidation Act, 1997 (as inserted by section 48 of the Finance Act, 2003); and
- classes of other companies and other undertakings, *'if the extent to which or the manner in which they are or may be regulated under any enactment makes it, in the Minister's opinion, unnecessary or inappropriate to apply those provisions to them'*.

#### 1.2.6 Section 110 companies

Section 110 of the Taxes Consolidation Act, 1997 (as inserted by section 48 of the Finance Act, 2003) is a provision dealing with the securitisation of assets and the tax treatment of a *'qualifying company'*<sup>49</sup> under the section. Companies used for this purpose are also known as *'Securitisation Vehicles'*.

Prior to, and during, the passage of the Companies (Auditing and Accounting) Bill ('the Bill') through the Oireachtas<sup>50</sup>, a number of parties made submissions to the effect that these companies should be exempted from the Authority's remit. The

48. Undertakings referred to in Regulation 6 of the European Communities (Accounts), Regulations 1993 (S.I. 396 of 1993) are:

1. Unlimited companies and partnerships, where all the members thereof who do not have a limit on their liability are:
  - (a) companies limited by shares or by guarantee; or
  - (b) bodies not governed by the law of the State but equivalent to those in (a);
  - (c) any combination of the types of bodies referred to in (a) and (b);
 and
2. Unlimited companies and partnerships where all the members thereof who do not have a limit on their liability are:
  - (a) (i) unlimited companies or partnerships of the type referred to in 1. above that are governed by laws of the State; or
  - (ii) bodies governed by the laws of a Member State that are of a legal form comparable to those referred to in (i) above; or
  - (b) any combination of the types of bodies referred to in subparagraph (a) and subparagraphs (a) and (b) of 1 above.

49. A *'qualifying company'* is a company resident in the State which carries on a business of the management of qualifying financial assets and does not carry on any other activities, apart from activities which are ancillary to the business of the management of those qualifying assets, but a company shall not be a qualifying company if any transaction is carried out by it otherwise than by means of a bargain made at arm's length (Section 110 (1) Taxes Consolidation Act, 1997).

50. Irish Parliament

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

main arguments advanced by the advocates of exemption at that time included:

- while the securities issued by these companies are often listed in order to optimise the market for their placement, they are normally sold into the wholesale debt market to institutional investors and are not marketed to, or purchased by, retail investors;
- securitisation vehicles are established on a transactional basis normally to facilitate a once-off deal and, therefore, normally have a finite life;
- securitisation vehicles are established with the minimum share capital required by legislation, as they have no participating shareholders and the shares are usually held by a charitable trust;
- the key creditors of such companies are normally the security holders themselves, who have a charge on the assets of the company; and
- there is no public interest element to these entities as they normally do not have any participating shareholders, employees, active management or substantial third party creditors.

#### 1.2.7 Classes of other companies and undertakings which are, or may be, regulated under any enactment

The language used in the section in this context is such that the scope of this exemption could conceivably be very wide. However, during the debate on the Second Stage of the Bill<sup>51</sup>, in references to this class of entities, the Minister stated, *inter alia*, that:

*‘... paragraph (j) [of section 48(1)] is designed to enable the Minister to exempt certain classes of companies and other undertakings from specific*

*provisions in circumstances where, and to the extent that, they are otherwise regulated.*

*This will apply in particular to entities that are used by the financial services industry and are subject to regulation by the Central Bank. As I have already said in the Seanad [upper House of Parliament], it is my intention to make such a regulation exempting investment companies<sup>52</sup> used by the financial services funds industry from the seven sections specified at paragraph (j) at the same time as these sections are being commenced.’*

#### 1.2.8 Difficulties in establishing the identities of Section 110 companies

In view of the Minister’s stated intention to exempt certain classes of entity from the scope of section 26, in addition to establishing the scope and composition of the section 26 constituency, IAASA further sought to establish the identities of those entities that would be affected by such exemptions. In that context, IAASA explored whether the Revenue Commissioners might be in a position to provide it with details of Section 110 companies. However, in light of concerns regarding the Revenue Commissioners’ statutory confidentiality obligations, an alternative approach was considered. This centred on the requirement for section 110 companies to notify the Revenue Commissioners of their status as such companies. The alternative approach would require those section 110 companies that wished to avail of any proposed exemption to identify themselves by furnishing to IAASA a copy of their notification to Revenue. This, however, did not provide a solution to the issue as the aforementioned notification requirement to Revenue only applies to companies established on or after 1 February, 2003. Accordingly, the matter remained under consideration by the Revenue Commissioners and IAASA at year end.

51. 16 October, 2003

52. ‘Investment companies’, as referred to above, would include:

- investment companies (as defined by Part XIII of the Companies Act, 1990) i.e. funds companies; and
- UCITS (Undertakings for Collective Investment in Transferable Securities).

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

The aforementioned difficulties naturally gave rise to the question as to how, in the event of their being exempted from the scope of IAASA's remit, securitisation vehicles would be identified for the purposes of excluding them from the Authority's reviews and, equally importantly, from the Act's levy provisions (section 1.3 below refers).

#### 1.3 Financial statement review - Authority's levy proposals

##### 1.3.1 Legislative basis for the 'Reserve Fund'

Section 15 of the Act<sup>53</sup> provides that the Authority shall establish and maintain a Reserve Fund to be used for the purposes of performing its functions and exercising its powers under:

- section 24 (investigation into a possible breach of the standards of a prescribed accountancy body by a member); and/or
- section 26 (enforcement actions pursuant to the Authority's financial reporting supervision remit).

Section 15 further provides for the manner in which the Reserve Fund may be funded. Specifically, it provides that:

- (a) the Authority shall, subject to any limit imposed by the Minister, set aside in each financial year for Reserve Fund purposes, a portion of the funding derived from the prescribed accountancy bodies and the Exchequer<sup>54</sup>; and
- (b) in addition to the foregoing, the Authority may, with the Minister's consent and having consulted with interested parties, impose in each financial year one or more levies on the undertakings coming within its financial reporting supervision remit.

##### 1.3.2 Legislative basis for the levy and the apportionment thereof

Section 15(2) provides that *'With the Minister's consent, and having consulted with any persons who are interested in the matter, the Supervisory Authority may, subject to subsections (3) to (7), impose in each financial year of the Supervisory Authority, one or more levies on the following:*

- (a) *each public limited company (whether listed or unlisted);*
- (b) *each private company limited by shares that, in both the relevant financial year and the immediately preceding financial year of the company, meets the following criteria:*
  - (i) *its balance sheet total for the year exceeds-*
    - (A) *€25,000,000, or*
    - (B) *if an amount is prescribed under section 48(1)(e) for the purpose of this provision, the prescribed amount;*
  - (ii) *the amount of its turnover for the year exceeds -*
    - (A) *€50,000,000, or*
    - (B) *if an amount is prescribed under section 48(1)(e) for the purpose of this provision, the prescribed amount;*
- (c) *each private company limited by shares that is a parent undertaking, if the parent undertaking and all of its subsidiary undertakings together, in both the relevant financial year and the immediately preceding financial year of the parent undertaking, meet the criteria in paragraph (b),*
- (d) *each undertaking referred to in Regulation 6 of the 1993 Regulations that, in both the most recent financial year and the immediately preceding financial year of the undertaking, meets the criteria in paragraph (b);*

53. Section 15(1)

54. Section 14 provides that the prescribed accountancy bodies and the Exchequer contribute to the Authority's funding in the proportions of 60% and 40% respectively.

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

*(e) each undertaking referred to in Regulation 6 of the 1993 Regulations that is a parent undertaking, if the parent undertaking and all of its subsidiary undertakings together, in both the most recent financial year and the immediately preceding financial year of the parent undertaking, meet the criteria in paragraph (b).'*

#### 1.3.3 Limits on the quantum of the levy<sup>55</sup>

The total amount levied in any financial year by the Authority on all companies and undertakings:

- may not exceed the amount paid into the Reserve Fund for that year from the funding received by the prescribed accountancy bodies and Exchequer; and
- requires the Minister's approval before consent is given to the imposition of the levy in that year.

#### 1.3.4 Requirement for Ministerial approval<sup>56</sup>

In determining whether to approve the total amount of the levy, the Minister may:

- have regard to IAASA's Work Programme; and
- give due consideration to the use to which the Reserve Fund was put in the previous financial year.

#### 1.3.5 Basis of apportionment

The Act provides that IAASA shall:

- establish criteria for apportioning the levy among classes of companies and undertakings liable to pay the levy;
- submit the criteria to the Minister for approval before imposing the levy; and
- specify the date on which the levy is due to be paid.

The Act further provides that, as a consequence of the apportionment of the levy under subsection 5, different classes of companies or undertakings may be required to pay different amounts of the levy<sup>57</sup>. The levy does not apply to any class of undertaking exempted by the Minister and, accordingly, the ability to identify exempted entities assumes particular importance in the context of imposing levies on constituent entities.

#### 1.3.6 IAASA policy on the quantum of the Reserve Fund

Shortly after its establishment, IAASA submitted proposals to the Minister whereby it would build up a Reserve Fund of €500,000 over the period of its first Work Programme, i.e. 2006/08. These proposals were subsequently approved by the Minister. With the Minister's approval, IAASA further resolved that, having regard to the relevant provisions of the Act, the Reserve Fund should be funded as follows:

- 50% (€250,000) from funding received from the prescribed accountancy bodies and Exchequer (i.e. on a 60:40 basis); and
- 50% (€250,000) from one or more levies on the financial reporting review constituency, or elements thereof.

The Board of the Authority further resolved that:

- an amount of €170,000 should be set aside in 2006 for Reserve Fund purposes from the income derived from the prescribed accountancy bodies and the Exchequer; and
- a corresponding amount of €170,000 should be levied on the financial statement review constituency, or sub elements thereof, in 2006.

It was further proposed that the balance (i.e. €80,000 from the prescribed accountancy bodies/ Exchequer and €80,000 from the financial statement review constituency respectively) would be levied over the remainder of the Authority's first Work Programme.

55. Section 15(3)

56. Section 15(4)

57. Section 15(6)

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

#### 1.3.7 Considerations in formulating levy proposals

In addition to the statutory considerations regarding the imposition of a levy on review constituents, the Authority identified additional considerations in the formulation of fair and equitable proposals for imposing a levy on constituents. Additional considerations included:

- I. relative risk of material misstatement and the potential impact of same;
- II. relative size of constituent entities and associated levy considerations;
- III. undertakings whose financial statements are not available for review;
- IV. issues surrounding the identification and isolation of potentially exempted entities;
- V. practice in other jurisdictions; and
- VI. cost/benefit considerations.

#### I. Relative risk of material misstatement and the potential impact of same

Considerations under this heading are elaborated on in section 3 of this Chapter, which deals with the Authority's risk assessment and selection methodologies.

#### II. Relative size of constituent entities and associated levy considerations

Whereas section 26 provides that only private companies satisfying certain monetary size criteria come within IAASA's review remit, the Act sets no such thresholds for public limited companies ('plcs'). As a consequence, all 1,400+ plcs on the register of companies come within the financial reporting review remit, irrespective of their size and/or purpose.

A review of the list of plcs demonstrated that the composition of same ranges from companies having a Stock Exchange listing to companies formed, for example, for the purpose of facilitating

sale of memberships in golf clubs and investment in forestry investment schemes, with the latter having turnover and balance sheet totals far below the private company thresholds of €50m (turnover) and €25m (balance sheet total) respectively required to come within the Authority's supervisory remit.

By way of illustration, two such companies were extracted from the list of plcs. Their details are set out hereunder, as are the private company thresholds for comparison purposes.

Table 11

Comparison of sample plcs with private company thresholds		
	Turnover €	Balance Sheet Total (Total Assets) €
Sample plc No. 1 - formed to facilitate the sale of shares in a golf club	488,000	2,356,000
Sample plc No. 2 - formed to facilitate forestry investment	23,000	3,896,000
Private company/group thresholds for inclusion in IAASA's review remit - as set by section 26	50,000,000	25,000,000

The inclusion of such companies within the levy constituency gave rise, from IAASA's perspective, to the question as to whether such companies should, or could credibly, be required to pay levies similar to those being paid by, for example, listed entities and those private companies coming within scope.

#### III. Undertakings whose financial statements are not available for review

Notwithstanding that they may come within the review remit, not all relevant undertakings' financial statements are, for legitimate reasons, available for review. For example, there are various statutory

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

exemptions from the requirement to prepare consolidated financial statements.

The exemption judged likely to be of most relevance in this regard is the exemption from the requirement to prepare group financial statements for a parent undertaking which is a 90% (or more) owned subsidiary of an EU or EEA<sup>58</sup> undertaking<sup>59</sup>. Moreover, the Irish company's parent need not be incorporated in the EU/EEA provided that it prepares its group financial statements in accordance with accounting standards equivalent to those required by the EU 7<sup>th</sup> Company Law Directive<sup>60</sup>.

Similarly, certain companies coming within the remit may be exempted from the requirement to annex financial statements to their annual returns to the Registrar of Companies, for example, if their parent undertaking guarantees the liabilities of the subsidiary<sup>61</sup>.

In both cases, the exempted entities file the accounts of the 'higher' group of which they are a member, many of which are headed by non-Irish undertakings. This issue clearly, therefore, posed the question as to whether undertakings whose financial statements are legitimately unavailable for review should be subject to a levy.

#### **IV. Issues surrounding the identification and isolation of potentially exempted entities**

As alluded to earlier, during the course of its research the Authority established that identification of section 110 companies (securitisation vehicles) would be problematic for the reasons set out above. Accordingly, if exempted, further difficulties would be encountered in isolating affected entities for levy purposes.

#### **V. Practice in other jurisdictions**

In most other European jurisdictions the equivalent to IAASA's financial reporting supervision function is confined to constituencies comprising listed plcs only and is not, therefore, comparable to the much broader constituency set by section 26. In most cases, the funding for this function is part of the overall amount paid by listed companies to their respective listing authorities.

The closest comparable jurisdiction is the UK, where the remit of the Financial Reporting Review Panel ('FRRP') includes not only plcs but any private company not qualifying as small or medium sized under Section 247 of the UK Companies Act, 1985 (i.e. 'large' companies). However, notwithstanding the foregoing, the Financial Reporting Council ('FRC'), of which the FRRP is a subsidiary, imposes a levy on UK listed companies only (with the amount to be levied being based on market capitalisation).

#### **VI. Cost/benefit considerations**

In addition to the foregoing, IAASA was mindful of the issue of cost of implementation versus benefit derived. In that context, the following considerations arose:

- in circumstances where a large number of companies were to be levied, the costs associated with collection of levies (in terms of the utilisation of staff time, the increased probability of bad debts and other ancillary costs) would represent a significant administrative burden and would arguably outweigh the benefits of such an approach;

58. European Economic Area, i.e. Norway, Iceland and Lichtenstein together with EU Member States.

59. Regulation 8(1) of the European Communities (Group Accounts) Regulations (S.I. 201 of 1992) as amended by Section 6(g) of the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (S.I. 116 of 2005).

60. Section 6(f) of the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (S.I. 116 of 2005).

61. Section 17 Companies (Amendment) Act, 1986.

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

- in the event that IAASA were to levy all, or substantially all, private companies within the Authority's remit, a research project similar to that detailed above would require to be undertaken each year for the purposes of ascertaining which companies meet the monetary thresholds. As indicated earlier, the initial research project undertaken was costly, time consuming and labour intensive.

#### 1.3.8 Principal levy options identified

In light of the foregoing, the Authority identified the following principal options for levying the review constituency, or sub-elements thereof:

- levy all relevant undertakings (approximately 1,600<sup>62</sup> undertakings);
- levy all plcs only (approximately 1,447 companies);
- levy all listed companies only (less than 100 companies); or
- levy certain undertakings based on the Authority's proposed focus, analysed, for example, in turnover terms.

Note: the numbers of entities quoted above could potentially reduce in the event of exemptions being granted by the Minister, depending on the option selected.

#### 1.3.9 Levy all relevant undertakings

This option would involve levying all qualifying entities (approximately 1,600<sup>63</sup>) with an equal levy amount, irrespective of risk/potential impact, relative size *etc.* While it could be argued that this option would be equitable in so far as it would result in all undertakings being levied, it could equally be argued that a flat rate apportionment would be inequitable

for smaller and/or lower risk/potential impact undertakings (particularly small plcs). Moreover, the costs associated with collecting a levy imposed on such a large population (in terms of the utilisation of staff time, increased probability of bad debts, and other ancillary costs) would be such that it could be considered to outweigh the benefits accruing.

#### 1.3.10 Levy all plcs only

This option would involve levying approximately 1,450 plcs with an equal levy amount, irrespective of risk/potential impact, relative size *etc.* Pursuing this option would result in a situation whereby although small plcs (in turnover and balance sheet total terms) would be subject to a levy, very substantial private companies would not. This could be considered to be inherently inequitable. Moreover, the costs associated with collecting a levy imposed on such a large population (in terms of the utilisation of staff time, increased probability of bad debts, and other ancillary costs) would be such that it could be considered to outweigh the benefits accruing.

#### 1.3.11 Levy only listed plcs

This option would involve levying only those companies having a listing, with the relevant levy amount being either a flat rate or, alternatively given that the necessary data is readily available, being based on the relevant companies' market capitalisation, which would mirror the approach adopted in other jurisdictions.

Arguments in favour of such an approach include that a material misstatement in these companies' financial statements would be likely to have the highest impact on users and on the general public. However, an important counterargument is that listed companies are considerably more highly regulated than their non-listed counterparts, thereby contributing to the mitigation of the risk of material misstatements occurring. It could also be argued

62. In accordance with the provisions of the Act, where a parent and subsidiaries come within the scope of a levy, only one entity shall be levied.

63. plcs: 1,447; private companies: 46; private groups: 101; Regulation 6 undertakings and groups: 6 - total 1,600.

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

that, by virtue of not levying very large private companies and, indeed, very large unlisted plcs, such an approach would be inherently inequitable.

#### **1.3.12 Levy based on likely focus of review activities, analysed in turnover terms**

This option might, for example, involve:

- stratifying the whole population of approximately 1,600 undertakings by turnover;
- estimating the level of Authority resources that are likely to be devoted to reviewing the financial statements of each stratum's constituent entities, having regard to the Authority's available resources<sup>64</sup> and its commitment to adopting a risk based approach to selection; and
- allocating a levy to the constituents of each stratum on that basis.

This option is considered to have the following benefits over the others set out above:

- it does not discriminate between public and private companies nor between listed and unlisted entities;
- it would result in the levy being directed towards those entities most likely to be the subject of review activity by the Authority;
- it would result in a smaller, more focused levy population, thereby mitigating the logistical and cost issues associated with levying a large population;
- the stratification exercise can be relatively easily re-performed each year and weightings adjusted to reflect any alterations in Authority policy regarding emphasis on particular strata.

#### **1.3.13 IAASA's conclusions and preferred option**

Having had regard to the foregoing considerations, the Board of the Authority came to the tentative conclusion that an approach whereby levies would be imposed on the basis of constituent entities' size - measured by turnover and likely review activity - would be the most equitable.

#### **1.3.14 Legal issues arising**

While establishing the scale and composition of the review constituency and, on foot of same, the levy option that, in IAASA's view, would represent the most equitable means of apportioning the levy across the constituency, IAASA was throughout the research process and policy formulation stage mindful of the wording of section 15(2) of the Act, which provides that the Authority may impose levies on particular classes of entity (as opposed to on individual entities). For that reason, concurrent with establishing the facts associated with the review constituency and developing tentative proposals for levy apportionment criteria, IAASA engaged with its legal advisors and with the Department of Enterprise, Trade & Employment with a view to establishing whether the proposed approach is consistent with the provisions of the Act. The resultant advice received was, however, that, without modification, the Act does not permit such an approach.

#### **1.3.15 Implications of the legal advice**

The Authority considers that:

- levy arrangements need to appropriately recognise and acknowledge that, albeit that entities residing in the same class of entity have the same legal structure, they patently possess very different characteristics and risk profiles; and
- accordingly, any arrangements that do not, or cannot, reflect these differing characteristics would be inherently inequitable.

64. At 31 December, 2006, the Authority had 1 full time staff member for financial statement review and related activity.

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

Having regard to the foregoing, the Department of Enterprise, Trade & Employment took the view that section 26 and the relevant aspects of section 15 should be subjected to a detailed review before being considered for commencement/implementation.

#### 1.3.16 Financial statement review remit under the Transparency Directive

The Minister decided in late 2006 that IAASA should be designated as a competent authority under the Transparency Directive, thereby conferring an additional financial statement review remit on the Authority under that legislation. As a consequence, IAASA - in conjunction with the Department - was at year end putting in place arrangements to prepare for the commencement of this role. Further details of the Transparency Directive and IAASA's role thereunder are set out in section 2 below.

### 2. IAASA's role under the Transparency Directive

#### 2.1 The Transparency Directive - overview

EU Directive (EC) No. 2004/109<sup>65</sup> is concerned with the harmonisation of information requirements applying to companies whose securities have been admitted to trading on a regulated market situated, or operating, within the EU ('issuers'). Accordingly, the Directive applies to issuers of shares, debt securities, derivative securities and closed-ended investment funds admitted to listing and trading on the regulated market of the Irish Stock Exchange. The Directive does not, however, apply to open-ended<sup>66</sup> investment funds.

#### 2.2 Financial reporting provisions of the Transparency Directive

The Directive, *inter alia*, sets out the following requirements regarding the publication, content and timing of issuers' financial reports:

##### 2.2.1 Annual financial reports (Article 4)

Issuers are required to make their annual financial reports public no later than four months after the end of their financial years and to ensure that they remain publicly available for at least five years thereafter. An issuer's annual financial report shall comprise:

- audited financial statements;
- a management report; and
- statements made by persons responsible within the issuer to the effect that, to the best of their knowledge, the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the issuer's profit/loss for the period and state of affairs at the balance sheet date and that the management report includes a fair review of the development of the business and position of the issuer, together with a statement of the principal risks and uncertainties faced by the issuer.

Article 4 further provides that, where an issuer is required to prepare consolidated financial statements:

- the consolidated financial statements must be prepared in accordance with the IAS Regulation; and
- the parent entity's financial statements must be prepared in accordance with the relevant Member State's national law.

##### 2.2.2 Half yearly financial reports (Article 5)

Article 5 of the Directive provides that the issuers of shares or debt securities are required to make public half yearly financial reports (covering the first six months of the year) as soon as possible after the end

65. The text of the Transparency Directive is available on the Authority's website at [http://www.iaasa.ie/legislation/transparency\\_directive.pdf](http://www.iaasa.ie/legislation/transparency_directive.pdf)

66. Open ended investment funds allow redemption directly from the fund whereas closed ended investment funds are fixed life funds and generally do not allow redemptions until fund liquidation.

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

of the relevant period, but not later than two months thereafter. Similar to the requirement regarding annual financial reports, issuers are also required to ensure that their half yearly financial reports remain publicly available for at least five years after publication.

Half yearly financial reports comprise:

- a condensed set of financial statements;
- an interim management report; and
- statements made by persons responsible within the issuer to the effect that, to the best of their knowledge, the condensed financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the issuer's profit/loss for the period and state of affairs at the balance sheet date and that the interim management report includes a fair review of:
  - important events that have occurred during the first six months of the year;
  - the impact of those events on the condensed financial statements;
  - the principal risks and uncertainties faced by the issuer; and
  - for issuers of shares, the interim management report is also required to disclose details of major related party transactions.

While there is no requirement that half yearly financial reports be audited, the Directive makes the following provisions:

- where the half yearly financial report has been audited, the audit report must be reproduced in full (with the same applying to an auditors' review); and
- where the half yearly financial report has not been audited (or reviewed by auditors), the issuer is required to make a statement to that effect in its report.

### 2.3 Exemptions

Article 8 of the Directive provides a number of exemptions from the Directive's requirements. Principal among these is an exemption for issuers of debt securities where the denomination per unit is at least €50,000 (i.e. wholesale debt issuers).

### 2.4 Transparency Directive's requirements regarding enforcement of financial information published pursuant to its requirements

Article 24(4) of the Directive provides that competent authorities nominated by Member States should have all the powers necessary for the performance of their functions. In that context, Article 24(4)(h) provides that competent authorities should at least be empowered to:

- examine that financial information referred to in the Directive has been drawn up in accordance with the relevant reporting framework; and
- take appropriate measures in cases of discovered infringements.

### 2.5 Competent authorities - IAASA's role under the Directive

Recital No. 28 of the Directive states that *'A single competent authority should be designated in each Member State to assume final responsibility for supervising compliance with the provisions adopted pursuant to this Directive, as well as for international co-operation. Such an authority should be of an administrative nature, and its independence from economic players should be ensured in order to avoid conflicts of interest. Member States may, however, designate another competent authority for examining that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and taking appropriate measures in case of discovered infringements; such an authority need not be of an administrative nature.'*

Accordingly, the Directive provides that Member States may designate a body other than their central competent authority for the purpose of examining

## Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

financial information published pursuant to the Directive's requirements. In that context, and having regard to the Authority's financial statement review role under section 26 of the Act, the Department of Enterprise, Trade & Employment - as the Department responsible for the transposition of the Directive into domestic legislation - approached IAASA towards the end of 2006 with a view to establishing whether the Authority would be prepared to take on a role under Article 24(4)(h). In response, the Board of the Authority advised the Department that, subject to the requisite resources being made available to it, IAASA would be willing to take on the proposed role. On the basis of the foregoing, the Minister subsequently made the decision that the Authority should be designated as a competent authority for the purposes of Article 24(4)(h).

### 2.6 Transposition and designation as a competent authority

In order to transpose the Directive into Irish law, two pieces of legislation are required. The first, the Investment Funds, Companies and Miscellaneous Provisions Act, 2006 was enacted shortly before period end. The second, which will be in the form of Regulations, will provide the detailed provisions regarding how the Directive will be applied in Ireland. At the end of 2006, the Department of Enterprise, Trade & Employment was working towards the publication of draft Regulations for comment and debate.

### 2.7 Transparency Directive - scale of the review constituency

On the basis of data provided by the Irish Stock Exchange, the following is expected to be the initial scale and composition of the Authority's constituency under the Directive on commencement of the Regulations:

Table 12

#### Transparency Directive - Expected scale and composition of the review constituency

Category of issuer	No. of Issuers
Equity issuers	42
Closed ended funds	99
Debt issuers	208
<b>Total</b>	<b>349</b>

Source: Irish Stock Exchange

### 3. Risk assessment and selection methodologies

The Act, in using the term '*monitor*', envisages a proactive approach to the review of the financial statements coming within IAASA's remit. Moreover, as a pre-requisite to being admitted to membership of the EECS (see section 4 below for elaboration on the role of the EECS and IAASA's involvement therewith), the Authority has undertaken to apply CESR<sup>67</sup> standards on enforcement of financial reporting and related guidelines. CESR standards require, *inter alia*, that participants' selection methodologies must include risk-based methodologies. It is not, for example, permitted under CESR standards to adopt selection methodologies based purely on cycles or random selections.

As a consequence of the foregoing, the Authority has resolved to adopt a mixed model, whereby selections of entities' financial statements for review will be based on risk assessments, supplemented by cyclical and random selections (thereby ensuring that entities that might not be selected as a consequence of a risk-based approach nevertheless stand to be

67. Committee of European Securities Regulators

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

selected for review). IAASA has further decided that the risk-based approach adopted will have regard to both:

- the risk of material misstatement in entities' financial statements; and
- the potential impact of such a misstatement on the users of the financial statements and in a wider context i.e. in the general public interest.

In that context, there are, in the Authority's assessment, numerous risk factors, or combinations thereof, that might usefully be considered in assessing the relative risk of an incidence of material misstatement in an undertaking's financial statements. These include, *inter alia*:

- financial structure and business/economic trends;
- financial position and ratios;
- industry specific issues;
- audit qualifications and related issues;
- corporate governance and control environment issues;
- related party transactions;
- incidence of business combinations and disposals;
- administrative, court and regulatory actions; and
- third party signals (e.g. complaints received by the Authority, press *reportage* etc.).

In assessing the potential impact of a material misstatement on the users of financial statements and in a wider context, the following are among the factors that might usefully be considered:

- size of the undertaking (including number of employees);

- number of retail investors involved;
- nature of the undertaking's business, e.g. whether it is a regulated/public interest entity;
- whether the shares or other securities of the undertaking are traded on a public stock exchange. For those entities that have securities traded on a public stock exchange, the following might be considered:
  - share trading activity and volatility in stock price;
  - market capitalisation;
  - number and nature of investors;
  - nature of securities traded; and
- public profile.

#### 4. Consistent enforcement of IFRS across the European Union

##### 4.1 Background to the establishment of the EECS

The IAS Regulation, *inter alia*:

- renders it mandatory with effect from 1 January, 2005 that certain EU companies (i.e. those having a listing on a regulated market and having a requirement to prepare consolidated financial statements) prepare their consolidated financial statements in accordance with IFRS as adopted for use in the EU; and
- makes reference to Member States' requirement to take appropriate measures to ensure compliance with international accounting standards<sup>68</sup>.

In the context of the foregoing, CESR established the European Enforcer Co-ordination Sessions ('EECS').

68. Recital 16 of the Regulation states that 'A proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets. Member States, by virtue of Article 10 of the Treaty, are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States, notably through the Committee of European Securities Regulators (CESR), to develop a common approach to enforcement'.

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

#### 4.2 Composition of the EECS

The EECS comprises:

- Member States' securities regulators; and
- where Member States' securities regulators are not charged with primary responsibility for the enforcement of accounting standards, as is the case in Ireland (and the UK, Iceland and Denmark), the relevant enforcement body, i.e. IAASA in the Irish context.

#### 4.3 Role of the EECS

The role and purpose of the EECS is set out in CESR Standard No. 1, which provides, *inter alia*, that *'...coordination on enforcement practices and decisions requires also involvement of organisations which do not belong to CESR. Therefore, CESRfin<sup>69</sup> will establish an appropriate mechanism whereby CESR members and non-CESR members may discuss enforcement issues in order to achieve a high level of coordination and convergence in the enforcement decisions'*. Pursuant to the foregoing, the role of the EECS is to facilitate co-operation and co-ordination between EU Member States' financial reporting enforcement authorities with a view to bringing about the consistent enforcement of IFRS across the European Union.

#### 4.4 EECS Activities

During 2006 the EECS held eight meetings, all of which were attended by the Authority's Head of Financial Reporting Supervision. EECS meetings facilitate the discussion by Member States' enforcement authorities of issues arising in their home jurisdictions and, specifically, enable Member States' enforcement authorities to:

- share the reasoning underpinning their enforcement decisions with their counterparts; and
- canvass their counterparts' views on enforcement issues currently being dealt with,

thereby seeking to achieve a consistent approach to enforcement across all Member States.

With a view to further facilitating the achievement of this objective, the EECS (*via* CESR) has established a database of enforcement decisions taken by EU authorities, the content of which is confidential and available to Member States' enforcement authorities and CESR members only.

While the decisions taken by Member States' enforcement authorities do not constitute precedent and are not, therefore, binding on other enforcement authorities, the purpose of the database is to enable EU enforcement authorities to consider decisions taken by their counterparts on similar issues and to determine the extent to which regard might appropriately be had for same in their own decision making processes (while having regard to the fact that the circumstances surrounding individual issues are rarely the same).

By 31 December, 2006, 62 decisions had been placed on the database, of which 57 had been considered by the EECS during 2006. In addition, a further 20 cases, where decisions had yet to be taken, had been discussed with a view to enabling the relevant decision making authorities to canvass and consider the views of their counterparts prior to making final enforcement determinations.

Notwithstanding the confidentiality of the aforementioned database, the EECS, in conjunction with CESR, has taken a decision to make public certain information during 2007 regarding enforcement decisions taken by EECS members. Such public information will not, however, refer to issuers or jurisdictions by name but, rather, will be published on an anonymous basis for the purpose of informing interested parties including, *inter alia*, issuers, auditors, shareholders, analysts and other regulators.

69. CESR-Fin is an operational Committee of CESR charged with the role of co-ordinating the work of CESR members in, *inter alia*, the areas of endorsement and enforcement of financial reporting standards in the EU.

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

#### 4.5 IAASA participation in the EECS

In addition to IAASA's membership of the EECS proper, the Authority's Head of Financial Reporting Supervision is also a member of the EECS' Agenda Group. Accordingly, in addition to being an active contributor to the Group's activities at plenary level, IAASA also has a direct input to, and involvement in:

- the review of emerging cases and decisions as tabled by Member States' enforcement authorities with a view to assessing those which should be afforded priority for consideration and discussion at the plenary; and
- the review of enforcement decisions taken by EU/EEA accounting enforcers with a view to determining whether they meet the criteria for publication.

In addition to the foregoing, IAASA's representative is also a member of the EECS' Enforcement Methodology Group, which was charged by the EECS plenary during the year with the development of common review methodologies. In particular, the Authority devoted considerable time during the period to the Group's development of template review programmes for use by reviewers in Member States, the purpose of such programmes being to facilitate a consistent approach towards financial reporting review and enforcement across the EU.

In its capacity as an EECS member, and notwithstanding that the relevant provisions of the Act have not been commenced for the reasons set out earlier in this Chapter, IAASA tabled certain issues relating to IAS 24 *'Related Party Disclosures'* to the EECS plenary during 2006 for consideration and debate. The issues tabled were established following discussion with interested parties in Ireland on aspects of the standard that were seen to be causing difficulties in practice. The matter was subsequently discussed by the EECS plenary and the issues raised have been included on the CESR database for other EU financial reporting enforcement authorities' future reference.

#### 5. Co-operation with interested parties in developing accounting standards and practice notes

Section 9(2) of the Act provides that IAASA's functions include co-operation with the prescribed accountancy bodies and other interested parties in the development of accounting standards. In light of these provisions and the uncertainty that they gave rise to among interested parties prior to the Authority's establishment (i.e. as to how the Authority might interpret them), IAASA took the opportunity at an early stage to clarify that:

- in its view the extant arrangements whereby the UK's Accounting Standards Board's ('ASB') accounting standards are applied to Ireland are working well and, for that reason, do not require amendment; and
- in IAASA's view, the establishment of an Irish accounting standard setter would be contrary to international trends, i.e. whereby accounting standards are converging rather than diverging.

In seeking to discharge its role of co-operating in the standard setting process, IAASA approached the ASB with a view to obtaining observer status at that forum. The logic underpinning the Authority's approach was that observer status would:

- assist IAASA in discharging its statutory role in this regard;
- provide IAASA with a greater understanding of the standard setting process; and
- facilitate the early identification of issues arising that might have a particular importance/relevance to the Irish context and, in conjunction with the prescribed accountancy bodies, Government and other interested parties, draw attention to same in order that consideration might be given to the issues arising in sufficient time to enable the ASB to fully consider Irish contributors' views in the course of its deliberations.

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

Further to that approach, the ASB resolved to grant IAASA observer status and the Authority took up this role in February, 2006.

The ASB held a total of 14 meetings during 2006, 12 of which were held following the granting of observer status. Of the 12, the Authority was represented at 11 of those meetings. Among the issues considered by the ASB at those meetings were:

- an amendment to FRS 17 *'Retirement Benefits'*;
- an Exposure Draft of a Reporting Statement *'Retirement Benefits - Disclosures'*;
- an Exposure Draft of an amendment to FRS 20 (IFRS 2) *'Share-based Payment - Vesting Conditions and Cancellations'*;
- an amendment to FRS 26 (IAS 39) *'Financial Instruments: Measurement' - Recognition and Derecognition'*;
- an Exposure Draft of proposed amendments to the Financial Reporting Standard for Smaller Entities;
- an Exposure Draft of a proposed amendment to FRS 25 (IAS 32) *'Financial Instruments: Presentation'*;
- an Exposure Draft of an accounting standard *'Accounting for Heritage Assets'*; and
- an Exposure Draft of a Statement entitled *'Half-Yearly Financial Reports'*.

The issue discussed by the ASB during 2006 that was arguably of most importance in an Irish context was the question as to whether, and if so to what extent, the ASB would seek convergence of its UK/Irish standards with IFRS. In that context, the ASB held a public meeting in Dublin on 19 June, 2006 in order to canvass Irish stakeholder groups' views on this matter. Having consulted

publicly on the matter on three separate occasions and having canvassed interested parties' views, the ASB subsequently outlined the following tentative proposals:

1. All publicly quoted and other publicly accountable companies would be required to apply full IFRS, irrespective of turnover and whether they present consolidated financial statements or not;
2. The use of the ASB's Financial Reporting Standard for Smaller Entities ('FRSSE') (which enables small entities to take advantage of certain simplified requirements) would be extended beyond small companies to include medium-sized entities;
3. Subsidiaries of parent entities that apply full IFRS would also be required to apply full IFRS in respect of measurement and recognition, but with reduced disclosure requirements (yet to be defined); and
4. No definitive proposals were put forward regarding companies that do not fall within categories 1, 2 or 3 above. Possible alternatives that were identified, however, included:
  - extending the application of the FRSSE further;
  - applying IFRS to more companies;
  - maintaining UK GAAP<sup>70</sup> for affected entities; or
  - some combination of these three alternatives.

Subsequent responses received to the ASB's proposals broadly supported a two-tier approach, with the lower end of the spectrum potentially being based on the IASB's SME<sup>71</sup> project. In that context, the ASB stated that once the IASB's proposals had been published it would consider further whether the proposals contained therein are, in its judgement,

70. Generally Accepted Accounting Principles

71. International Accounting Standards Board's Small & Medium Enterprises

## Chapter 2

### Monitoring whether the financial statements of certain classes of entities comply with the Companies Acts

suitable for the needs of its UK and Irish constituents.

While it is a matter for each EU Member State's Government to decide upon which accounting standards SMEs should follow, clearly given the historical use of UK accounting standards in this jurisdiction, the ASB's deliberations on the suitability of the IASB proposals is likely to be influential in Ireland's decision making process in this regard.

At period end, the ASB's consideration of an Exposure Draft on the topic of half yearly financial reports was at an advanced stage. As this is also a topic of particular importance from an Irish perspective, IAASA staff provided detailed input to the ASB's development of the resulting document. The significance of the issue from an Irish perspective stems from the following considerations:

- while many fund and debt issuers are listed on a regulated market in Ireland (i.e. on the Irish Stock Exchange), this is not necessarily the case to the same extent in the UK. Accordingly, the proportion of Irish issuers that may be affected by the final ASB Statement may be higher than in the UK; and
- as the Transparency Directive is being implemented in Ireland through a combination of primary legislation and secondary legislation, it is expected that the requirements relating to half yearly financial reporting will, upon enactment of the legislation, supersede relevant elements of the Irish Stock Exchange's Listing Rules. In contrast, in implementing the Directive's requirements regarding half-yearly financial reporting, the UK intends doing so *via* the UK Financial Services Authority's Listing Rules. As a consequence, the final ASB document may have differing legal status in the two jurisdictions.

### 6. Exchange of information with financial reporting enforcement counterparts

The difficulties posed for the Authority in sharing information with its counterparts as a consequence of the provisions of section 31 of the Act are set out in the preceding Chapter, as are details of the steps taken by IAASA and the Minister during 2006 with a view to seeking to address those difficulties. As a consequence of the enactment of Statutory Instrument 619 of 2006<sup>72</sup>, IAASA now has increased latitude to share information with its financial reporting enforcement counterparts in the EU and internationally. The Authority's financial reporting enforcement counterparts that have been included in S.I. 619 of 2006 are those denoted by an asterisk in Appendix 2 to this Report.

72. A copy of S.I. 619 of 2006 can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/si619\\_2006.pdf](http://www.iaasa.ie/legislation/si619_2006.pdf)

# Chapter 3

Promotion of adherence to high professional standards  
in the auditing and accountancy profession and acting  
as a specialist source of advice to the Minister on  
auditing and accounting matters

## Chapter 3

Promotion of adherence to high professional standards in the auditing and accountancy profession and acting as a specialist source of advice to the Minister on auditing and accounting matters

### 1. Promotion of adherence to high professional standards in the auditing and accountancy profession

#### 1.1 Approach to promoting adherence to high standards

The promotion of adherence to high standards by the profession is a core element of IAASA's mission and is, therefore, embedded within and permeates all aspects of the Authority's activities. In summary, IAASA's approach to promoting adherence to high standards by the profession is twofold, *viz*

- by promoting adherence through interaction with the profession; and
- by promoting adherence through interaction with the public.

#### 1.2 Interaction with the profession

During the period, IAASA sought to promote adherence to high standards through interaction with the profession by:

- making recommendations to the prescribed accountancy bodies where scope for improvement was noted regarding the manner in which members were being regulated and/or monitored (further detail of the nature of recommendations made is provided in Chapter 1);
- referring complaints received to the relevant prescribed accountancy bodies where this was considered to be the most appropriate course of action, i.e. as opposed to IAASA initiating investigations into the relevant matters itself (further detail on the nature of complaints received by IAASA is set out in Chapter 1);
- providing members of the profession with an understanding of IAASA's role and functions through the delivery of information presentations (a list of presentations delivered by Authority staff during 2006 is set out at Appendix 5 to this Report).

#### 1.3 Interaction with the public

During the period, IAASA sought to promote adherence to high standards by the profession through interaction with the public by:

- providing members of the public with detailed information regarding IAASA and its role, functions and powers through its website, [www.iaasa.ie](http://www.iaasa.ie) - information provided therein includes, *inter alia*, details of how to make a complaint regarding a member of the profession and to whom such a complaint should be made; and
- responding to queries received, thereby providing members of the public with the information necessary to enable them to:
  - understand the Authority's and prescribed accountancy bodies' respective roles in the complaints process; and
  - direct complaints to other appropriate authorities.

### 2. Acting as a specialist source of advice to the Minister on auditing and accounting matters

#### 2.1 Protection of the term 'Accountant'

Prior to, and during, the passage of the Bill that preceded the Act through the Oireachtas<sup>73</sup>, a number of parties made representations to the effect that the term '*accountant*' should be afforded legal protection under the Companies Acts, thereby preventing the description from being used by persons not possessing specified accountancy qualifications/experience. Furthermore, at that time, and subsequently, a number of accountancy bodies called for an end to the situation whereby persons calling themselves accountants, but who do not belong to a professional accountancy body, can provide services to the public without being subject

73. Parliament

## Chapter 3

### Promotion of adherence to high professional standards in the auditing and accountancy profession and acting as a specialist source of advice to the Minister on auditing and accounting matters

to any form of regulation or supervision (by either a professional body or by the State).

Given the potential complexities surrounding the issue, and the fact that any such protection would require the enactment of primary legislation, the view was taken at that time that the potential merits and demerits of such a proposal would require careful and detailed consideration before any determination could be arrived at. In that context, the Minister gave an undertaking that he would refer the matter to IAASA for its consideration once it had been established on a statutory basis.

Further to that undertaking, the Minister formally referred the matter to the Authority for examination during the period. On foot of the referral, IAASA initiated its consideration of the matter by issuing a Consultation Paper for public comment (CP 1/06<sup>74</sup>). The Authority's initial consultation exercise elicited some 22 responses<sup>75</sup> (responses received at that time were, broadly, two to one in favour of action of some description being taken). Having conducted a detailed review of the arguments put forward in the aforementioned responses, together with other considerations of relevance, the Authority advised the Minister that, notwithstanding that valid arguments had been advanced by both sides of the debate, on balance and having regard to all relevant considerations, there is, in principle, merit in some form of action being taken on this issue. That being the case, the Authority further sought the Minister's consent to proceed to the next stage of the process, *viz.*

- engaging further with contributors on both sides of the debate, particularly on the respective merits and demerits of the range of possible options proposed; and

- placing an onus on the principal advocates of change (i.e. the prescribed accountancy bodies), to formulate and table reasonable, equitable, workable and balanced proposals to the Authority for further consideration.

The Minister indicated his agreement with IAASA's proposals and, on that basis, the Authority engaged in a further consultative exercise with interested parties. This further engagement (particularly on the respective merits and demerits of contributors' various proposals) elicited a further nine responses and the views contained therein were subsequently subjected to further consideration and analysis with the result that by the end of 2006 the Authority's consideration of the matter was at an advanced stage.

#### 2.2 EU Transparency Directive

Subsequent to the Minister having made the decision that IAASA should have a role under Article 24(4)(h) of the Directive, IAASA provided detailed advice to the Minister and his officials regarding the detailed provisions of the draft Regulations, and in particular regarding ensuring that the detailed provisions of the Regulations would provide the Authority with the requisite powers to enable it to properly and effectively discharge its role under the Directive. At the end of 2006, the Department of Enterprise, Trade and Employment was continuing to draft the transposing Regulations.

#### 2.3 Revised EU 8<sup>th</sup> Company Law Directive

A summary of the Directive's principal provisions is set out elsewhere in this report. In the context of IAASA's likely central role under the Directive (i.e. as the public oversight authority), the Authority provided advice to the Department of Enterprise, Trade & Employment, which is a member of the

74. A copy of the Consultation Paper can be accessed on the Authority's website at [http://www.iaasa.ie/publications/Consultation\\_Paper\\_No\\_1\\_of\\_2006.pdf](http://www.iaasa.ie/publications/Consultation_Paper_No_1_of_2006.pdf)

75. A list of respondents is set out at Appendix 6.

## Chapter 3

Promotion of adherence to high professional standards in the auditing and accountancy profession and acting as a specialist source of advice to the Minister on auditing and accounting matters

Audit Regulatory Committee ('AuRC')<sup>76</sup> on a number of 8<sup>th</sup> Directive-related matters during 2006.

### 2.4 Company Law Review Group

The Company Law Review Group ('CLRG') is a statutory body established for the purpose of advising the Minister on company law related matters<sup>77</sup>. Through its membership of the CLRG, IAASA contributed to the Group's ongoing provision of advice to the Minister during the period. The main project undertaken by the CLRG during the period was the Companies (Consolidation) Bill, which will, if enacted, serve to consolidate all extant company law into one modernised and streamlined consolidated Act. Given their relevance to the Authority's remit, IAASA representatives were particularly involved in those aspects of the Bill relating to accounts and audit.

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76. The AuRC is a Committee comprising of Member States' Ministries that will assist the EU Commission in the context of certain *'comitology'* decisions to be taken under the Directive. Ireland is represented on the AuRC by the Department of Enterprise, Trade & Employment.

77. Further information on the CLRG can be obtained at <http://www.clrg.org>

# Chapter 4

Ensuring the Authority's adherence to its legal and  
governance obligations

## Chapter 4

### Ensuring the Authority's adherence to its legal and governance obligations

#### 1. Overview

The Board is principally assisted in ensuring the Authority's compliance with its legal and governance obligations by the Secretary & Head of Legal Services and the Finance & Administration Manager respectively.

#### 2. Legal obligations

During the year, IAASA took, *inter alia*, the following steps to ensure compliance with its legal obligations:

- put procedures in place:
  - for the maintenance of proper books of account, as required by the Companies Acts;
  - to facilitate the preparation of the company's financial statements in accordance with the provisions of the Companies Acts;
  - to ensure the Authority's ongoing compliance with its obligations to file certain documentation with the Registrar of Companies within specified deadlines;
  - to comply with its obligations under tax law<sup>78</sup>;
  - to comply with its tax clearance obligations as provided for by section 1095 of the Taxes Consolidation Act 1997;
  - to ensure its compliance with the European Communities (Late Payments in Commercial Transactions) Regulations, 2002;
  - to ensure, *inter alia*, compliance with the Authority's obligation to register under the Data Protection Acts; and
- developed a draft Safety Statement.

#### 3. Governance obligations

As a body established under statute, IAASA is subject to the Department of Finance's Code of Practice for the Governance for State Bodies ('the Code'). During the year, the Authority took, *inter alia*, the following steps to ensure its compliance with its governance requirements as provided for by the Code:

- developed a Schedule of Matters Reserved for the Board and put in place a system of formal delegations of authority to Board Committees and the Chief Executive;
- documented the Chief Executive's and Chairperson's respective roles;
- put in place measures whereby directors have access to the advice and services of the Secretary;
- implemented measures whereby directors have access to independent legal advice should they consider same to be necessary in the context of their and/or the Authority's respective roles and functions;
- put in place procedures to ensure that the Board is regularly updated on matters relating to the Authority's activities and finances;
- put in place measures to ensure that the Board receives regular, high quality information on which to base its decision making;
- implemented measures to ensure that new directors are provided with an orientation briefing upon appointment;
- adopted Codes of Conduct for both directors and employees<sup>79</sup>;
- appointed an Audit Committee comprising non-executive directors;

78. In accordance with the provisions of section 227 of the Taxes Consolidation Act, 1997 and the Fourth Schedule to that Act (as amended by section 69(1)(b) of the Finance Act, 2006), the Authority is a non-commercial state-sponsored body for tax purposes and, accordingly, income arising shall be disregarded for tax purposes. The Authority is not, however, exempt from Deposit Interest Retention Tax (DIRT). In accordance with the provisions of section 610 of the Taxes Consolidation Act, 1997 and the Fifteenth Schedule to that Act (as amended by section 74(c) of the Finance Act, 2006), gains accruing to the Authority are not chargeable gains for the purposes of Capital Gains Tax.

## Chapter 4

### Ensuring the Authority's adherence to its legal and governance obligations

- appointed a firm of accountants to provide an outsourced internal audit function;
- developed and approved Charters for both the Audit Committee and internal auditors which reflect best practice and the Code's requirements;
- appointed a Remuneration Committee comprising non-executive directors for the purposes of:
  - assessing the performance of the Chief Executive;
  - making recommendations to the Board regarding the Chief Executive's and directors' remuneration; and
  - ensuring IAASA's compliance with the Code's provisions regarding the Chief Executive's and directors' remuneration;
- developed risk management policies and procedures designed to identify and quantify key business risks and to assist the Authority in the management of those risks; and
- put in place a system of documented internal financial control, which, *inter alia*, addresses the Authority's obligations under public sector procurement requirements.

Having performed a detailed review of the Code's requirements, the Board concluded that, having regard to the nature and scale of its activities, the Code's requirement<sup>80</sup> that five year rolling business and financial plans be prepared (to encompass, *inter alia*, planned investment and dividend policy) is not relevant or appropriate to its circumstances and is clearly aimed at commercial State Bodies. That being the case, and given IAASA's requirement under the Act in any event to prepare ongoing three year Work Programmes, the Board sought a waiver from the aforementioned requirement of the Code from the Minister. Having considered the Board's request, and having consulted with the Minister for Finance, the Minister granted such a waiver by letter dated 28 June, 2006.

79. The Authority's Codes of Business Conduct can be accessed on the Authority's website at [http://www.iaasa.ie/about/business\\_codes.htm](http://www.iaasa.ie/about/business_codes.htm)

80. Section 11 of the Code refers.



# Chapter 5

Profile of the prescribed accountancy bodies

## Chapter 5

### Profile of the prescribed accountancy bodies

#### 1. Introduction

This Chapter provides a statistical profile of the nine prescribed accountancy bodies coming within IAASA's supervisory remit in relation to their:

- membership;
- investigation and disciplinary procedures;
- student population;
- members with practising authorisation;
- members with registration as auditors; and
- related quality assurance activities.

The information given herein relates to the year ended 31 December, 2006.

#### 2. Context for the prescribed accountancy bodies' annual returns

Previously, under the conditions of their recognition for audit purposes, as granted by the Minister under the Companies Act, 1990, the six recognised bodies were required to submit an annual report to the Minister. The information provided was subsequently published annually in the Companies Report (published by the Department of Enterprise, Trade & Employment)<sup>81</sup>.

With the enactment and commencement of the Act, the prescribed accountancy bodies no longer come within the Minister's remit. Rather, IAASA has developed revised annual reporting formats for use by the bodies.

#### 3. Purpose of information sought from the prescribed accountancy bodies

IAASA has relied on the prescribed accountancy bodies for the provision of this information, which was submitted to the Authority as part of the completion of their respective annual returns.

The annual return process has a dual objective:

- firstly, to provide IAASA with the information necessary to:
  - monitor the bodies' ongoing regulatory and monitoring activities; and
  - plan future reviews of those bodies and, in particular, to identify key areas to which to devote focus during reviews; and
- secondly, to provide relevant information to the Authority for publication purposes.

Given the dual purpose of the data sought, certain of same is of a confidential nature and, accordingly, while used for supervisory purposes, is not reproduced in this Report.

#### 4. Issues relating to the submission by the bodies of their first annual returns to the Authority

In order to serve IAASA's supervisory requirements, the prescribed accountancy bodies have been asked to provide a substantial volume of data in their first annual returns. While those bodies that were recognised bodies prior to the Authority's establishment previously submitted returns to the Department of Enterprise, Trade & Employment, the data sought by the Authority, nevertheless, represents a significant increase on what was previously requested of them. The three additional bodies prescribed by the Minister shortly after IAASA's establishment had not previously been required to submit returns to the Department and, accordingly, the requirement to complete annual returns is a significant new development for those bodies.

In recognition of the challenges that providing the additional/new data would present to the prescribed accountancy bodies, the Authority provided each

81. Previous years' Companies Reports can be accessed on the Department's website at <http://www.entemp.ie>

## Chapter 5

### Profile of the prescribed accountancy bodies

body with a template annual return form in September, 2006 and gave each body until 31 January, 2007 to return same. However, notwithstanding the foregoing, as might reasonably be expected, some of the prescribed accountancy bodies have been unable to provide certain information in their first returns as their information systems are not configured to accommodate the generation of same. Given that to be the case, IAASA acknowledges the efforts that the prescribed accountancy bodies have made in compiling their first annual returns under the new supervisory regime.

The Authority anticipates that, as the prescribed accountancy bodies continue to adapt their databases to meet IAASA's ongoing information requirements and IAASA develops and refines its requirements having regard to its supervisory activities, these challenges will be addressed over a relatively short timeframe.

#### 5. Methodology regarding annual returns

Upon receipt, Authority staff reviewed each annual return submission and requested clarification as necessary from the prescribed accountancy bodies. On the satisfactory resolution of queries, each prescribed accountancy body was provided with those extracts from this Chapter of relevance to itself and was given the opportunity to comment on the information contained therein, including bringing any inaccuracies to the attention of the Authority. This process resulted in certain amendments being made to the individual profiles on foot of suggestions made and clarifications offered by the bodies.

#### 6. Considerations regarding the comparability of data presented

In reading and analysing the data presented in this Chapter, it is important to note the inherent limitations of the data provided. Differences in the structure and operations of the nine bodies, as well as in the bodies' interpretations of the information requested may present some difficulties in comparisons. Accordingly, care is needed in

interpretation and direct comparison may not be appropriate or meaningful in some cases.

#### 7. Further information regarding the prescribed accountancy bodies

Further information regarding each of the nine prescribed accountancy bodies is available on their respective websites. Website addresses of each body are set out hereunder:

ACCA	<a href="http://www.ireland.accaglobal.com">www.ireland.accaglobal.com</a>
AIA	<a href="http://www.aia.org.uk">www.aia.org.uk</a>
CIMA	<a href="http://www.cimaglobal.com">www.cimaglobal.com</a>
CIPFA	<a href="http://www.cipfa.org.uk">www.cipfa.org.uk</a>
ICAEW	<a href="http://www.icaew.co.uk">www.icaew.co.uk</a>
ICAI	<a href="http://www.icaei.ie">www.icaei.ie</a>
ICAS	<a href="http://www.icas.org.uk">www.icas.org.uk</a>
ICPAI	<a href="http://www.cpaireland.ie">www.cpaireland.ie</a>
IIPA	<a href="http://www.iipa.ie">www.iipa.ie</a>

#### 8. Invitation to comment on the structure and format of this Chapter

Given that the purpose of this Chapter from IAASA's perspective is, *inter alia*, to provide the public with an insight into:

- the scale of the Authority's supervisory remit *vis à vis* the prescribed accountancy bodies;
- the scale of the prescribed accountancy bodies, both individually and collectively; and
- the nature and scale of the prescribed accountancy bodies' regulatory and monitoring activities,

IAASA would welcome:

- comments from users of this Report as to the extent to which the data set out herein serves those ends; and
- suggestions as to how the usefulness of such information might be enhanced in future Reports.

Comments in this regard can be sent by post or emailed to [info@iaasa.ie](mailto:info@iaasa.ie).

## Chapter 5

### Profile of the prescribed accountancy bodies

#### 9. Structure of the remainder of this Chapter

The remainder of this Chapter is divided into the following parts:

**Part A** Membership

**Part B** Investigation and disciplinary activities

**Part C** Student population

**Part D** Practising authorisation

**Part E** Registered auditors

**Part F** Individually authorised auditors

**Part G** Recognised accountancy bodies' monitoring of registered auditors

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Part A – Membership

The tables and charts in this Part provide information regarding the membership profile of each of the nine prescribed accountancy bodies. For the purposes of this Part, a *'member'* of a body is an individual who has applied for, and been admitted to, full membership of that body. Admission to membership involves applicants satisfactorily fulfilling various criteria, which normally include:

- completing a course of study and successfully completing a body's professional examinations;
- obtaining a minimum period of relevant work experience; and
- undertaking to comply with the relevant body's constitutional documents, bye-laws, regulations, standards and codes of ethics and conduct, as applicable.

Once admitted to membership, members of the prescribed accountancy bodies are:

- entitled to use the designatory letters as provided for in the bodies' respective constitutional provisions; and
- required to fulfil certain obligations on an ongoing basis in order to retain that status, including maintaining up to date professional competence through undertaking continuing professional development ('CPD') and ongoing compliance with the relevant body's various rules, regulations and standards etc. Failure to comply with same may render a member liable to disciplinary action.

It should be noted that the prescribed accountancy bodies impose additional requirements on those of their members wishing to engage in public practice (i.e. wishing to offer services to members of the public and in reserved areas such as audit or investment business). Part D of this Chapter provides further information regarding the requirements relating to practising authorisations.

This Part contains the following tables and charts, which are based on information provided by the prescribed accountancy bodies as part of their first annual returns to the Authority:

#### Members Worldwide – Location

- Table A.1. Location
- Chart A.1. Location
- Chart A.2. Comparison of Location (by body)

#### Members in Ireland – Gender Profile

- Table A.2. Gender Profile
- Chart A.3. Gender Profile
- Chart A.4. Comparison of Gender Profile (by body)

#### Members in Ireland – Employment Status

- Table A.3. Employment Status
- Chart A.5. Employment Status
- Chart A.6. Comparison of Employment Status (by body)

#### Members in Ireland – Age Profile

- Table A.4. Age Profile
- Chart A.7. Age Profile
- Chart A.8. Comparison of Age Profile (by body)

#### Members in Ireland – Changes during 2006

- Table A.5. Movement during the year

## Chapter 5

### Profile of the prescribed accountancy bodies

Table A.1: Members Worldwide - Location

Recognised Accountancy Bodies										
As at 31 Dec 2006	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIFPA
Ireland	24,033	6,368	425	10,468	51	2,849	191	195	3,416	70
UK	251,328	55,018	110,469	3,861	14,484	110	8	1,893	52,164	13,321
Other EU Member States	9,729	5,009	3,091	322	275	24	-	92	848	68
Other Locations	83,240	48,950	14,431	1,140	1,900	132	-	2,897	13,588	202
<b>Total Members worldwide</b>	<b>368,330</b>	<b>115,345</b>	<b>128,416</b>	<b>15,791</b>	<b>16,710</b>	<b>3,115</b>	<b>199</b>	<b>5,077</b>	<b>70,016</b>	<b>13,661</b>

Chart A.1: Members Worldwide - Location

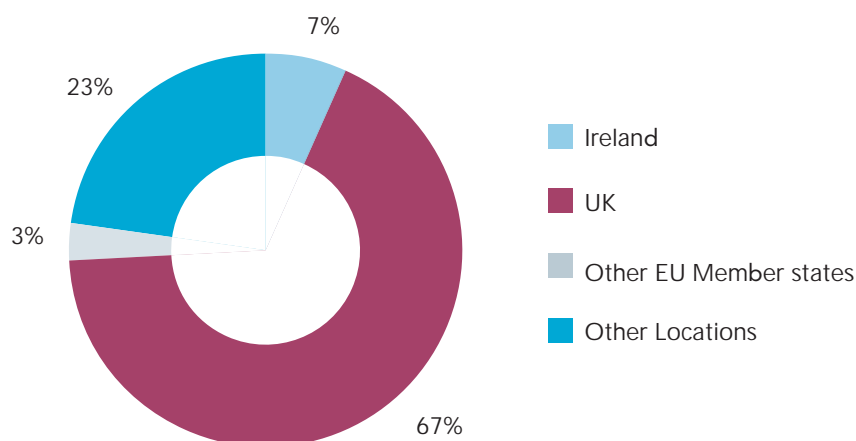
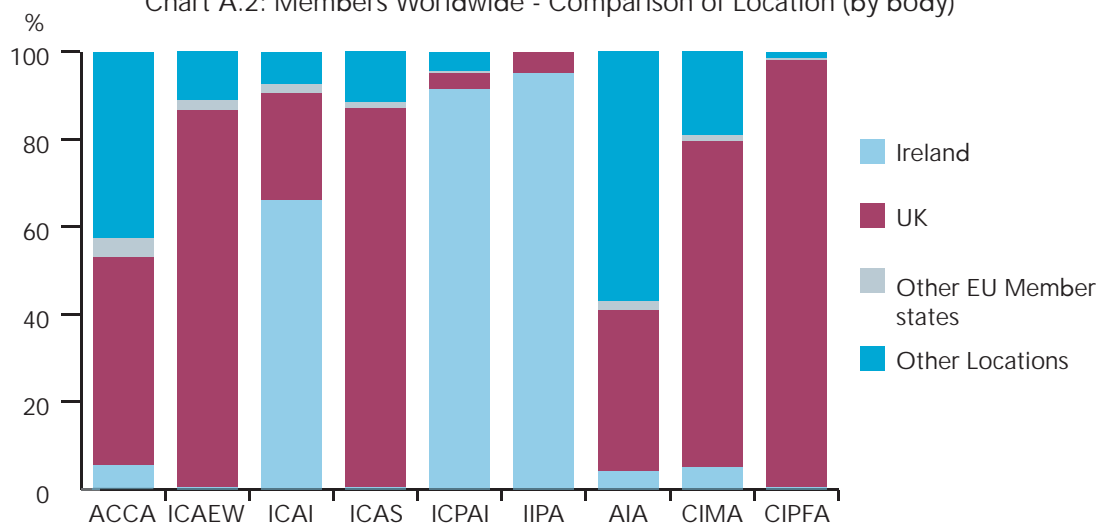


Chart A.2: Members Worldwide - Comparison of Location (by body)



82. Reference to 'Ireland' throughout this Chapter means located in the Republic of Ireland.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table A2: Members in Ireland - Gender Profile

		Recognised Accountancy Bodies								
As at 31 Dec 2006	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIFPA
Male	15,886	3,884	335	7,199	42	1,610	183	189	2,397	47
Female	8,147	2,484	90	3,269	9	1,239	8	6	1,019	23
Total	24,033	6,368	425	10,468	51	2,849	191	195	3,416	70

Chart A3: Members in Ireland - Gender Profile

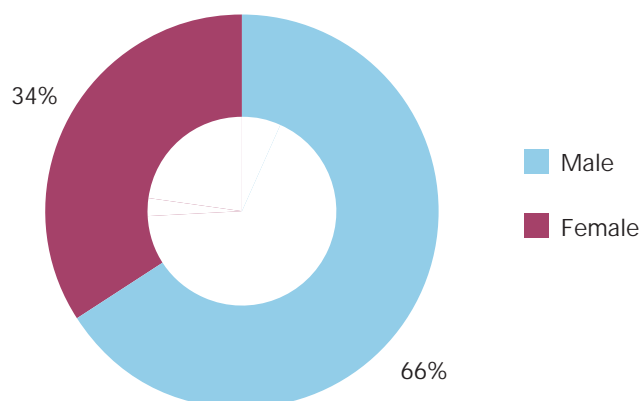
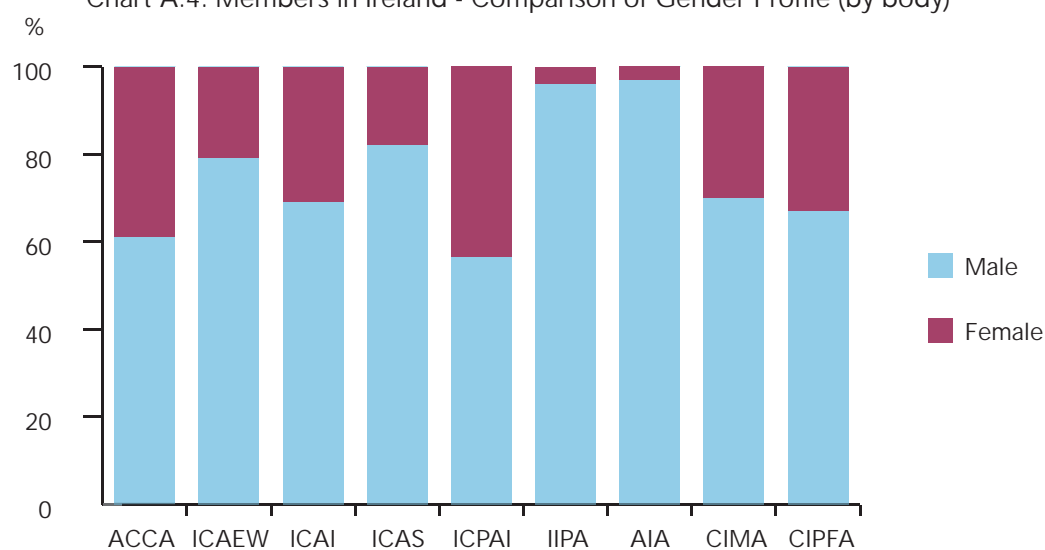


Chart A.4: Members in Ireland - Comparison of Gender Profile (by body)



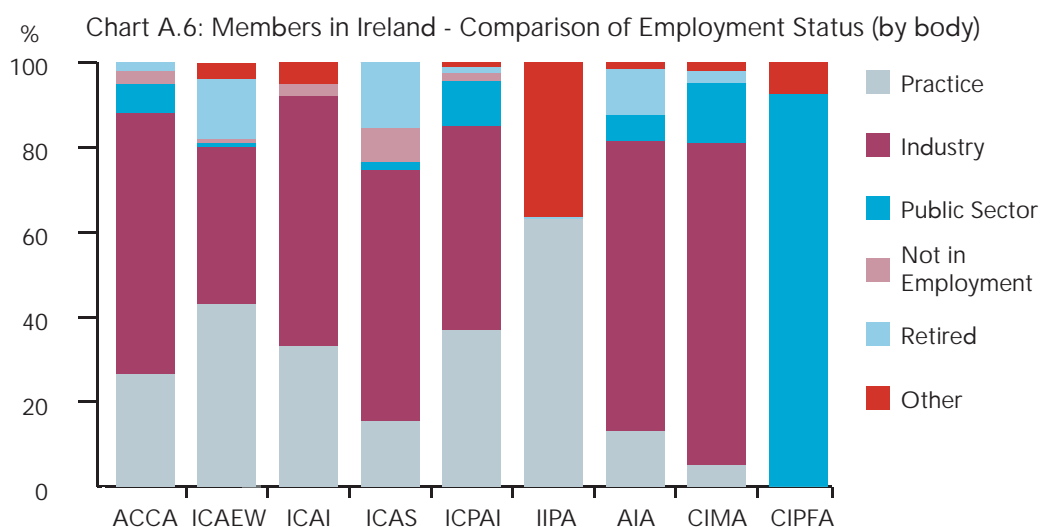
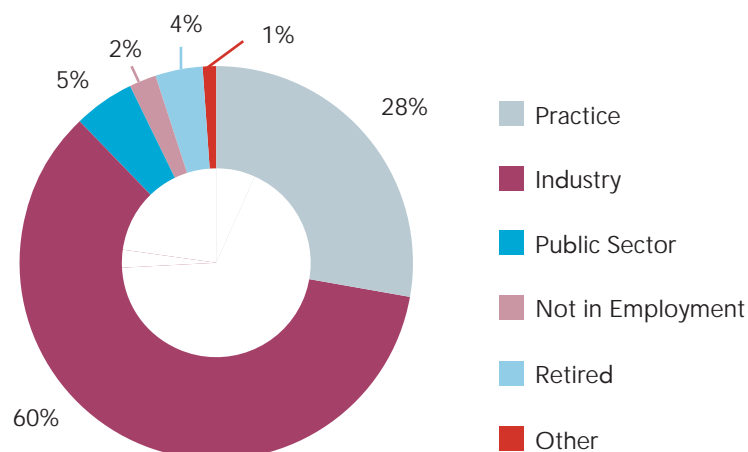
## Chapter 5

### Profile of the prescribed accountancy bodies

Table A.3: Members in Ireland - Employment Status

As at 31 Dec 2006	Recognised Accountancy Bodies									
	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIFPA
Practice	6,713	1,681	183	3,470	8	1,054	120	26	171	-
Industry	14,391	3,916	157	6,187	30	1,371	-	134	2,596	-
Public Sector	1,307	446	5	Incl. in Industry	1	301	-	11	478	65
Not in Employment	573	185	4	334	4	46	-	-	Incl. in Other	-
Retired	850	140	59	477	8	41	1	21	103	-
Other	199	-	17	-	-	31	70	3	68	5
Total	24,033	6,368	425	10,468	51	2,849	191	195	3,416	70

Chart A.5: Members in Ireland - Employment Status



83. The IIPA does not collate information relating to members' or students' employment status, other than those in practice. Neither does it keep records of members' or students' age profiles.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table A.4: Members in Ireland - Age Profile

Recognised Accountancy Bodies										
As at 31 Dec 2006	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
< 25	80	27	-	19	-	26		7	1	-
25 - 34	8,219	2,304	69	3,977	7	938		16	906	2
35 - 44	8,597	2,642	140	3,222	14	1,019		44	1,481	35
45 - 54	3,852	871	66	1,729	14	592		62	495	23
55 - 64	1,942	351	95	944	10	150		52	331	9
65+	1,056	173	55	577	6	28		14	202	1
not known	287	-	-	-	-	96	191	-	-	-
Total	24,033	6,368	425	10,468	51	2,849	191	195	3,416	70

Chart A.7: Members in Ireland - Age Profile

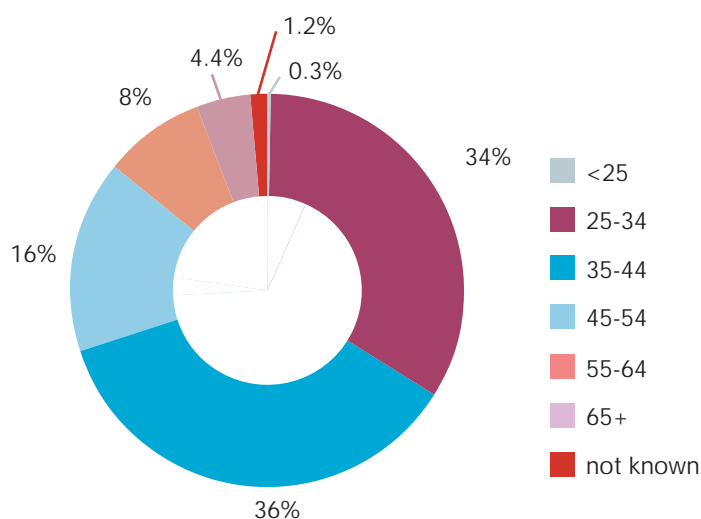
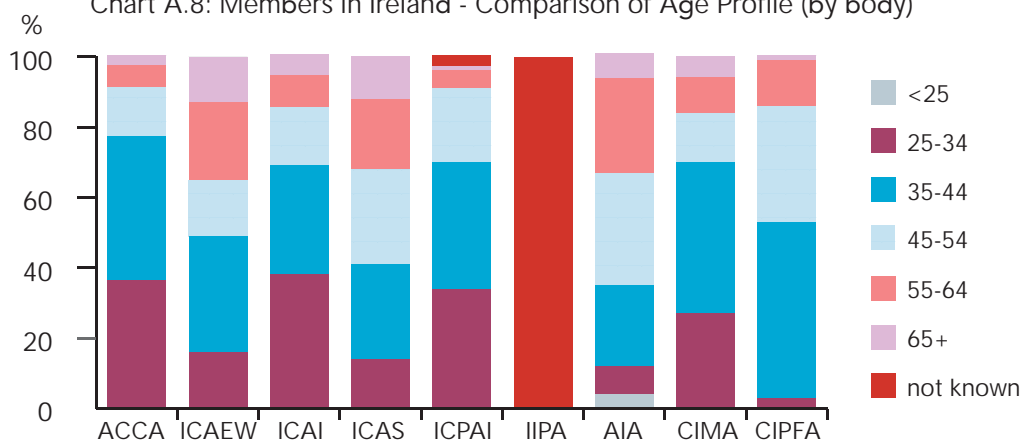


Chart A.8: Members in Ireland - Comparison of Age Profile (by body)



## Chapter 5

### Profile of the prescribed accountancy bodies

Table A.5: Members in Ireland – Movement during the year

	Recognised Accountancy Bodies									
	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Members in Ireland at 1 January, 2006	22,569	5,973	461	9,822	51	2,649	187	192	3,234	
During the year:										
ADD: Student admitted as members	1,554	440	1	692	-	229	-	-	192	
Members of other bodies admitted as members	28	4	3	3	-	8	5	5	-	
Other individuals admitted as members	-	-	-	-	-	-	-	-	-	
Former members re-admitted to membership	118	27	-	10	-	8	-	-	73	
LESS: Members excluded from membership	(60)	(48)	-	(12)	-	-	-	-	-	
Members resigning from membership	(101)	(17)	(2)	(26)	-	(44)	(1)	-	(11)	
Members deceased	(40)	(11)	(2)	(21)	-	(1)	-	(2)	(3)	
Other	(35)	-	(36) <sup>84</sup>	-	-	-	-	-	(69) <sup>85</sup>	70 <sup>86</sup>
Members in Ireland at 31 December, 2006	24,033	6,368	425	10,468	51	2,849	191	195	3,416	70

84. ICAEW 'other' of 36 has arisen due to the timing of various year end computer processes around 31 December, 2005 which meant that some member records were updated in the wrong period. This is the resulting adjustment.

85. CIMA 'other' comprises an adjustment relating to 69 members whose membership lapsed during 2006 and who were also re-admitted to membership during 2006. The adjustment is required to ensure that they are not double-counted in the figures in this table.

86. CIPFA was unable to provide this information and all members in Ireland are therefore included in the 'other' category.

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Part B – Investigation and disciplinary activities

The tables in this Part of the Chapter provide information regarding the investigation and disciplinary activities of the prescribed accountancy bodies.

Under the supervisory model provided for by the Act, primary responsibility for the investigation of complaints relating to the prescribed accountancy bodies' members and member firms resides with those bodies, who are required to process same in accordance with investigation and disciplinary procedures approved by the Authority. Rather than being to supplant the prescribed accountancy bodies' responsibility to investigate complaints received, the Authority's role is to supervise the manner in which the bodies' complaints, investigations, disciplinary and appeals processes operate and whether they operate in accordance with approved procedures. However, notwithstanding the foregoing, following the receipt of a complaint or otherwise on its own initiative, the Authority is empowered to initiate enquiries into whether a prescribed accountancy body has complied with its approved procedures under section 23 of the Act.

Each body's established systems and procedures are tailored to its specific requirements. Accordingly, the manner in which complaints concerning members and member firms are processed varies across the bodies. However, notwithstanding the differences in these processes, due to the requirement that disciplinary processes respect the principles of constitutional and natural justice as well as applicable human rights legislation, there are many similarities across the bodies, such as the organisation of investigation, disciplinary and appeals systems through committee structures.

This Part contains the following tables, which are based on information provided by the prescribed accountancy bodies as part of their first annual returns to the Authority:

#### Investigation & Disciplinary Committees

Table B.1. Meetings & Membership

#### Summary of Complaints

Table B.2. – Ireland Relevant

Table B.3. – Registered Auditors

#### Nature of Complaints Received

Table B.4. – Ireland Relevant

Table B.5. – Registered Auditors

#### Sanctions

Table B.6. Available Sanctions

Table B.7. Analysis of Sanctions Imposed – Ireland Relevant

Table B.8. Analysis of Sanctions Imposed – Registered Auditors

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.1: Investigation and Disciplinary Committees – Meetings & Membership<sup>87</sup>

	Recognised Accountancy Bodies								
Year to/as at 31 December, 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
No. of meetings held in 2006									
Complaints/Investigation Committee	Note B.A.	12	6	5	8	1	0	11	Note B.B.
Disciplinary Committee/Tribunal	31	33	7	73	8	1	0	6	5
Appeal Committee/Tribunal	24	9	1	0	0	-	0	0	1
Disciplinary Committee/Tribunal									
Meetings held in public	31	0	6	0	3	1	0	6	5
Meetings held in Ireland	2	0	7	0	3	1	0	0	0
No. of Committee Members									
Complaints/Investigation Committee	Note B.A.	18	12	16	9	6	5	14	11
Disciplinary Committee	Note B.A.	21	13	20	9	5	5	15	24
Appeal Committee	Note B.A.	17	11	14	3	-	5	12	6
No. of non-body (lay) Members									
Complaints/Investigation Committee	Note B.A.	8	7	5	5	3	1	6	5
Disciplinary Committee	Note B.A.	9	8	6	5	3	1	9	13
Appeal Committee	Note B.A.	5	6	5	2	-	4	8	4

**Note B.A:** ACCA does not operate a Complaints/Investigation Committee. Instead, complaints are investigated by investigation officers. Following investigation, complaints are referred to an independent assessor who is responsible for deciding whether a *prima facie* case has been made out, and if so, whether to refer the case to the Disciplinary Committee. The Disciplinary and Appeal Committees are drawn from a panel who also sit on the Admissions and Licensing Committee. At 31 December, 2006, there were 60 panel members (excluding chairpersons) comprising

27 lay members, 19 members in practice and 14 non-practising or retired members.

**Note B.B:** CIPFA's Investigation Committee does not routinely meet in person to conduct business, as the disciplinary regulations provide that the Committee may conduct business through the use of voice, video, electronic mail or other communication. During 2006, the Investigation Committee considered 8 new complaints under its preliminary screening remit and 3 reports following investigation.

<sup>87</sup> The information in this table relates to the worldwide operations of each body.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.2: Summary of Complaints – Ireland Relevant<sup>88</sup>

	Recognised Accountancy Bodies								
Year to 31 December, 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Complaints outstanding at 1 Jan 2006	58	Note B.C	81	-	18	3	-	-	-
During the year:									
ADD: New cases arising during the year	43		160	-	17	2	-	1	-
LESS: Cases closed during the year by:									
- Secretary/Staff	(17)		(79)	-	(11)	(1)	-	-	-
- Investigaton/ Complaints Committee	-		(30)	-	(6)	-	-	-	-
- Disciplinary Committee	(3)		(4)	-	(3)	(1)	-	-	-
- Appeal Committee	(1)		-	-	-	-	-	-	-
- Other	-		(6)	-	(2)	-	-	(1)	-
Complaints outstanding at 31 Dec 2006	80		122	-	13	3	-	-	-

**Note B.C:** ICAEW has reported that it does not have data as to where a firm's clients are situated and its systems do not specifically identify the location of a firm or member against whom a complaint is made. Therefore, it cannot provide data in relation to 'Ireland relevant' cases. However, ICAEW has specifically checked whether any complaints were made during the year against its registered auditor members based in Ireland and has reported a nil response.

88. 'Ireland relevant' means complaints relating to members and students located in Ireland, firms based in Ireland and members/firms with clients based in Ireland.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.3: Summary of Complaints – Registered Auditors<sup>89</sup>

	Recognised Accountancy Bodies					
Year to 31 December 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Complaints outstanding at 1 Jan 2006	2	Note B.C see page 83	60	-	3	3
<b>ADD:</b> New cases arising during the year	7		112	-	11	2
<b>LESS:</b> Cases closed during the year by:						
- Secretary/Staff	(3)		(60)	-	(4)	(1)
- Investigation/ Complaints Committee	-		(20)	-	(2)	-
- Disciplinary Committee	-		(3)	-	(2)	(1)
- Appeal Committee	-		-	-	-	-
- Other	-		(2)	-	-	-
<b>Complaints outstanding at 31 Dec 2006</b>	<b>6</b>		<b>87</b>	<b>-</b>	<b>6</b>	<b>3</b>

89. 'Registered auditor', in this context, means a firm or an individual that is registered to undertake statutory audits under the Companies Acts 1963 to 2006.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.4: Nature of Complaints Received<sup>90</sup> – Ireland Relevant

	Recognised Accountancy Bodies								
Year to 31 December 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Obtaining professional work/change in professional appointment related	-	Note B.C see page 83	4	-	3	-	-	-	-
Poor work or inadequate or unsatisfactory service or professional conduct	-		72	-	5	2	-	1	-
Fee disputes	-		13	-	-	-	-	-	-
Branch of institute/ Association Rules or Regulations (such as in relation to client monies, professional indemnity insurance)	-		16 <sup>91</sup>	-	3	-	-	-	-
Matters relating to investment business, insolvency work or conduct of liquidation	5		42 <sup>92</sup>	-	1	-	-	-	-
Delay/failure to respond and/or co-operate with the Institute/Association or an external party	-		12	-	-	-	-	-	-
Failure to satisfy judgement debts/criminal conviction/ restriction or disqualification as a director/breach of company law	-		25	-	1	-	-	-	-
Breach of ethical guide (e.g. independence issues)	-		- <sup>92</sup>	-	3	-	-	-	-
Training/student related matters	-		-	-	1	-	-	-	-
Other	38 <sup>93</sup>		14	-	1	-	-	-	-
<b>Total</b>	<b>43</b>		<b>160</b>	<b>-</b>	<b>17</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>-</b>

90. Some complaints may contain a number of different elements, but have been categorised into only one category in this table.

91. ICAI has reported 13 cases under 'other audit or investment business issues under Ethical Guide or Standards or Guidance' and 3 as 'clients' money/fraud/dishonesty'.

92. ICAI complaints relating to investment business are included in the category 'Breach of Institute/Association Rules or Regulations'. ICAI complaints arising from ethical issues are also included in the same category.

93. ACCA has reported that 2 of these relate to audit, 3 to breaches of fundamental principles of professional behaviour or professional competence & due care, and 2 relate to carrying on public practice whilst not authorised to do so. The remaining 31 were categorised as 'other'.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.5: Nature of Complaints Received<sup>90</sup> – Registered Auditors

	Recognised Accountancy Bodies					
Year to 31 December 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Obtaining professional work/change in professional appointment related	-	Note B.C see page 83	1	-	3	-
Poor work or inadequate or unsatisfactory service or professional conduct	-		55	-	4	2
Fee disputes	-		11	-	-	-
Breach of institute/ Association Rules or Regulations (such as in relation to client monies, professional indemnity insurance)	-		15 <sup>91</sup>	-	-	-
Matters relating to investment business, insolvency work or conduct of liquidation	5		4 <sup>92</sup>	-	1	-
Delay/failure to respond and/or co-operate with the Institute/Association or an external party	-		8	-	-	-
Failure to satisfy judgement debts/criminal conviction/ restriction or disqualification as a director/breach of company law	-		12	-	1	-
Breach of ethical guide (e.g. independence issues)	-		- <sup>92</sup>	-	1	-
Training/student related matters	-		-	-	1	-
Other	2		14	-	1	-
<b>Total</b>	<b>7</b>		<b>112</b>	<b>-</b>	<b>11</b>	<b>2</b>

94. ICAI has reported 12 cases under 'other audit or IB [investment business] issues under Ethical Guide or Standards or Guidance' and 3 as 'clients' money/fraud/dishonesty'.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.6: Available Sanctions

	Recognised Accountancy Bodies								
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Reprimand	√	√	√	√	√	√	√	√	√
Severe reprimand	√	√	√	√	√	√	√	√	√
Consent order	X	√	√	√	√	X	√	√	√
Regulatory fine	√	√	√	√	√	√	√	√	√
Regulatory costs	√	X	√	√	√	√	√	√	√
Suspension of audit registration	√	√	√	√	√	√	N/A	N/A	N/A
Withdrawal of audit registration	√	√	√	√	√	√	N/A	N/A	N/A
Suspension of other registration/licence/certificate	√	√	√	√	√	√	√	√	X
Withdrawal of other registration/licence/certificate	√	√	√	√	√	√	√	√	X
Refund of fees/commission to the complainant	√	√	X	X	X	X	√	X	X <sup>95</sup>
Payment of compensation to the complainant	√	√ <sup>96</sup>	X	X	X	X	√	X	X <sup>95</sup>
Exclusion from membership	√	√	√	√	√	√	√	√	√
Suspension from membership	X	X	√	√	√	√	√	√	√
Case to rest on file or similar sanction	√	√	√	X	√	√	√	X	√
Student exclusion	√	√	√	√	√	√	√	√	√
Student suspension of registration	X	√	√	√	X	√	√	√	√
Student – temporarily ineligible to sit exams	√	√	√	√	√	√	√	√	X
Student – disqualification from an exam	√	√	√	√	√	√	√	X	X
Other	√	√	X	√	√	X	X	√	X

Key: √ = Available as a sanction; X = Not available as a sanction; N/A = Not applicable to body in Ireland.

95. This sanction is available to CIPFA from February 2007.

96. This sanction is available to ICAEW in the context of the provision of investment advice and in cases where the firm cannot meet a claim against it.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.7: Analysis of Sanctions Imposed – Ireland Relevant

	Recognised Accountancy Bodies								
As at 31 Dec 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIFPA
Number of concluded complaint cases where an adverse finding was made	4	Note B.C see page 83	28	-	7	1	-	-	-
Number of concluded complaint cases where an adverse finding was not made	17		91	-	15	1	-	1	-
Number of reprimands imposed	1		19	-	7	1	-	-	-
Number of severe reprimands imposed	2		5	-	-	-	-	-	-
Number of cases where fines were imposed	3		15	-	6	1	-	-	-
Aggregate value of fines imposed (€)	15,474		36,750	-	9,500	2,000	-	-	-
Number of cases where costs were imposed	4		20	-	7	1	-	-	-
Aggregate value of costs imposed (€)	6,932		44,598	-	9,800	1,000	-	-	-
Number of suspensions of audit registration applied	-		-	-	-	-	N/A	N/A	N/A
Number of withdrawals of audit registration applied	-		1	-	-	-	N/A	N/A	N/A
Number of suspensions of practising certificate or other registrations/authorisations etc. applied	-		-	-	-	-	-	-	X
Number of withdrawals of practising certification or other registrations/authorisations etc. applied	-		1	-	-	-	-	-	X
Number of refunds of fees/commissions applied	-		X	X	X	-	-	X	-
Aggregate value of compensation to complainants (€)	-		X	X	X	-	-	X	-
Number of member exclusions applied	-		1	-	-	-	-	-	-
Number of member suspensions applied	X		1	-	-	-	-	-	-
Number of cases resting on file	-		-	X	-	-	-	X	-
Number of student exclusions/suspensions applied	1		-	-	-	-	-	-	-
Number of students temporarily ineligible to sit exams	-		-	-	-	-	-	-	X
Number of students disqualified from an exam sitting	-		-	-	-	-	-	-	X
Other	-		-	-	-	X	X	-	X
Number of consent orders offered during the year	X		22	-	4	X	-	-	-
Number of consent orders accepted during the year	X		14	-	1	X	-	-	-

Key: X = Not available as a sanction; N/A = Not applicable to body in Ireland.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table B.8: Analysis of Sanctions Imposed – Registered Auditors

	Recognised Accountancy Bodies					
As at 31 Dec 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Number of concluded complaint cases where an adverse finding was made	-	Note B.C see page 83	14	-	2	1
Number of concluded complaint cases where an adverse finding was not made	3		71	-	6	1
Number of reprimands imposed	-		10	-	2	1
Number of severe reprimands imposed	-		3	-	-	-
Number of cases where fines were imposed	-		9	-	2	1
Aggregate value of fines imposed (€)	-		23,750	-	4,000	2,000
Number of cases where costs were imposed	-		10	-	2	1
Aggregate value of costs imposed (€)	-		19,005		5,000	1,000
Number of suspensions of audit registration applied	-		-	-	-	-
Number of withdrawals of audit registration applied	-		1	-	-	-
Number of suspensions of practising certificate or other registrations/authorisations etc. applied	-		-	-	-	-
Number of withdrawals of practising certification or other registrations/authorisations etc. applied	-		1	-	-	-
Number of refunds of fees/commissions applied	-		X	X	X	-
Aggregate value of compensation to complainants (€)	-		X	X	X	-
Number of member exclusions applied	-		-	-	-	-
Number of member suspensions applied	X		-	-	-	-
Number of cases resting on file	-		-	X	-	-
Number of student exclusions/suspensions applied	-		-	-	-	-
Number of students temporarily ineligible to sit exams	-		-	-	-	-
Number of students disqualified from an exam sitting	-		-	-	-	-
Other	-		-	-	-	X
Number of consent orders offered during the year	X		11	-	-	X
Number of consent orders accepted during the year	X		6	-	-	X

Key: X = Not available as a sanction; N/A = Not applicable to body in Ireland.

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Part C - Student Population

The tables and charts in this Part of the Chapter provide information about the student population of each prescribed accountancy body.

The education and training of students forms a significant part of the overall activities of the prescribed accountancy bodies. While students are subject to the provisions of applicable bye-laws, rules and regulations of the relevant body, they:

- do not have the status of membership of that body;
- cannot hold themselves out to be members; and
- are not entitled to use the designatory letters reserved for members of that body.

This Part contains the following tables and charts, which are based on information provided by the prescribed accountancy bodies as part of their first annual returns to the Authority. The analyses are similar to that undertaken in respect of the overall membership of the prescribed accountancy bodies in Part A.

#### Students Worldwide - Location

Table C.1 Location

Chart C.1 Location

Chart C.2 Comparison of Location (by body)

#### Students in Ireland – Gender Profile

Table C.2 Gender Profile

Chart C.3 Gender Profile

Chart C.4 Comparison of Gender Profile  
(by body)

#### Students in Ireland – Employment Status

Table C.3 Employment Status

Chart C.5 Employment Status

Chart C.6 Comparison of Employment Status  
(by body)

#### Students in Ireland – Age Profile

Table C.4 Age Profile

Chart C.7 Age Profile

Chart C.8 Comparison of Age Profile (by body)

#### Students in Ireland – Changes during 2006

Table C.5 Movement during the year

#### Students in Ireland – Educational Background of New Students

Table C.6 Educational Background of New Students

Chart C.9 Educational Background of New Students

Chart C.10 Comparison of New Students  
Registered during 2006 (by body)

## Chapter 5

### Profile of the prescribed accountancy bodies

Table C.1: Students Worldwide - Location

Recognised Accountancy Bodies										
As at 31 Dec 2006	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Students resident in Ireland	17,545	9,092	2	3,732	-	1,883	57	40	2,716	23
Students resident in the UK	149,215	76,174	10,880	793	3,150	9	-	496	54,726	2,987
Students resident in other EU Member States	15,031	13,520	323	-	4	4	-	90	1,087	3
Students resident in other locations	236,499	197,272	475	-	-	30	-	8,928	29,736	58
<b>Total students worldwide</b>	<b>418,290</b>	<b>296,058</b>	<b>11,680</b>	<b>4,525</b>	<b>3,154</b>	<b>1,926</b>	<b>57</b>	<b>9,554</b>	<b>88,265</b>	<b>3,071</b>

Chart C.1: Students Worldwide - Location

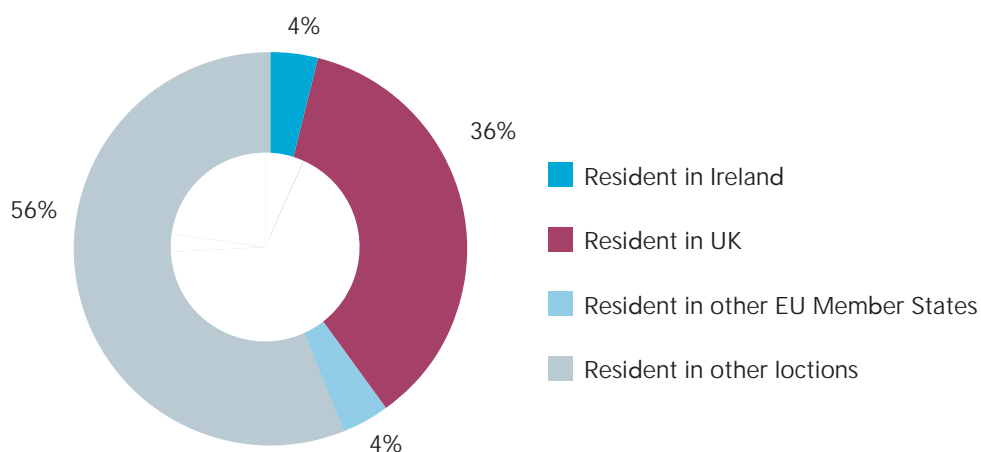
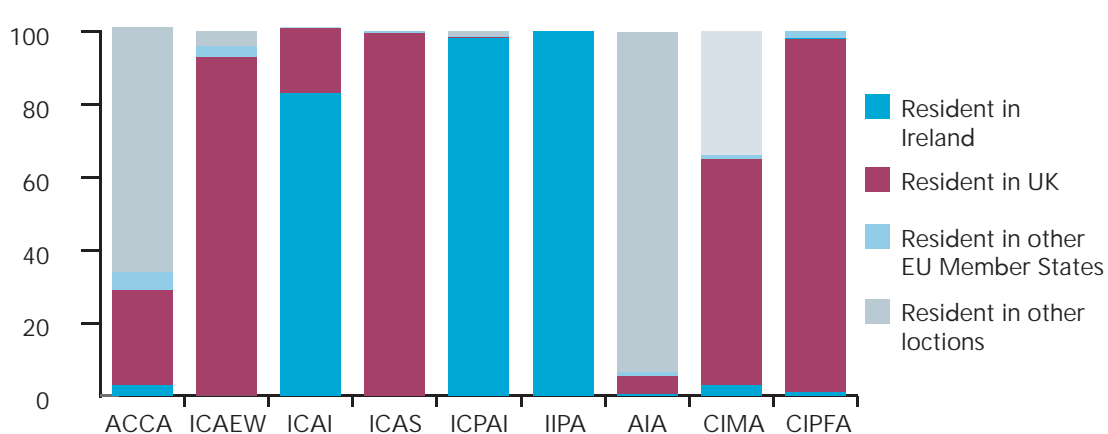


Chart C.2: Students Worldwide - Comparison of Location (by body)



## Chapter 5

### Profile of the prescribed accountancy bodies

Table C.2: Students in Ireland - Gender Profile

As at 31 Dec 2006	Recognised Accountancy Bodies									
	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Male	7,922	3,850	2	1,770	-	674	43	38	1,532	13
Female	9,623	5,242	-	1,962	-	1,209	14	2	1,184	10
<b>Total</b>	<b>17,545</b>	<b>9,092</b>	<b>2</b>	<b>3,732</b>	<b>-</b>	<b>1,883</b>	<b>57</b>	<b>40</b>	<b>2,716</b>	<b>23</b>

Chart C.3: Students in Ireland - Gender Profile

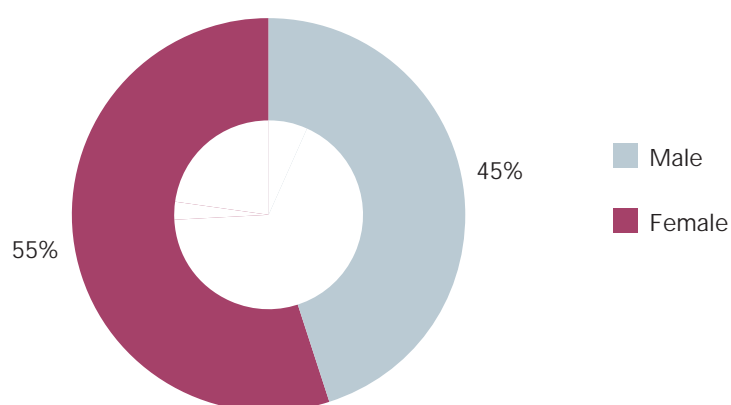
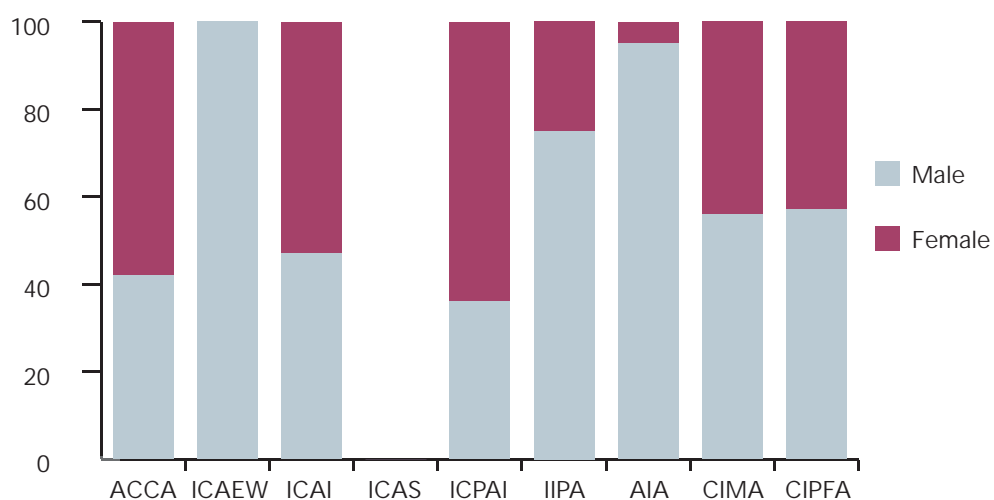


Chart C.4: Students in Ireland - Comparison of Gender Profile (by body)



## Chapter 5

### Profile of the prescribed accountancy bodies

Table C.3: Students in Ireland - Employment Status

As at 31 Dec 2006	Recognised Accountancy Bodies									
	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Practice	6,674	2,520	2	3,545	-	533		20	54	-
Industry	7,050	3,582	-	85	-	1,059		15	2,309	-
Public Sector	1,014	530	-	8	-	182		2	272	20
In Full-time Education	1,038	934	-	94	-	8		2	-	-
Not in Employment	1,629	1,526	-	-	-	101		1	-	1
Other	140	-	-	-	-	-	57 <sup>93</sup>	-	81 <sup>97</sup>	2
<b>Total</b>	<b>17,545</b>	<b>9,092</b>	<b>2</b>	<b>3,732</b>	<b>-</b>	<b>1,883</b>	<b>57</b>	<b>40</b>	<b>2,716</b>	<b>23</b>

Chart C.5: Students in Ireland - Employment Status

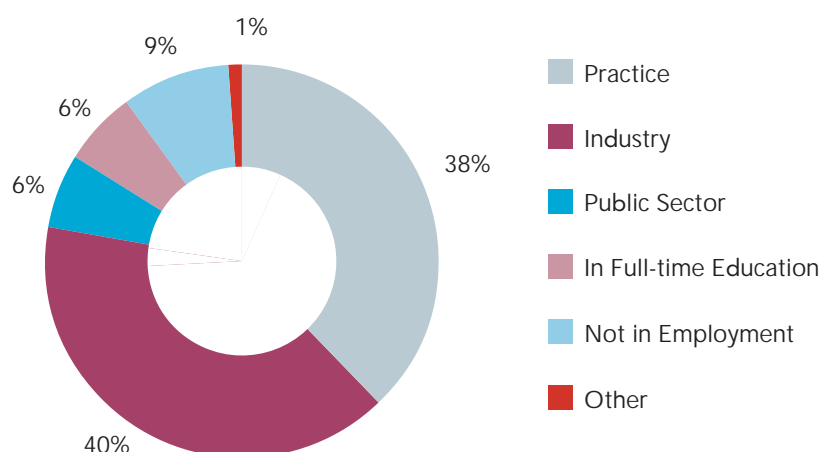
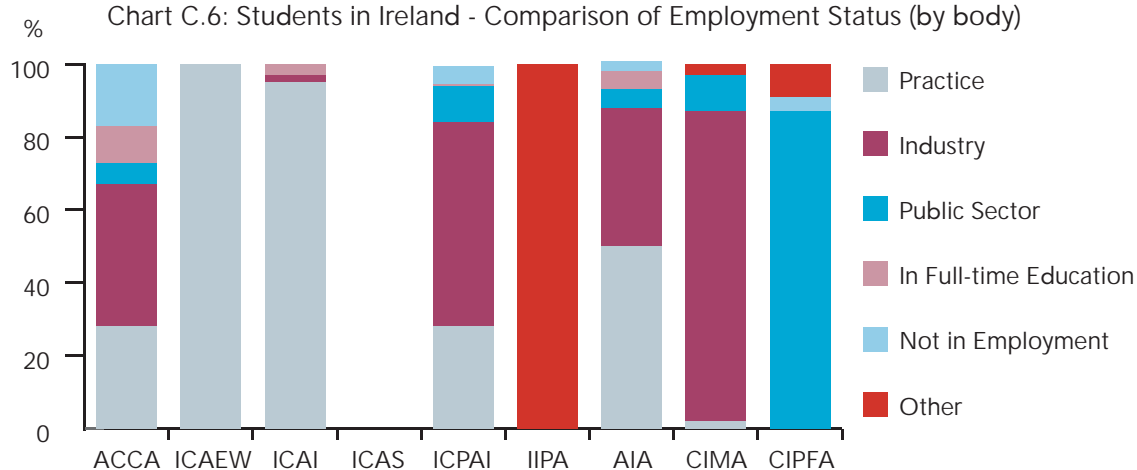


Chart C.6: Students in Ireland - Comparison of Employment Status (by body)



97. CIMA 'other' category includes students in 'full-time education' and 'not in employment'.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table C.4: Students in Ireland - Age Profile

Recognised Accountancy Bodies										
As at 31 Dec 2006	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
< 25	5,062	1,959	2	2,489	-	350		12	249	1
25 - 34	9,771	5,671	-	1,237	-	1,044		21	1,792	6
35 - 44	2,070	1,156	-	6	-	361		4	530	13
45 - 54	471	249	-	-	-	106		3	110	3
55 - 64	105	51	-	-	-	22		-	32	-
65 and over	9	6	-	-	-	-		-	3	-
DOB not known	57	-	-	-	-	-	57	-	-	-
<b>Total</b>	<b>17,545</b>	<b>9,092</b>	<b>2</b>	<b>3,732</b>	<b>-</b>	<b>1,883</b>	<b>57</b>	<b>40</b>	<b>2,716</b>	<b>23</b>

Chart C.7: Students in Ireland - Age Profile

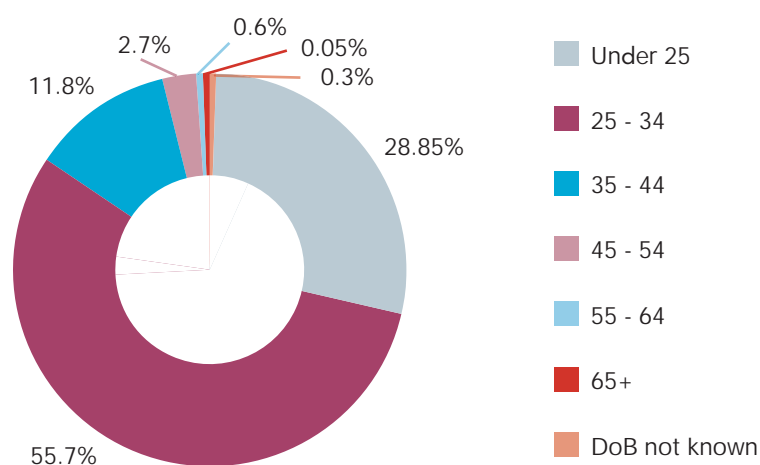
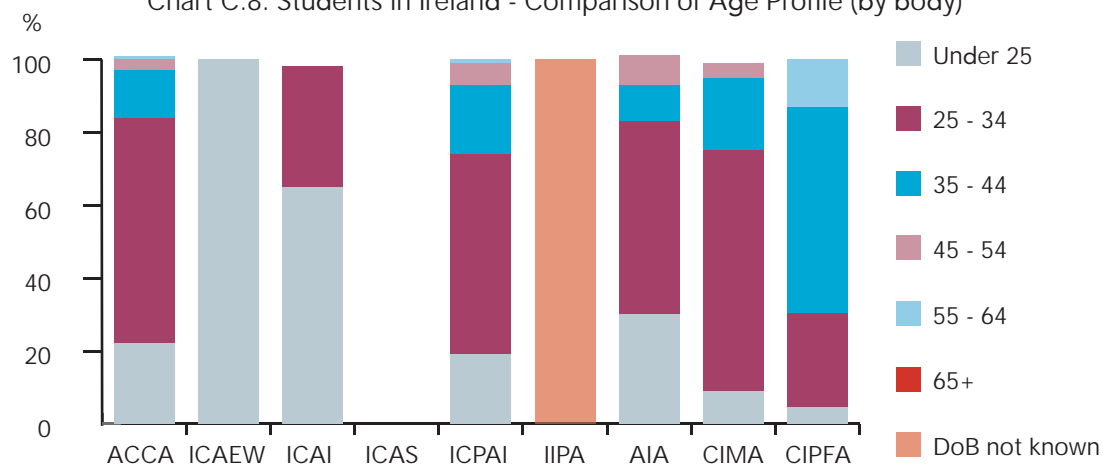


Chart C.8: Students in Ireland - Comparison of Age Profile (by body)



## Chapter 5

### Profile of the prescribed accountancy bodies

Table C.5: Students in Ireland – Movement during the year

	Recognised Accountancy Bodies								
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
As at 1 January, 2006	7,973	3	3,218 <sup>99</sup>	-	1,929	53	32	2,776	
During the year:									
ADD: New students registered	2,747	1	1,244	-	459	6	9	414	
LESS: Student registrations lapsed	(1,071)	-	(496)	-	(304)	(2)	(1)	(282)	
Student registrations cancelled	(113)	-	(54)	-	-	-	-	-	
Students admitted as full members	(444)	(2)	(692)	-	(228)	-	-	(192)	
Other	-	-	-	-	27	-	-	-	23 <sup>98</sup>
As at 31 December, 2006	9,092	2	3,732 <sup>99</sup>	-	1,883	57	40	2,716	23

98. CIPFA was unable to provide this reconciliation and therefore all students in Ireland are included in the 'other' category.

99. ICAI does not hold statistics on students not under training contracts. The figure in table C.5 for 1 January 2006 includes only students under contract, while the number of students admitted as full members includes those out of contract. Therefore, it is not possible to provide the reconciliation required in this table.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table C.6: New students registered in Ireland - Educational Background

Students registered during 2006	Recognised Accountancy Bodies									
	TOTAL	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Non-relevant primary degree	1,276	1,089	-	112	-	16	-	-	59	-
Relevant primary degree	1,823	602	1	854	-	178	1	3	184	-
Non-relevant post-graduate qualification	58	44	-	-	-	2	-	-	12	-
Relevant post-graduate qualification	282	1	-	263	-	8	-	-	10	-
Without a degree qualification	1,441	1,011	-	15	-	255	5	6	149	-
<b>New students registered during 2006</b>	<b>4,880</b>	<b>2,747</b>	<b>1</b>	<b>1,244</b>	<b>-</b>	<b>459</b>	<b>6</b>	<b>9</b>	<b>414</b>	<b>-</b>

Chart C.9: Students in Ireland - Educational Background

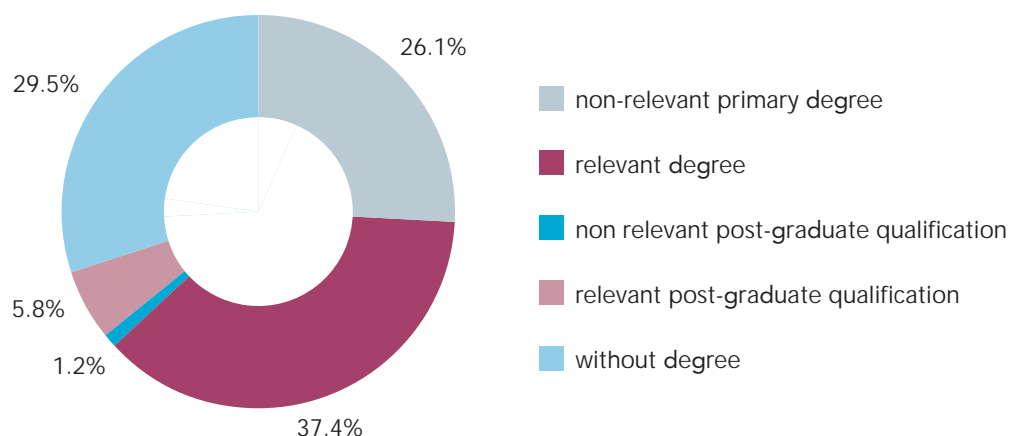
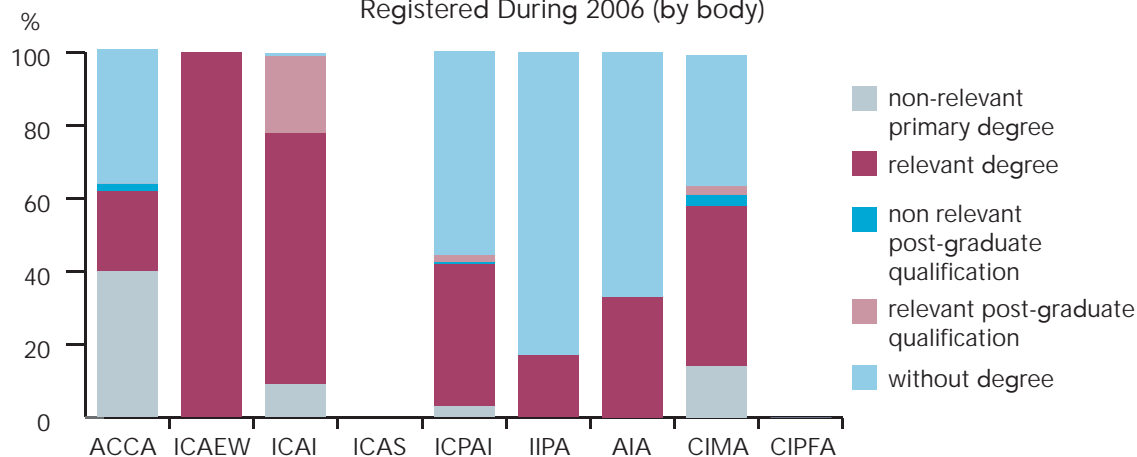


Chart C.10: Students in Ireland - Comparison of New Students Registered During 2006 (by body)



## Chapter 5

### Profile of the prescribed accountancy bodies

#### Part D - Practising Authorisation

The table in this Part of the Chapter provides information about the practising authorisation/licensing activities of each of the prescribed accountancy bodies. As alluded to in Part A, the prescribed accountancy bodies impose additional requirements on those of their members wishing to engage in public practice (i.e. offer services to the public) before authorising them to do so.

These additional requirements normally include:

- the necessity to arrange minimum levels of professional indemnity insurance cover;
- putting in place practice continuity arrangements whereby in the event of non-continuation of the practice (e.g. in the case of illness or death) clients' affairs will be afforded continuity of service;
- obtaining minimum levels of post admittance to membership experience; and
- undertaking additional continuing professional development in relevant practice areas.

Members or member firms who satisfy the specified criteria are granted a practising certificate, which authorises them to engage in public practice (but not to carry out work in reserved areas such as audit or investment business, for which additional authorisations are required), and are generally required to renew this authorisation annually. Employees of a practising member or firm are not usually required to hold a practising certificate, unless they are holding themselves out to provide services to the public in their individual capacity as a member.

The following table shows how many members of each accountancy body that are located in Ireland have satisfied the relevant requirements and have been authorised to engage in public practice. However, it should be noted that the prescribed accountancy bodies also authorise members located outside of Ireland to practice in Ireland and these are not included in the table.

The following table is based on information provided by the prescribed accountancy bodies as part of their first annual returns to the Authority.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table D.1: Members with Practising Certificates who are located in Ireland

Recognised Accountancy Bodies									
As at 31 December 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA	AIA	CIMA	CIPFA
Whether the grant of a practising certificate is to an individual member or a firm	Member	Member	Member	Member	Both <sup>100</sup>	Member	Member	Member	N/A <sup>101</sup>
Members with practising certificates at 1 January 2006	1,199	62	1,515	4	456	125	10	4	-
During the year:									
ADD: Members who were granted a new practising certificate during the year	53	4	99	-	30	3	2	4	-
LESS: Members who did not renew their practising certificate during the year	(56)	(5)	(28)	-	(13)	(8)	-	-	-
Practising certificates withdrawn by the Institute/Association during the year	-	-	(6)	-	-	-	-	-	-
Other (Change of address to outside Ireland)	-	-	(2)	-	-	-	-	-	-
Members with practising certificates at 31 December 2006 located in Ireland	1,196	61	1,578	4	473	120	12	8	-

100. ICPAI registers both firms and members for practising certificates. Figures are given in relation to members.

101. CIPFA does not authorise members to engage in public practice and does not have any members employed in practice.

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Part E - Registered Auditors

The tables and charts in this Part of the Chapter provide information about the registered auditor members/member firms of each of the six<sup>102</sup> recognised accountancy bodies.

Certain companies are obliged under company law to have their financial statements audited by a suitably qualified auditor or audit firm on an annual basis<sup>103</sup>. To be eligible to undertake statutory audits of a company, an individual or a firm must meet the criteria set out in section 187 of the Companies Act 1990. These criteria include (i) being a member of a recognised accountancy body; and (ii) holding a valid practising certificate (conferring the entitlement to audit) from such a body.

Section 187 also provides that certain persons who, while not being members of a recognised accountancy body, are entitled to perform statutory audit work on foot of individual Ministerial authorisations granted prior to 3 February, 1983 and registered under the provisions of section 199(3) of the Companies Act, 1990. By virtue of such authorisations, those persons are, following the enactment and commencement of the Act, deemed to be authorised to act in that capacity by the Authority. Further details of these individuals are provided in Part F of this Chapter.

'Registered auditor', in the context of the following tables, means a firm or an individual that is registered to undertake statutory audits under the Companies Acts 1963 to 2006, being a member or member firm of a recognised accountancy body and holding the appropriate practising certificate/authorisation from such a body.

A member/member firm of a recognised accountancy body wishing to provide audit services must first obtain the appropriate practising certificate (i.e. allowing the member/firm to offer services to the public). Therefore, membership of a recognised accountancy body does not automatically entitle an individual or firm to provide audit services. Rather, to obtain audit registration, a member or firm must satisfy the relevant body's additional criteria (i.e. over and above those required for (i) membership; and (ii) practising authorisation) which normally include:

- an audit qualification for any individual who proposes to sign an audit report; and
- sufficient and appropriate audit related post-membership audit experience.

Each recognised body has its own system for audit registration, with five of the six bodies registering by firm and one by member. It should be noted that the bodies can register firms who do not reside in Ireland to audit in Ireland. Therefore, table E.1 presents details of each body's total number of registered auditors, while table E.2 provides details of those registered auditors who have offices in Ireland.

#### Registered Auditors

- Table E.1 Analysis by Principals and Offices
- Chart E.1 Comparison of Number of Principals (by body)
- Chart E.2 Comparison of Number of Offices (by body)
- Table E.3 Movement during the year

#### Registered Auditors with Offices in Ireland

- Table E.2 Analysis by Principals and Offices
- Table E.4 Movement during the year

102. The other three prescribed accountancy bodies (i.e. AIA, CIMA and CIPFA) are not recognised and cannot, therefore, confer audit authorisations in Ireland on their members/member firms.

103. Certain companies who meet defined criteria may avail of an exemption from the general requirement to have financial statements audited.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table E.1: Registered Auditors – Analysis by Principals and Offices

	Recognised Accountancy Bodies					
As at 31 December, 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Whether audit registration is by member or by firm	Firm	Firm	Firm	Firm	Firm	Member
Total number of registered auditors at 31 December	585	4,817 <sup>104</sup>	1,028	268	350	120
Analysis of firms by number of principals:						
• 1 principal	437	2,481	666	118	254	N/A <sup>105</sup>
• 2 - 5 principals	139	1,967	339	91	96	
• 6 - 10 principals	7	252	12	52	-	
• 11 - 25 principals	2	91	5	5	-	
• 26 - 50 principals	-	14	5	1	-	
• 50 + principals	-	12	1	1	-	
Analysis of firms by number of offices:						
• 1 office	519	3,659	958	214	Not avail <sup>106</sup>	N/A <sup>105</sup>
• 2 offices	54	854	54	-		
• 3 offices	8	186	12	42		
• 4 – 5 offices	4	74	2	9		
• 6 - 10 offices	-	29	2	1		
• 11 - 20 offices	-	7	-	1		
• More than 20 offices	-	8	-	1		

104. ICAEW has reported the total number of registered firms at the end of 2006 as 4,817. However, included in this total are 1,307 corporate practices who under Irish company law cannot accept audit appointments in Ireland.

105. IIPA registers individual members rather than firms and therefore the analysis of firms by number of principals and offices is not relevant.

106. This information is currently not available as the ICPAI's database is in transition.

## Chapter 5

### Profile of the prescribed accountancy bodies

Chart E.1: Comparison of Registered Auditors by Number of Principals

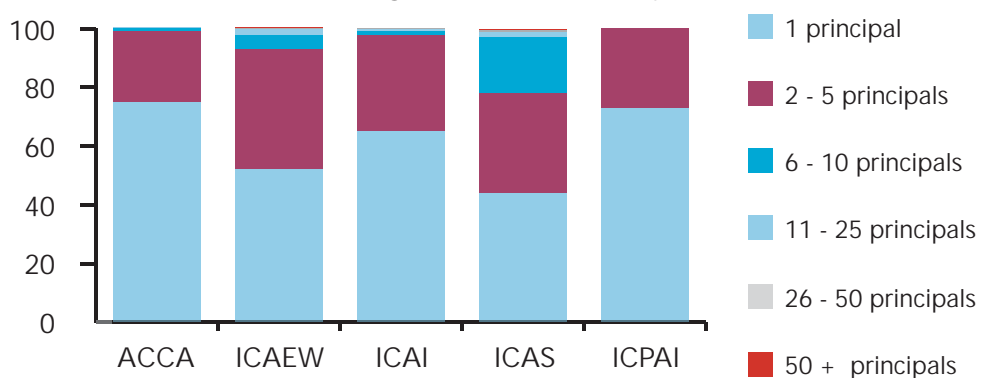
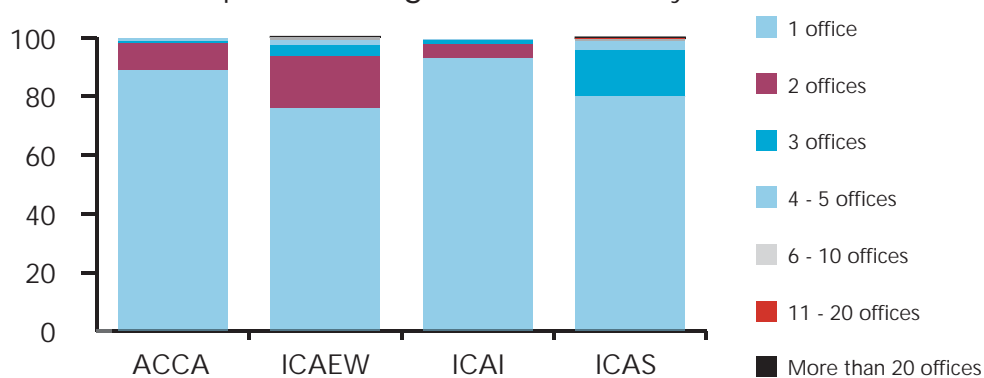


Chart E.2: Comparison of Registered Auditors by Number of Offices



## Chapter 5

### Profile of the prescribed accountancy bodies

Table E.2: Registered Auditors with offices in Ireland - Analysis by Principals and Offices

	Recognised Accountancy Bodies					
As at 31 December, 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Total number of registered auditors at 31 December	311	10	792	1	350	120
Analysis of firms by number of principals:						
• 1 principal	233	10	522	1	254	N/A <sup>105</sup>
• 2 - 5 principals	73	-	252	-	96	
• 6 - 10 principals	5	-	8	-	-	
• 11 - 25 principals	-	-	4	-	-	
• 26 - 50 principals	-	-	5	-	-	
• 50 + principals	-	-	1	-	-	
Analysis of firms by number of offices:						
• 1 office	282	10	751	1	Not avail <sup>106</sup>	N/A <sup>105</sup>
• 2 offices	26	-	33	-		
• 3 offices	3	-	5	-		
• 4 - 5 offices	-	-	2	-		
• 6 - 10 offices	-	-	1	-		
• 11 - 20 offices	-	-	-	-		
• More than 20 offices	-	-	-	-		

## Chapter 5

### Profile of the prescribed accountancy bodies

Table E.3: Registered Auditors – Movement during the year

	Recognised Accountancy Bodies					
Year to 31 December 2006	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Audit registrations at 1 January 2006	592	5,153	1,044	312	352	125
During the year:						
<b>ADD:</b> New applications for audit registration accepted	34	260	35	4	13	3
<b>LESS:</b> Audit registrations withdrawn by the Institute/Association following a request from the registered auditor	(41)	(569)	(47)	(47)	(13)	-
Audit registrations withdrawn/suspended by the Accountancy Body as a result of disciplinary/regulatory action taken by the body	-	(27)	(3)	(1)	(2)	-
Other	-	-	(1)	-	-	(8)
<b>Registered auditors at 31 December, 2006</b>	<b>585</b>	<b>4,817<sup>107</sup></b>	<b>1,028</b>	<b>268</b>	<b>350</b>	<b>120</b>

107. This includes the 1,307 corporate practices noted above in the footnote to table E.1.

## Chapter 5

### Profile of the prescribed accountancy bodies

Table E.4: Registered Auditors with offices in Ireland – Movement during the year

Year to 31 December 2006	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Audit registrations at 1 January 2006	305	12	800	1	352	125
During the year:						
<b>ADD:</b> New applications for audit registration accepted	18	1	20	-	13	3
<b>LESS:</b> Audit registrations withdrawn by the Institute/Association following a request from the registered auditor	(11)	(3)	(27)	-	(13)	-
Audit registrations withdrawn/suspended by the Accountancy Body as a result of disciplinary/regulatory action taken by the body	-	-	(2)	-	(2)	-
Other	(1)	-	(1)	-	-	(8)
Change of address from outside Ireland to Ireland	-	-	2	-	-	-
<b>Registered auditors with offices in Ireland at 31 December, 2006</b>	<b>311</b>	<b>10</b>	<b>792</b>	<b>1</b>	<b>350</b>	<b>120</b>

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Part F - Individually Authorised Auditors

As alluded to in Part E of this Chapter, section 187 of the Companies Act, 1990 provides that certain persons who, while not being members of a recognised accountancy body, are entitled to perform statutory audit work on foot of individual Ministerial authorisations granted prior to 3 February, 1983 and registered under the provisions of section 199(3) of the Companies Act, 1990. By virtue of such authorisations, those persons are,

following the enactment and commencement of the Act, deemed to be authorised to act in that capacity by the Authority. In accordance with the provisions of section 199(3A) of that Act, these individuals (referred to as 'individually authorised auditors') are required to notify the Registrar of Companies at least once in each year that they are continuing to act as an auditor. Table F.1 below provides details of individually authorised auditors as notified to the Companies Registration Office ('CRO') during 2006.

**Table F.1**  
**List of Individually Authorised Auditors notified to the CRO during 2006**

<b>Sean Ardagh</b> 168 Walkinstown Road Dublin 12	<b>John Fahey</b> 60 O'Connell Street Clonmel, Co. Tipperary	<b>Michael B. Keogh</b> 49 Killiney Towers Killiney, Co. Dublin	<b>Sean M. O'Carroll</b> 53 Saran Wood Killarney Road Bray, Co. Wicklow
<b>John Browne</b> Leader House Dublin Road Longford	<b>Patrick D. Finnegan</b> 339 Meadowbrook Kilcoole, Co. Wicklow	<b>Robert McDonald</b> ACC House Shop Street Tuam, Co. Galway	<b>Vincent O'Connor</b> 12 Brookville Gardens Clareview, Limerick
<b>Mary Desmond Collins</b> Red House Hill Patrickswell, Co. Limerick	<b>Charles J. Flynn</b> Unit 1B 2nd Floor Village Court Lucan, Co. Dublin	<b>Brian J. Martin</b> Apt. 14 Mitchel House Appian Way, Dublin 6	<b>Joseph Pattison</b> 1 Jacob Street Kilkenny
<b>St. John J. Costello</b> "Prospect" Castletroy, Co. Limerick	<b>Patrick David Glynn</b> Windemere Glendine, Kilkenny	<b>J. A. Mullins</b> 12 Doneen Road Woodview, Limerick City	<b>Michael J. Roche</b> 51 Corbawn Drive Shankill, Co. Dublin
<b>Stephen Cullinane</b> Grealy & Co. Galway Retail Park Headford Road Galway	<b>John Hardiman</b> The Manse Northgate Street Athlone, Co. Westmeath	<b>E.P. Murphy</b> 3 Ballymace Green Templeogue, Dublin 14	<b>Patrick J. Rocks</b> 9/10 Park Street Monaghan
<b>Gerard Joseph D'Arcy</b> The Maples Drum Athlone, Co. Roscommon	<b>Leslie Vincent Hogan</b> Monaleen Road Castletroy, Limerick	<b>Patrick J. Murphy</b> "Cummeen" Strandhill Road, Sligo	<b>Michael Sheridan</b> 3 Tramore Heights Tramore, Co. Waterford
<b>Cormac Gerard Duffy</b> 44 Dominick Street Galway	<b>John P. Keenan</b> 25 St. Catherine's Park Glenageary Dun Laoghaire, Co. Dublin	<b>Thomas O'Brien</b> "Dunkerron" Leoville Dunmore Road Waterford	<b>Lionel R. Steen</b> 27 High Street Castlecomer, Kilkenny
			<b>Edward Thornley</b> 100 Strand Road Sandymount, Dublin 4

Source: Companies Registration Office

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Part G - Recognised Accountancy Bodies' Monitoring of Registered Auditors

As discussed in some detail in Chapter 1 of this report, the Act confers upon the Authority a function of supervising how each recognised accountancy body monitors its members<sup>108</sup>. Primary responsibility for the monitoring (i.e. quality assurance processes and monitoring of compliance with professional standards etc.) of members and member firms resides with the recognised accountancy bodies, under the Authority's supervision<sup>109</sup>.

At this time, all of the recognised accountancy bodies have in place regimes for quality assurance review of their members/member firms. In the case of several of the recognised accountancy bodies, the quality assurance regime extends beyond audit into other areas of members' or member firms' activities such as, for example, investment business activities.

Each body's quality assurance process is tailored to its specific requirements and elements thereof may include, for example, desk-top reviews of members' annual returns, desk-top reviews of members' individual client engagement files and/or periodic quality assurance visits to registered auditors' offices by quality assurance reviewers (who are, generally, employees of the recognised accountancy bodies).

The scope of quality assurance visits to members or member firms typically includes:

- an assessment of the member's or member firm's compliance with the body's bye-laws, regulations, professional standards and applicable law;

- an assessment of the member's or member firm's internal quality control procedures; and
- a substantive review of individual client engagement files.

Each of the recognised accountancy bodies seeks to perform quality assurance reviews of members or member firms by reference to pre-set cycles. The length of cycles varies between the bodies and within bodies depending on the nature of members' or member firms' client bases (e.g. firms auditing listed clients or clients otherwise regulated would generally tend to be reviewed more frequently). Of relevance in this context are the quality assurance provisions of the recently revised EU 8<sup>th</sup> Company Law Directive (discussed in Chapter 1) which, *inter alia*, will introduce - with effect from mid 2008 at the latest - a statutory requirement in all Member States for independent quality assurance reviews of statutory auditors, which must be completed at least every 6 years, or in the case of statutory auditors having public interest entities as clients, every 3 years.

The following tables are based on information provided by the recognised accountancy bodies as part of their first annual returns to the Authority.

#### Registered Auditors

**Table G.1** Quality Assurance Visit Cycle

**Table G.2** Summary of Risk Indicators

**Table G.3** Quality Assurance Visits

**Table G.4** Staff involved in Quality Assurance

**Table G.5** Outcome of Quality Assurance Visits

**Table G.6** Quality Assurance Visit Sanctions

108. Section 9(2)(g) refers.

109. The recently revised EU 8<sup>th</sup> Company Law Directive on statutory audit, which is discussed in Chapter 1, contains certain provisions relating to Member States' obligations regarding the establishment of quality assurance systems. The Directive is not required to be transposed into domestic legislation until mid 2008 and it is not known at this time how the Oireachtas (Parliament) will elect to transpose the relevant aspects of the Directive or if, as a consequence, there will be any changes to the quality assurance arrangements that currently prevail.

## Chapter 5

### Profile of the prescribed accountancy bodies

**Table G.1: Registered Auditors – Recognised Accountancy Bodies' Quality Assurance Visit Cycles**

Recognised Accountancy Body	Details of the Accountancy Body Quality Assurance Visit Cycle
<b>ACCA</b>	When a firm first obtains audit registration from ACCA, the Association's policy is that the firm will receive a monitoring visit within four years. Subsequent visits are carried out within a six year cycle. ACCA uses risk factors to determine when a firm will be visited within a visit cycle. Following a visit, where ACCA finds that a firm still needs to make some improvements to its audit work, it will be scheduled for a follow up visit within four years. Where the audit work is found to be seriously unsatisfactory, the follow up visit will take place within two years, or if the findings are referred to the relevant regulatory Committee, as the Committee directs.
<b>ICAEW</b>	The default cycle for all ICAEW firms is six years, but certain firms are visited more frequently. The top 25 UK firms have been visited on an annual or three yearly basis, depending on the nature and size of the firm. In addition, firms which have received a poor visit rating (D graded) are scheduled for a visit after three years, while firms that display specific risk indicators may be selected for earlier visits and any one of the four committees that consider visit reports from the Quality Assurance Directorate may request an early or follow up visit for a particular firm. It should also be noted that the Audit Inspection Unit of the Professional Oversight Board (part of the UK Financial Reporting Council), has taken over the monitoring of public interest entities in the UK.
<b>ICAI</b>	The ICAI's monitoring regime involves an annual review and risk analysis of every firm by way of a desk top review of an extensive annual return submitted by the firms. In addition, the Institute has established goals for itself in relation to inspection of firms. Firms are visited on a risk basis but the aim is to visit firms within an overall cycle. The cycle for firms with listed clients is 2-3 years, for firms with clients regulated under other legislation (for example credit unions) the cycle is 5 years, while for firms with other low risk audit clients the cycle is 10 years.
<b>ICAS</b>	The ICAS monitoring cycle involves monitoring one of the big nine national firms, which is registered by ICAS, every year. All other firms with listed clients are visited at least every three years. Those with public interest entity clients are selected by the Audit Inspection Unit of the Professional Oversight Board (part of the UK Financial Reporting Council). All other firms are monitored at least every six years and are selected by Annual Return desk top monitoring based on risk factors.
<b>ICPAI</b>	The Institute has a six year cycle for monitoring, the current cycle having commenced during 2006. Some risk based criteria are used for selection, but all firms are selected for review during the cycle. If a firm does not achieve a satisfactory grade on a visit then follow up action is taken. All new firms authorised receive a monitoring visit in the first twelve months of operation. The annual monitoring plan is set once a year and includes both field monitoring visits and desk based reviews.
<b>IIPA</b>	IIPA has two cycles in operation, comprising three years and five years. In January of each year, the Monitoring Committee meets to establish the number of visits to be carried out in the forthcoming year. Some visits will be based on random selection and others will be targeted based on risk assessment. Having carried out the assessment, this in turn helps determine the number of monitoring visits for the year. It will also determine the cycle that applies to each member. Those members in the risk category will be visited every 3 years, while all other members will be subject to a five year cycle unless their circumstances change.

## Chapter 5

### Profile of the prescribed accountancy bodies

**Table G.2: Summary of Risk Indicators**

Factors which the recognised accountancy bodies have reported as giving rise to a heightened risk assessment for an individual firm, leading to an increased likelihood of more frequent or earlier quality assurance visits are:

- The number of audit clients;
- The type of audit clients, specifically, public interest entity clients, which include listed entities, credit institutions, insurance brokers, investment firms, and pension firms;
- Specialist audit client base;
- No audit procedures, out-of-date procedures, or no specialist audit procedures when firm has specialist clients;
- Indication of control problems within the firm;
- History of complaints against the firm;
- Failure to make an annual return to the recognised body;
- Length of time since the last visit; and
- A poor grade on the previous visit.

**Table G.3: Registered Auditors – Quality Assurance Visits**

Year to 31 December, 2006	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
At 1 January, the number of expected audit monitoring visits to be undertaken in the year	122	Not provided <sup>110</sup>	Not set <sup>111</sup>	50	75	10
Number of audit monitoring visits actually undertaken in the year	81	713	44	69	59	5
Number of members that were monitored following a referral from a regulatory committee	13	42	6	1	4	-
Number of members specifically selected for monitoring due to heightened risk (including early follow-ups)	30 <sup>112</sup>	28	16	67	-	1
Number of members that were randomly selected for a monitoring visit	38	643	19	-	55	4
Other (selected for a monitoring visit)	-	-	3	1	-	-

110. ICAEW (i) has advised the Authority that it does not set annual targets in respect of firms in Ireland; and (ii) has not provided the target in respect of registered auditors based outside Ireland, noting, however, that these targets are driven by the requirements of the revised EU 8<sup>th</sup> Company Law Directive.

111. ICAI has advised the Authority that it does not set an annual visit target. Rather, it sets risk priorities for selection of firms to receive visits.

112. 14 were selected for two-year follow-up, while 16 were selected for four-year follow-up.

## Chapter 5

### Profile of the prescribed accountancy bodies

**Table G.4: Registered Auditors – Staff involved in Quality Assurance**

	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
<b>Year to 31 December, 2006</b>						
Total number of registered auditors at 31 December	585	4,817	1,028	268	350	120
No. of whole-time equivalent staff involved in monitoring registered auditors <sup>113</sup>	8	30	12	3	4	– <sup>114</sup>

**Table G.5: Registered Auditors – Outcome of Quality Assurance Visits**

	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
	See Note 1	Not provided	Note 2	Note 3	Note 4	Note 5
Grades awarded						

#### **Note 1: ACCA Grades awarded**

This table shows the reasons for, and outcomes of, quality assurance visits carried out by ACCA to firms holding a Firm's Auditing Certificate valid in Ireland during 2006.

Visit reason	A/B	C+	C-	D	Total
New/Routine	16 <sup>1</sup>	11	6	5	38
Early follow-up (4 years)	8 <sup>2</sup>	2	1	5	16
Early follow-up (2 years)	7	–	–	7	14
Investigative	–	–	–	–	–
Committee ordered visit	9	–	–	4	13
<b>Total</b>	<b>40</b>	<b>13</b>	<b>7</b>	<b>21</b>	<b>81</b>

<sup>1</sup> – three of these firms had no audit clients

<sup>2</sup> – one of these firms had no audit clients

Key to grades awarded:

A/B: Satisfactory/Acceptable;

C+: Unsatisfactory & improvements required;

C–: Unsatisfactory & significant improvements required;

D: Referral to Committee (regulatory/disciplinary action).

113. These figures may include, *inter alia*, staff involved in the desk-top review of members' annual returns as well as the reviewers who conduct the quality assurance visits.

114. IIPA utilises the services of up to 4 individuals to perform the quality assurance visit function as required.

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Note 2: ICAI Grades awarded

Grade	No.
A: No breaches recorded and no regulatory action required	-
B: Breaches noted but firm has undertaken to address all issues arising and no follow-up action is required.	10
C: Breaches noted and the firm has undertaken to take actions that address the issues raised, and follow-up is required.	18
D3: Condition or restriction to be imposed, but loss of registration or authorisation not being proposed	10
D2: Serious integrity concerns, flagrant breaches, lack of commitment, progress, competence or failure to comply with previous conditions/restrictions. The Quality Review Committee will be 'minded to withdraw' authorisation or registration. However, it may be possible for the problems to be corrected.	3
D1: Serious integrity concerns, flagrant breaches, lack of commitment, progress, competence or failure to comply with previous conditions/restrictions. Loss of registration or authorisation is proposed.	3
<b>Total</b>	<b>44</b>

#### Note 3: ICAS Grades awarded

Grade	No.
A: No issues to deal with	2
B: Some regulatory areas, but they have been adequately addressed by the firm's closing meeting responses	31
C: Regulatory issues arising and a need for the firm to show that planned changes have occurred	21
D: Committee to consider follow-up action such as imposition of conditions and restrictions	14
Not yet finalised	1
<b>Total</b>	<b>69</b>

#### Note 4: ICPAI Grades awarded

Grade	No.
A: No follow up action required	12
B: Desk based follow up action required	22
C: Re-review of firm required	14
D: Referral for urgent action, which may include disciplinary action	9
No Grade & report to Investigation Committee	2
<b>Total</b>	<b>59</b>

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Note 5: IIPA Grades awarded

Grade	No.
A: No follow up action required or recommendations to be made.	-
B: No follow up action required but minor recommendations for improvement.	4
C: List of recommendations for improvement and implementation of recommendations to be monitored by reviewer without recourse to re-review.	-
D: List of recommendations for improvement and implementation of recommendations to be monitored by full re-review of firm within 12 months.	1
E: List of recommendations for improvement and agreed plan of action between firm and Institute to implement a plan. Firm to be subjected to ongoing monitoring until improvements are implemented.	-
F: Referral of matters to Council with recommendation for action to be taken by Council to address the gross deficiencies identified.	-
<b>Total</b>	<b>5</b>

Table G.6: Registered Auditors – Quality Assurance Visit Sanctions

Year to 31 December, 2006	Recognised Accountancy Bodies					
	ACCA	ICAEW	ICAI	ICAS	ICPAI	IIPA
Number who have had conditions and/or restrictions imposed as a result of the findings of a monitoring visit.	20 <sup>115</sup> Note 1	27 Note 2	15 Note 3	23 Note 4	-	-
Number who have had a follow up visit/re-review imposed	14	5	1	-	43 <sup>116</sup>	1
Number who have had their audit registration suspended as a result of the findings of a monitoring visit.	-	1	4	-	2	-
Number who have had their audit registration withdrawn as a result of the findings of a monitoring visit.	-	18	2	2	-	-

115. This comprises five cases brought forward from 2005 and fifteen arising during 2006. Six cases have been carried forward to be dealt with by the Committee in 2007.

116. This figure relates to both the number of follow-up visits and desk-top file reviews.

## Chapter 5

### Profile of the prescribed accountancy bodies

#### Note 1: ACCA

Conditions/Restrictions Imposed	No.
Hot reviews <sup>117</sup> and early follow-up visit	14
Auditing certificate relinquished and any future application to be referred to the Admissions & Licensing Committee	2
Remedied by practitioner and Regulation & Monitoring Department to follow up	2
Condition imposed to notify ACCA if the firm accepts further appointments and for the Regulation and Monitoring Department to then confirm that the firm is not subject to any influence that may affect its independence	1
Undertaking from the firm not to accept audit appointments from another firm which carries out the accountancy function for the same client	1

#### Note 2: ICAEW

Conditions/Restrictions Imposed	No.
Restrictions on accepting new clients until the satisfactory outcome of other measures	20
Hot file reviews <sup>117</sup>	16
Cold file reviews <sup>117</sup>	12
Matters relating to Continuing Professional Development (Some firms had more than one of the above outcomes)	9

#### Note 3: ICAI

Conditions/Restrictions Imposed	No.
Hot file reviews <sup>117</sup>	2
Direction to resign from clients	2
External compliance reviews imposed	3
Direction to implement a programme of improvements	4
Referred to Complaints Committee (Some firms had more than one of the above outcomes)	6

#### Note 4: ICAS

Conditions/Restrictions Imposed	No.
Hot file reviews <sup>117</sup>	6
Cold file reviews <sup>117</sup>	17

117. A hot file review is a quality control review of an audit engagement, which is undertaken by a suitably qualified individual, **before** the audit report is issued. A cold file review is a similar review, but is undertaken **after** the audit report has issued.

# Financial Statements and Related Statements

## Financial Statements and Related Statements

### Report of the Directors

#### Introduction

The directors are pleased to submit to the first Annual General Meeting of the company the Authority's financial statements for the period ended 31 December, 2006, together with the Report of the Directors, which has been prepared pursuant to the provisions of section 158 of the Companies Act, 1963 (as amended). The retained surplus for the period was nil.

#### Directors and Secretary

The Directors and Secretary of the Authority, as at 31 December, 2006, were:

**Karen Erwin**

Chairperson, Ministerial nominee

**Ian Drennan**

Chief Executive

**Paul Appleby**

Director of Corporate Enforcement

**Helene Coffey**

Nominee of the Law Society of Ireland

**Marie Daly**

Nominee of the Irish Business and Employers' Confederation

**Michael Deasy**

Nominee of the Financial Regulator

**Sean Hawkshaw**

Nominee of the Irish Association of Investment Managers

**Tom Healy**

Nominee of the Irish Stock Exchange

**Jim Kelly**

Nominee of the Revenue Commissioners

**Tony Kelly**

Nominee of the Prescribed Accountancy Bodies

**Pat A. Houlihan**

Ministerial nominee

**Anne Maher**

Nominee of the Pensions Board

**David Martin**

Nominee of the Prescribed Accountancy Bodies

**Donal O'Connor**

Nominee of the Prescribed Accountancy Bodies

**Senator Joe O'Toole**

Nominee of the Irish Congress of Trade Unions

**Secretary**

Jane Meehan, Head of Legal Services, IAASA

#### Principal activity

The company was incorporated on 20 December, 2005 for the purpose of discharging the functions and exercising the powers of the Irish Auditing and Accounting Supervisory Authority as provided for by the Companies (Auditing and Accounting) Act, 2003. The company was subsequently designated for that purpose by the Minister for Trade & Commerce pursuant to the provisions of section 5 of that Act. The company does not trade for the acquisition of gain by its members and there were no material changes to the nature of the company's activities during the period.

#### Risk and uncertainties

The directors confirm that, as required by the Code of Practice for the Governance of State Bodies, a policy and procedures have been developed by the company for the purpose of facilitating the identification, quantification and management of the key business risks facing the Authority and that the aforementioned policy and procedures have been adopted by the Board.

#### Compliance with Section 90 of the Company Law Enforcement Act, 2001

To ensure that proper books and accounting records are maintained in accordance with the requirements of section 202 of the Companies Act, 1990, the Authority has employed an appropriately qualified Finance Manager and utilises appropriate computer software. The books of account are located at the

## Financial Statements and Related Statements

### Report of the Directors

Authority's registered office at Willow House,  
Millennium Park, Naas, Co. Kildare.

#### Post Balance Sheet Events

No events have occurred subsequent to the balance sheet date which require disclosure in the financial statements.

#### Auditor

The Authority's auditor, the Comptroller & Auditor General, remains in office in accordance with the provisions of section 21(2) of the Companies (Auditing and Accounting) Act, 2003.

Approved by the Board of Directors on 22 May, 2007 and signed on its behalf by:

**Karen Erwin**  
**Chairperson**

**Ian Drennan**  
**Chief Executive**

**Donal O'Connor**  
**Chairperson, Audit Committee**

## Financial Statements and Related Statements

### Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

I have audited the financial statements of the Irish Auditing and Accounting Supervisory Authority for the period ended 31 December, 2006 under the Companies (Auditing and Accounting) Act, 2003.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Statement of Accounting Policies, the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes.

#### Respective Responsibilities of the Directors and the Comptroller and Auditor General

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and Generally Accepted Accounting Practice in Ireland are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for ensuring the regularity of transactions.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland and are properly prepared in accordance with the Companies Acts 1963 to 2006. I also report whether in my opinion proper books of account have been kept by the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, I state whether I have obtained all the information and explanations necessary for the purposes of my audit, and whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I review whether the Statement on Internal Financial Control reflects the Company's compliance with the Code of Practice for the Governance of State Bodies and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### Basis of audit opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations in relation to management and operations which attach to bodies in receipt of substantial funding from the State. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other

## Financial Statements and Related Statements

### Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

#### Opinion

In my opinion, the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs at 31 December, 2006 and of its income and expenditure for the period then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2006.

I have obtained all the information and explanations that I consider necessary for the purpose of my audit. In my opinion proper books of account have been kept by the Company. The financial statements are in agreement with the books of account.

In my opinion, the information given in the Directors' Report is consistent with the financial statements.

**John Purcell**  
**Comptroller and Auditor General**  
**23 May, 2007**

## Financial Statements and Related Statements

### Statement of Directors' Responsibilities

Pursuant to the provisions of section 5 of the Companies (Auditing and Accounting) Act, 2003, the Irish Auditing and Accounting Supervisory Authority performs its functions and exercises its powers through a company limited by guarantee, designated for that purpose by the Minister for Trade & Commerce.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of its surplus or deficit for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Authority will continue in operation; and
- disclose and explain any material departures from applicable Accounting Standards.

The Directors are responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the Authority and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2006. The Directors are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Section 21(1) of the Companies (Auditing and Accounting) Act, 2003 further provides that the Authority '*...shall keep records of, and prepare all proper and usual accounts of-*

*(a) all income received by it, including the sources,*

*(b) all expenditure incurred by it, and*

*(c) its assets and liabilities'.*

Approved by the Board of Directors on 22 May, 2007 and signed on its behalf by:

**Karen Erwin**  
**Chairperson**

**Ian Drennan**  
**Chief Executive**

**Donal O'Connor**  
**Chairperson, Audit Committee**

## Financial Statements and Related Statements

### Statement on the System of Internal Financial Control

#### Responsibility for system of internal financial control

On behalf of the Board of Directors of the Irish Auditing & Accounting Supervisory Authority I acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

#### Key control procedures

The Board of the Authority has taken steps to ensure an appropriate control environment is in place by:

- clearly defining management responsibilities;
- formalising a clear separation between the Board's and the Executive's functions and powers;
- setting regular reporting requirements concerning financial and related matters;
- establishing an Audit Committee;
- engaging an external firm of accountants to act as providers of an internal audit service to the Authority;
- publishing Codes of Conduct for both directors and employees of the Authority; and
- seeking to develop and instil a strong culture of accountability across the organisation.

The Board has also established processes to identify and evaluate business risks by:

- identifying the nature, extent and possible implications of the risks facing the Authority, including the extent and categories of risk which it regards as acceptable;
- assessing the likelihood of identified risks coming to fruition;
- assessing the Board's ability to manage and mitigate identified risks;
- having regard to costs of operating particular controls relative to the benefit obtained.

The system of internal financial control is based on a framework of regular management information, administrative procedures including, to the extent practicable having regard to the scale of the Authority, segregation of duties and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and agreed by the Board;
- regular reviews by the Board of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance; and
- regular internal audit reviews.

The Authority has appointed Deloitte to act as internal auditors and to report to the Audit Committee. The Audit Committee, which comprises Non-Executive Directors, includes persons possessing knowledge of accounting, internal control and risk management matters. The Audit Committee is further charged with ensuring that the Board is kept informed of the matters that it has considered.

## Financial Statements and Related Statements

### Statement on the System of Internal Financial Control

The internal audit function operates in accordance with the Framework Code of Best Practice set out in the Code of Practice for the Governance of State Bodies. A rolling three-year internal audit work plan has been determined in consultation with the Audit Committee and will be revised annually as and when required. The current internal audit work plan takes account of areas of potential risk identified in a risk assessment exercise carried out by Deloitte. It is envisaged that the internal auditor will provide the Committee with regular reports on assignments carried out. These reports will, *inter alia*, highlight deficiencies or weaknesses, if any, in the system of internal financial control and the recommended corrective measures to be taken where necessary.

I confirm that, in respect of the period ended 31 December, 2006, the Board conducted a review of the system of internal financial control and that the Board's review was informed by the work of the internal auditor, the Audit Committee, which oversees the work of the Internal Auditor and the Authority's Executive who have responsibility for the development and maintenance of the financial control framework.

Signed on behalf of the Board:

**Karen Erwin**  
**Chairperson**  
**22 May, 2007**

## Financial Statements and Related Statements

### Statement of Accounting Policies for the period ended 31 December, 2006

The significant accounting policies adopted by the Authority, which have been applied consistently in dealing with items considered material, are as set out hereunder.

#### 1. Basis of Preparation

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention. Accounting Standards issued by the Accounting Standards Board for use in Ireland are adopted as they become operative.

#### 2. Currency

The unit of currency in which the financial statements are denominated is the Euro (€).

#### 3. Recurrent Income

##### 3.1 Approved Programme of Expenditure for the Period

Details of the Authority's approved Programme of Expenditure for the period are set out in Note 4.

##### 3.2 Excess Income

In accordance with the provisions of section 16 of the Companies (Auditing and Accounting) Act, 2003 ('the Act'), any excess of income over expenditure in any financial period shall be applied towards meeting the Authority's Programme of Expenditure in the following period and any amounts payable from the Exchequer and Prescribed Accountancy Bodies respectively shall be appropriately reduced. In accordance with section 16 of the Act, income set aside for Reserve Fund purposes is not, however, considered to be income for this purpose.

##### 3.3 Exchequer Grant Income

Section 14(1) of the Act provides that a grant not exceeding 40% of the Authority's approved Programme of Expenditure for the period shall, subject to any conditions thought proper by the Minister for Trade & Commerce ('the Minister'), be paid to the Authority out of monies provided by the Oireachtas.

Further to the foregoing, the Department of Enterprise, Trade & Employment - the Department through which the Authority receives the Exchequer element of its recurrent funding - has stipulated that the Exchequer grant that will be paid to the Authority in any given financial period will be such as to meet 40% of the Authority's expenditure in that period.

Accordingly, Exchequer grant income recognised in the Income & Expenditure Account represents the amount necessary to meet 40% of the Authority's net recurrent expenditure in the period. Any timing differences arising at the balance sheet date between 40% of the Authority's net expenditure in the period and amounts received from the Exchequer (*via* the Department) are, therefore, reflected as a debtor or grant income carried forward to the following period in accordance with the provisions of section 16 of the Act, as appropriate.

##### 3.4 Prescribed Accountancy Bodies' Levies

Sections 14(2) and (4) of the Act provide that, in any given period and with the consent of the Minister, the Authority may impose one or more levies on the Prescribed Accountancy Bodies for the purpose of meeting up to 60% of the Authority's approved Programme of Expenditure. The aggregate of the Prescribed Accountancy Bodies' levies are apportioned on the basis of criteria submitted to, and approved by, the Minister under section 14(4) of the Act.

Given that, once approved by the Minister, statutory levies imposed on, and receivable from, the Prescribed Accountancy Bodies are designed to meet 60% of the Authority's expenditure in the period, Prescribed Accountancy Body levy income recognised in the Income & Expenditure Account represents the amount necessary to meet 60% of the Authority's net recurrent expenditure in the period. Accordingly, any differences arising at the balance sheet date between 60% of the Authority's net expenditure in the period and the aggregate of levies received from the Prescribed Accountancy Bodies are reflected as debtors or levy income carried

## Financial Statements and Related Statements

### Statement of Accounting Policies

for the period ended 31 December, 2006

forward to the following period in accordance with the provisions of section 16 of the Act, as appropriate.

#### 4. Reserve Fund Income

##### 4.1 Reserve Fund – Purpose and Method of Funding

Section 15(1) of the Act provides that the Authority shall establish a Reserve Fund, to be used only for the purposes of performing its functions or exercising its powers under sections 24 and 26.

With the consent of the Minister, the Authority has resolved to build a Reserve Fund of €250,000 by the end of 2007, with €170,000 of that sum to be collected and set aside for Reserve Fund purposes during the period ending 31 December, 2006. Pursuant to the provisions of section 15(1)(b) of the Act, the Reserve Fund is funded as follows:

- 60% by way of a Reserve Fund levy on the Prescribed Accountancy Bodies; and
- 40% by way of an Exchequer Grant.

##### 4.2 Exchequer Grant Income – Reserve Fund

The Department has stipulated that the Exchequer grant that will be paid to the Authority in any given financial period will be such as to meet 40% of the amount to be set aside for Reserve Fund purposes in that period, as approved by the Minister. Exchequer Reserve Fund income is accounted for in the financial statements on a receivable basis.

##### 4.3 Prescribed Accountancy Bodies' Levies – Reserve Fund

The aggregate of the Prescribed Accountancy Bodies' Reserve Fund levies are apportioned on the basis of criteria submitted to, and approved by, the Minister under section 14 of the Act. Once approved by the Minister, the Prescribed Accountancy Bodies' Reserve Fund levies are accounted for on a receivable basis.

#### 5. Lease on Authority Premises

Rents due under the lease are paid to the lessor by the OPW and are recouped from the Authority on a quarterly basis by agreement. Rents are charged to the Income & Expenditure Account in the period to which they relate.

#### 6. Superannuation

The interim arrangements that the Authority has in place with regard to employees' superannuation benefits are described in Note 20. On foot of those arrangements, the Authority charges employer superannuation contributions payable to the Department to the Income & Expenditure Account in the period to which they relate.

#### 7. Tangible Fixed Assets

Tangible fixed assets are carried in the balance sheet at cost less accumulated depreciation. Depreciation is charged to the Income & Expenditure Account on a straight line basis, with the charge being calculated over assets' expected useful lives at the following rates:

IT Equipment	33⅓%
Office Equipment	20%

#### 8. Stocks

Stocks on hand at period end represent stocks of I.T. and office consumables and are valued at cost.

#### 9. Capital Account

The Capital Account represents the unamortised value of income used for capital purposes (i.e. asset acquisitions).

## Financial Statements and Related Statements

### Income and Expenditure Account

Income & Expenditure Account for the period ended 31 December, 2006			
	Note	€	€
Income	4		1,537,859
<b>Administrative Expenses</b>			
Staff Costs	5	707,252	
Directors' Fees		113,096	
Accommodation	6	198,757	
Travel & Subsistence		65,826	
Consultancy	7	166,028	
Office Expenses	8	51,147	
Official Entertainment		2,663	
Information Technology	9	16,637	
HR & Professional Development	10	14,193	
Insurance		20,018	
Auditors' Remuneration		14,700	
Depreciation	11	1,348	(1,371,665)
Interest Receivable			10,970
<b>Surplus for the year before Deposit Interest Retention Tax</b>			177,164
Deposit Interest Retention Tax	12		(2,488)
<b>Surplus for the year after Deposit Interest Retention Tax</b>			174,676
Transferred to Capital Account	15		(3,501)
Transferred to Reserve Fund Reserve	16		(171,175)
<b>Balance at 31 December, 2006</b>			<u><u>0</u></u>

The results for the period relate to continuing operations.

The Statement of Accounting Policies, Cash Flow Statement and Notes 1 to 22 form part of these financial statements.

The Authority had no gains or losses in the period other than those dealt with in the Income & Expenditure Account.

Approved by the Board of Directors on 22 May, 2007 and signed on its behalf:

**Karen Erwin**  
Chairperson

**Ian Drennan**  
Chief Executive

**Donal O'Connor**  
Chairperson, Audit Committee

## Financial Statements and Related Statements

### Balance Sheet

Balance Sheet as at 31 December, 2006			
	Note	€	€
<b>Fixed Assets</b>			
Tangible Fixed Assets	11		3,501
<b>Current Assets</b>			
Stock on Hand		4,907	
Exchequer Grant Income Debtor	4	47,903	
Debtors & Prepayments		34,696	
Bank & Cash	13	701,401	
		<u>788,907</u>	
<b>Creditors: Amounts falling due within 1 year</b>			
Creditors & Accruals		132,633	
Deferred Rent Incentive	14	1,452	
PAB Levy Income Carried Forward	4	<u>457,447</u>	
		591,532	
<b>Net Current Assets</b>			197,375
<b>Amounts falling due after 1 year</b>			
Deferred Rent Incentive	14		(26,200)
<b>Net Assets</b>			<u><u>174,676</u></u>
<b>Reserves</b>			
Income & Expenditure Account			0
Capital Account	15		3,501
Reserve Fund Reserve	16		<u>171,175</u>
			<u><u>174,676</u></u>

The Statement of Accounting Policies, Cash Flow Statement and Notes 1 to 22 form part of these financial statements.

Approved by the Board of Directors on 22 May, 2007 and signed on its behalf:

**Karen Erwin**  
Chairperson

**Ian Drennan**  
Chief Executive

**Donal O'Connor**  
Chairperson, Audit Committee

## Financial Statements and Related Statements

### Cash Flow Statement

Cash Flow Statement for the period ended 31 December, 2006			
	Note	€	€
Net Cash Inflow from Operating Activities	17		697,172
Return on Investments & Servicing of Finance			
Interest Received			11,348
Capital Expenditure			
Payments to Acquire Tangible Fixed Assets			(4,849)
Taxation			
Deposit Interest Retention Tax (DIRT) Paid			(2,270)
Management of Liquid Resources			
Amounts Transferred to Fixed Term Deposits		(570,000)	
Interest Reinvested in Fixed Term Deposits (Net of DIRT)		<u>(9,079)</u>	<u>(579,079)</u>
<b>Increase in Cash</b>			<b><u><u>122,322</u></u></b>
<b>Reconciliation of Net Cash Flow to Movement in Net Funds</b>			
Increase in Cash in Period	18		<u>122,322</u>
			<b><u><u>122,322</u></u></b>

The Statement of Accounting Policies and Notes 1 to 22 form part of these financial statements.

Approved by the Board of Directors on 22 May, 2007 and signed on its behalf:

**Karen Erwin**  
Chairperson

**Ian Drennan**  
Chief Executive

**Donal O'Connor**  
Chairperson, Audit Committee

## Financial Statements and Related Statements

### Notes to Financial Statements

#### Note 1 - Accounting period

Pursuant to the provisions of section 5 of the Companies (Auditing and Accounting) Act, 2003 ('the Act'), the functions and powers of the Supervisory Authority are performed and exercised respectively through a company limited by guarantee and designated by the Minister for Trade & Commerce ('the Minister') for that purpose. The company (Registered No. 412677) was incorporated on 20 December, 2005. (While the Act refers to the Minister for Enterprise, Trade & Employment, the Government has delegated all Ministerial functions provided for by the Act to the Minister for Trade & Commerce. This delegation was effected by the Enterprise, Trade & Employment (Delegation of Ministerial Functions) (No. 2) Order 2004).

The period covered by the financial statements is from the date of incorporation to 31 December, 2006.

#### Note 2 - Comparatives

As this is the first accounting period in respect of which financial statements have been prepared subsequent to the Authority's incorporation, there are no comparative figures to display in the financial statements.

#### Note 3 - Format of the financial statements

As the company does not trade for the acquisition of gain by its members, the provisions of the Companies (Amendment) Act, 1986 as regards, *inter alia*, required formats for financial statements do not apply to the company. Notwithstanding the foregoing, the Authority's Balance Sheet is presented in accordance with Format 1 as set out in the Schedule to the Act and the Income & Expenditure Account is presented, to the extent practicable having regard to the non-commercial nature of the Authority's activities, in accordance with Format 1 as set out in the Schedule to that Act.

#### Note 4 - Income

##### 4.1 Approved Programme of Expenditure

The Authority's Programme of Expenditure for the period, as approved by the Minister under section 13(4) of the Act was €2,297,500, comprising:

	<b>Exchequer (40%) €</b>	<b>Prescribed Accountancy Bodies (60%) €</b>	<b>Total €</b>
Recurrent Expenditure	851,000	1,276,500	2,127,500
Reserve Fund	68,000	102,000	170,000
<b>Total</b>	<b>919,000</b>	<b>1,378,500</b>	<b>2,297,500</b>

## Financial Statements and Related Statements

### Notes to Financial Statements

#### 4.2 Income (Accounting Policies 3 and 4 refer)

	€	€
<b>Recurrent Income</b>		
Exchequer Grant Income (Note 4.4)	546,035	
Prescribed Accountancy Bodies' Levies (Note 4.4)	<u>819,053</u>	1,365,088
<b>Reserve Fund Income</b>		
Exchequer Grant Income	68,000	
Prescribed Accountancy Bodies' Levies	102,000	
Interest Receivable on Reserve Fund Monies (Gross)	<u>1,469</u>	171,469
<b>Miscellaneous Income</b>		
EU Refunds in respect of travel expenses	987	
Miscellaneous Receipts	<u>315</u>	1,302
		<u><b>1,537,859</b></u>

#### 4.3 Statutory stipulations regarding the use of income

In accordance with section 14(3) of the Act, recurrent income received by the Authority is for the purpose of meeting expenses properly incurred in the performance of its functions and the exercise of its powers (other than under sections 24 and 26).

In accordance with section 14(3)(a), Reserve Fund monies may only be used for the purposes of meeting expenses properly incurred by the Authority in performing its functions and exercising its powers under sections 24 and 26. The Authority did not have cause to call upon the monies set aside for Reserve Fund purposes during the period.

#### 4.4 - Calculation of Net Expenditure

	€	€
Gross Expenditure per Income & Expenditure Account		1,371,665
Add: Unamortised value of income used for capital acquisitions		<u>3,501</u>
		1,375,166
Less:		
Miscellaneous Income	1,302	
Non-reserve fund interest (net of DIRT)	<u>8,776</u>	10,078
<b>Net Expenditure for the period</b>		<u><b>1,365,088</b></u>
Net expenditure attributable to the Exchequer (40%)		546,035
Net expenditure attributable to the Prescribed Accountancy Bodies (60%)		<u>819,053</u>
		<u><b>1,365,088</b></u>

## Financial Statements and Related Statements

### Notes to Financial Statements

#### 4.5 - Calculation of Grant Debtor / Levy Carry Forward

	Exchequer	Prescribed Accountancy Bodies	Total
Attributable net expenditure <i>(Note 4.4 refers)</i>	546,035	819,053	1,365,088
Grants/Levies received in the period	498,132	1,276,500	1,774,632
<b>Debtor/(Levy Carry Forward) at 31 December, 2006</b>	<b>47,903</b>	<b>(457,447)</b>	<b>(409,544)</b>

#### Note 5 - Staff Costs

Salaries	528,899	
Employer PRSI Contributions	50,824	
Employer Pension Contributions (Note 20)	104,442	
Agency Fees - Temporary clerical staff	23,087	<u>707,252</u>

The average number of employees during the period was 6. The Authority's complement of full time staff at 31 December, 2006 was 7.

#### Note 6 - Accommodation

Rent (Note 14)	127,449	
Building Service Charges	18,617	
Millennium Park Service Charges	12,337	
Insurance	3,513	
Rates	17,314	
Rent - Temporary Office Accommodation	7,392	
Other Room Hire	12,135	<u>198,757</u>

#### Note 7 - Consultancy

Legal Advice	82,032	
Recruitment & recruitment related advertising	59,053	
Research & Media Monitoring	15,868	
PR Consultancy	3,630	
Professional Services re: Recognition application	5,445	<u>166,028</u>

#### Note 8 - Office Expenses

Post & Telecommunications	16,248	
Printing & Stationery	3,996	
Repairs & Maintenance	2,651	
Advertising & Publicity	6,431	
Periodicals & Newspapers	3,757	
Cleaning & Hygiene Services	6,091	
Light & Heat	9,585	
Sundries	2,388	<u>51,147</u>

## Financial Statements and Related Statements

### Notes to Financial Statements

#### Note 9 - Information Technology

Software & Licences	1,162	
Peripherals & Consumables	1,128	
Maintenance Contracts	7,208	
Internet Services	2,647	
Website Development	4,492	
		<b>16,637</b>

#### Note 10 - HR & Professional Development

Continuing Professional Development & Other Professional Training	4,259	
Reference Materials & Subscriptions	4,145	
Professional Membership Subscriptions	5,789	
		<b>14,193</b>

#### Note 11 - Tangible Fixed Assets

	<b>IT Equipment 33⅓% €</b>	<b>Office Equipment 20% €</b>	<b>Total €</b>
<b>Cost</b>			
At 20 December, 2005	-	-	-
Additions	2,839	2,010	4,849
Disposals	-	-	-
At 31 December, 2006	<b>2,839</b>	<b>2,010</b>	<b>4,849</b>
<b>Accumulated Depreciation</b>			
At 20 December, 2005	-	-	-
Charge for Period	946	402	1,348
At 31 December, 2006	<b>946</b>	<b>402</b>	<b>1,348</b>
<b>Net Book Value</b>			
At 20 December, 2005	-	-	-
At 31 December, 2006	<b>1,893</b>	<b>1,608</b>	<b>3,501</b>

#### Note 12 - Taxation

##### Income Tax

In accordance with the provisions of section 227 of the Taxes Consolidation Act, 1997 and the Fourth Schedule to that Act (as amended by section 69(1)(b) of the Finance Act, 2006), the Authority is a non-commercial state-sponsored body for tax purposes and, accordingly, income arising shall be disregarded for tax purposes. The Authority is not, however, exempt from Deposit Interest Retention Tax (DIRT).

##### Capital Gains Tax

In accordance with the provisions of section 610 of the Taxes Consolidation Act, 1997 and the Fifteenth Schedule to that Act (as amended by section 74(c) of the Finance Act, 2006), gains accruing to the Authority are not chargeable gains for the purposes of Capital Gains Tax.

## Financial Statements and Related Statements

### Notes to Financial Statements

#### Note 13 - Bank & Cash

	€
Bank	701,201
Cash on Hand	200
	<u><b>701,401</b></u>

€171,147 of the funds held in the Authority's bank accounts at 31 December, 2006 relate to the Reserve Fund and can only be used for the purposes as set out in Note 4.3.

#### Note 14 - Lease of Accommodation, Deferred Rent Incentive & Establishment Costs

The Authority occupies office premises located at Willow House, Millennium Park, Naas, Co. Kildare. At the date that the lease agreement was executed the Authority had not been incorporated as a legal entity and, accordingly, did not have the capacity to enter into a legal agreement. In that context, the lease was entered into on behalf of the State by the Office of Public Works (OPW). Consequently, the Authority is not a party to the lease agreement, which commenced on 19 September, 2005 and which has a term of 20 years.

Under the lease agreement, the first six months of the lease period were rent free and the Authority benefited from a portion of the rent free period i.e., the period between the date of incorporation (20 December, 2005) and the date on which the rent incentive ceased to apply (18 March, 2006). In accordance with the provisions of UITF Abstract No. 28 '*Operating Lease Incentives*', the value of the incentive (i.e. the rent free period) enjoyed by the Authority has been spread across the life of the lease. This treatment has resulted in a charge of €27,652 in the financial statements and a corresponding deferred rent incentive, which will be released to the Income & Expenditure Account over the period of the lease.

Further to a commitment given to the Prescribed Accountancy Bodies by the Minister with the consent of the Minister for Finance prior to the Authority's incorporation, the Exchequer funded the Authority's establishment costs in full. This expenditure was incurred by the Department of Enterprise, Trade & Employment.

As a consequence, in addition to tangible fixed assets acquired by the Authority subsequent to its incorporation, and to which the Authority has legal title, the Authority also has the use of certain assets that were acquired by the Department of Enterprise, Trade & Employment prior to its incorporation and to which the Department has legal title. The nature and acquisition cost of these assets is set out hereunder for information:

	€
Fit out costs – Millennium Park premises	507,127
Furniture and fittings	147,415
IT equipment	60,539
<b>Total</b>	<u><b>715,081</b></u>

## Financial Statements and Related Statements

### Notes to Financial Statements

#### Note 15 - Capital Account

Opening Balance - 20 December, 2005		-
Transfer from Income & Expenditure Account:		
Income applied to capitalised asset acquisitions	4,849	
Less: Amortisation in line with asset depreciation	<u>(1,348)</u>	<u>3,501</u>
<b>Closing Balance - 31 December, 2006</b>		<b><u>3,501</u></b>

#### Note 16 - Reserve Fund Reserve

Opening Balance - 20 December, 2005		-
Transferred from Income & Expenditure Account:		
Exchequer Grant Income	68,000	
Prescribed Accountancy Bodies' Levies	102,000	
Interest Receivable on Reserve Fund Monies (net of DIRT)	<u>1,175</u>	<u>171,175</u>
<b>Closing Balance - 31 December, 2006</b>		<b><u>171,175</u></b>

#### Note 17 - Reconciliation of Surplus for the year to Net Cash from Operating Activities

Surplus for the year after Deposit Interest Retention Tax		<b>174,676</b>
Non Operating Items:		
Less: Interest Received (Net of DIRT)		<u>(9,078)</u>
		<b>165,598</b>
Add:		
Increase in Creditors & Accruals	132,633	
Increase in Prescribed Accountancy Bodies' Levies carry forward	457,447	
Increase in Debtors & Prepayments	(82,599)	
Increase in Stock	(4,907)	
Deferred Rent Incentive	27,652	
Depreciation	<u>1,348</u>	<u>531,574</u>
Net Cash Inflow from Operating Activities		<b><u>697,172</u></b>

#### Note 18 - Analysis of changes in net funds

	Cash at Bank & on Hand	Cash on Fixed Term Deposit	Total
Balance at 20 December, 2005	-	-	-
Cash flow for period	122,322	579,079	701,401
Balance at 31 December, 2006	<b><u>122,322</u></b>	<b><u>579,079</u></b>	<b><u>701,401</u></b>

## Financial Statements and Related Statements

### Notes to Financial Statements

#### Note 19 - Financial Commitments

##### 19.1 Capital Commitments

There are no capital commitments as at 31 December, 2006.

##### 19.2 Rental commitments

Given that the Authority is not a party to the lease of the Millennium Park premises, the Authority has no rental commitments in the coming twelve months. Rental commitments under the lease in the coming twelve months, which are payable by the OPW, will be €119,285.

#### Note 20 - Accounting Treatment for Retirement Benefits

In accordance with section 20 of the Act, the Authority may only establish a superannuation scheme with the approval of the Minister, given with the consent of the Minister for Finance. While the Authority has prepared and submitted proposals to the aforementioned Ministers in respect of employees and employees' spouses and children (which are based upon the civil service defined benefit 'Model Scheme'), these schemes had not been approved at the balance sheet date (or by the date on which these financial statements were approved by the directors).

As completion of the necessary reviews of proposals for superannuation schemes can be a lengthy process, the Authority has agreed certain interim measures with the Department of Enterprise, Trade & Employment. In that context, the Department has been granted approval by the Department of Finance to operate superannuation arrangements on the Authority's behalf on an administrative basis. These interim arrangements have the following characteristics:

- (i) Authority employees' pension contributions are paid to the Department of Enterprise, Trade & Employment;
- (ii) the Authority pays an employer contribution to the Department, the rate of which is set by the Minister for Finance. In the period, the employer contribution was set at 25% of employees' salaries;
- (iii) in return for the payment to it of the employees' and employer's superannuation contributions, the Department has agreed that any superannuation benefits due to Authority employees, and/or their spouses and children will be met in full by the Exchequer as they fall due.
- (iv) this agreement is an interim arrangement until the Authority's own superannuation scheme is approved and is intended to apply to benefits earned by employees only during the period prior to approval.

Financial Reporting Standard 17 '*Retirement Benefits*' (FRS 17) defines a Defined Contribution Scheme as '*A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.*'

As the arrangements currently in place are such that (i) the Authority pays regular contributions fixed as a percentage of pay; and (ii) the Authority, by virtue of the Exchequer undertaking, has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods, the directors consider that the foregoing arrangements come within the definition of a defined contribution scheme as defined by FRS 17.

## Financial Statements and Related Statements

### Notes to Financial Statements

Accordingly, the Authority accounts for its employer contributions in accordance with the provisions of paragraph 7 of the Standard, i.e. by charging the cost of contributions payable to the scheme in the period to the Income & Expenditure Account.

Notwithstanding the foregoing, in the interest of transparency and disclosure, the directors have commissioned an actuarial valuation of accrued liabilities at the balance sheet date, and the cost of benefits (service cost) accrued during the year. This valuation, which is based on the Projected Unit method, is premised on the following assumptions:

	At 31-12-2006	At 31-12-2005
Rate of increase in salaries	4.25%	4%
Rate of increase in pensions in payment	4.25%	4%
Discount rate	4.75%	4.25%
Inflation assumption	2.25%	2%

Based on the above, the present value of liabilities at the balance sheet date is €225,000, and the service cost for the period is €104,442. Certain of the Authority's staff, who have accumulated service elsewhere in the public service, have not to date exercised the option to transfer said service to the Authority.

#### Note 21 - Authority Board Members – Disclosure of Transactions

In accordance with the Code of Practice for the Governance of State Bodies, the Authority has in place Codes of Business Conduct for Board members and employees. These codes include guidance in relation to the disclosure of interests by Board members and these procedures have been adhered to by the Board during the period comprehended by these financial statements.

#### Note 22 - Approval of the Financial Statements

The Financial Statements were approved by the Board of Directors on 22 May, 2007.



# Appendices

## Appendices

### Appendix 1

#### Summary of those provisions of sections 8 and 9 of the Companies (Auditing and Accounting) Act, 2003 of relevance to the supervision of the prescribed accountancy bodies

Section 8(1) of the Act provides that the Authority's objects include '*...to supervise how the prescribed accountancy bodies regulate and monitor their members*'.

Section 9 of the Act sets out the Authority's functions in more detail. These include:

- to grant recognition to bodies of accountants for the purposes of section 187 of the Companies Act, 1990<sup>118</sup>;
- to attach, under section 192 of the Companies Act, 1990, terms and conditions to the recognition of accountancy bodies, including terms and conditions:
  - requiring changes to, and the approval by the Authority of, their regulatory plans; and
  - requiring their annual reports to the Authority to be prepared in the manner and form directed by the Authority;
- to require changes to, and approve:
  - the constitution and bye-laws of each prescribed accountancy body, including its investigation and disciplinary procedures and its standards; and
  - any amendments to the approved constitution or bye-laws of each prescribed accountancy body, including amendments to its investigation and disciplinary procedures and to its standards;
- to conduct enquiries under section 23 of the Act into whether a prescribed accountancy body has complied with its investigation and disciplinary procedures;
- to undertake investigations under section 24 of the Act into possible breaches of the standards of a prescribed accountancy body by a member of that body;
- in circumstances where, having conducted an enquiry under section 23 or investigation under section 24, the Authority determines that a breach of a prescribed accountancy body's investigation and disciplinary procedures or a prescribed accountancy body's standards has occurred, to impose sanctions on a prescribed accountancy body under section 23 or on a member under section 24, as applicable;
- to supervise how each recognised accountancy body monitors its members;
- to monitor the effectiveness of provisions of the Companies Acts relating to the independence of auditors;
- to supervise the investigation and disciplinary procedures of each prescribed accountancy body; and
- to arrange for the regulation and supervision of individually authorised auditors by recognised accountancy bodies.

118. Section 187 of the Companies Act, 1990 (as amended by the Companies (Auditing and Accounting) Act, 2003) sets out the qualifications required by a person in order to be eligible to act as an auditor under the Companies Acts, which includes, *inter alia*, being a member of a body of accountants recognised by the Authority for that purpose.

### Appendix 2

#### Entities prescribed by the Minister for the purpose of section 31 of the Companies (Auditing and Accounting) Act, 2003

Entities prescribed by the Minister for Trade & Commerce for the purpose of section 31 of the Companies (Auditing and Accounting) Act, 2003	Country
Accountancy Investigation and Discipline Board	United Kingdom
Accounting and Auditing Oversight Board	Greece
Accounting and Corporate Regulatory Authority	Singapore
Accountancy Board, Ministry of Finance	Malta
Auditors Oversight Commission	Germany
Australian Securities and Investment Commission	Australia
Austrian Financial Market Authority*	Austria
Autorité des Marchés Financiers*	France
Autoriteit Financiële Markten*	Netherlands
Banking, Finance and Insurance Commission*	Belgium
Canadian Public Accountability Board	Canada
Capital Market Commission*	Greece
Central Chamber of Commerce	Finland
Certified Public Accountants and Auditing Oversight Board	Japan
Commissao do Mercado de Valores Mobiliarios*	Portugal
Commission de Surveillance du Secteur Financier*	Luxembourg
Commissione Nazionale per le Società e la Borsa*	Italy
Cyprus Securities and Exchange Commission*	Cyprus
Czech Securities Commission	Czech Republic
Danish Commerce and Company Agency*	Denmark
Deutsche Prüfstelle für Rechnungslegung*	Germany
Dutch Central Bank	Netherlands
Estonian Financial Supervision Authority*	Estonia
Financial Reporting Review Panel*	United Kingdom
Finanstilsynet	Denmark
Haut Conseil du Commissariat aux Comptes	France
Independent Regulatory Board on Auditors	South Africa
Instituto de Contabilidad y Auditoria de Cuentas	Spain
Kredittilsynet*	Norway
Polish Securities and Exchange Commission*	Poland
Professional Oversight Board	United Kingdom
Public Company Accounting Oversight Board	United States of America
Rahoitustarkastus*	Finland
Revisorsnamnden	Sweden
Securities & Exchange Commission*	United States of America
Securities Market Agency*	Republic of Slovenia
Swedish Financial Accounting Standards Council*	Sweden

\*Organisations marked with an asterisk are those that have responsibility for functions similar to those relating to the Authority's financial reporting supervision functions (see Chapter 2 for further information regarding same).

## Appendices

### Appendix 3

#### Summary of revised EU 8<sup>th</sup> Company Law Directive on statutory audit

While this Directive<sup>119</sup> - which is a lengthy and complex document - builds upon, and adds to, the requirements set out in the original 8<sup>th</sup> Directive, it contains a number of provisions of particular significance, details of which are set out hereunder.

#### 1. Oversight systems

##### 1.1 Requirement for oversight systems in the EU

The Directive introduces a requirement whereby Member States are required to establish effective systems of public oversight for all statutory auditors<sup>120</sup> and audit firms<sup>121</sup>. The Directive further lays down principles with which Member States' public oversight systems will be required to comply. These include:

- the oversight system shall be governed by non-practitioners<sup>122</sup> who are knowledgeable in the areas of statutory audit - Member States may, however, allow a minority of practitioners to be involved in the governance of the oversight system;
- the public oversight system shall have ultimate responsibility for the oversight of:
  - the approval and registration of statutory auditors and audit firms;
  - the adoption of standards on professional ethics, internal quality control of audit firms and auditing; and

- continuing education, quality assurance and disciplinary systems;
- the public oversight system shall have the right, where necessary, to conduct investigations in relation to statutory auditors and audit firms and the right to take appropriate action;
- the system of public oversight shall be transparent, including through the publication of work programmes and activity reports; and
- the system of public oversight shall be adequately funded and the funding shall be secure and free from any undue influence by statutory auditors or audit firms.

##### 1.2 Co-operation between public oversight systems<sup>123</sup>

Member States are required to ensure that their regulatory arrangements for public oversight permit effective co-operation at EU level between their public oversight systems and those systems' activities. To that end, Member States will be required to designate one entity which shall be specifically responsible for such co-operation.

##### 1.3 Mutual recognition of regulatory arrangements between Member States<sup>124</sup>

Member States' regulatory arrangements shall respect the principle of '*home country regulation*' and oversight by the Member State in which the statutory auditor or audit firm is approved and the audited entity has its registered office.

119. The full text of the Directive can be accessed on the Authority's website at [http://www.iaasa.ie/legislation/8th\\_Co\\_Law\\_published.pdf](http://www.iaasa.ie/legislation/8th_Co_Law_published.pdf)

120. The term '*statutory auditors*' refers to natural persons as opposed to firms

121. Article 32(1)

122. A '*non-practitioner*' is defined at Article 2(15) as being '*...any natural person who, for at least three years before his or her involvement in the governance of the public oversight system, has not carried out statutory audits, has not held voting rights in an audit firm, has not been a member of the administrative or management body of an audit firm and has not been employed by, or otherwise associated with, an audit firm.*'

123. Article 33

124. Article 34

### 1.4 Quality assurance

Article 29 of the Directive provides that Member States shall ensure that all statutory auditors and audit firms are subject to a system of quality assurance which meets, at least, the following criteria:

- the quality assurance system shall be organised in such a manner that it is independent of the reviewed statutory auditors and audit firms and is subject to public oversight;
- the funding of the quality assurance system shall be secure and free from any possible undue influence by statutory auditors or audit firms;
- the quality assurance system shall have adequate resources;
- the persons carrying out quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting, combined with specific training on quality assurance reviews;
- the selection of reviewers shall be effected in accordance with an objective procedure designed to ensure that there are no conflicts of interest between reviewers and the auditor/firm under review;
- the scope of quality assurance review, supported by adequate testing of selected audit files, shall include an assessment of:
  - compliance with applicable auditing standards;
  - compliance with independence requirements;
  - the quantity and quality of resources spent;
  - the audit fees charged; and
  - the firm's internal quality control system;
- the quality assurance review shall be the subject of a report which shall contain the main conclusions of the review;
- quality assurance reviews of auditors and audit firms shall take place at least every six years (other than in respect of the auditors of public interest entities<sup>125</sup>, where reviews are required to be performed at least every three years);
- overall results of the quality assurance system shall be published annually; and
- recommendations arising from quality reviews shall be followed up by the statutory auditor/audit firm within a reasonable period and, if this is not the case, the auditor/firm shall be subject to a system of disciplinary actions and penalties.

### 1.5 Co-operation between competent authorities<sup>126</sup>

Each Member State will be required to designate one or more competent authorities for the purposes of the requirements of the Directive, e.g. for:

- approval of statutory auditors and audit firms;
- registration of statutory auditors and audit firms;
- quality assurance;
- inspection; and
- discipline and imposition of penalties.

Member States shall further ensure that the competent authorities render assistance to other Member States' competent authorities. In particular, competent authorities shall exchange information and co-operate in investigations relating to the carrying out of statutory audits.

125. Recital 13 of the Directive defines 'public interest entities' as '...entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State..., [and] credit institutions...Member States may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees'.

126. Articles 35 and 36

## Appendices

Member States will also be required to provide that a competent authority of one Member State may request that an investigation be carried out by the competent authority of another Member State on the latter's territory. In that context, the requesting competent authority may further request that its personnel be allowed to accompany the personnel of the requestee authority in the course of the investigation.

### 1.6 Auditing standards

Article 26 of the Directive provides that Member States shall require statutory auditors and audit firms to perform statutory audits in compliance with international auditing standards, as adopted by the EU Commission. The Directive further provides that, until such time as the Commission adopts an international standard covering the same subject matter, Member States may continue to apply the relevant national standard.

In considering whether to adopt an international auditing standard, the Commission is required by Article 26(2) to have regard to the following considerations:

- whether the standard has been developed with proper due process, public oversight and transparency, and is generally accepted internationally;
- whether the standard contributes a high level of credibility and quality to statutory financial statements; and
- whether the standard is conducive to the European public good.

### 1.7 Group audits

Article 27 of the Directive requires that Member States shall ensure that, in the case of the statutory audit of the consolidated financial statements of a group of undertakings:

- the group auditor bears full responsibility for the audit report on the consolidated financial statements;

- the group auditor carries out a review and maintains documentation of his/her review of the audit work performed by any 3<sup>rd</sup> country auditors/audit firms for the purpose of the group audit; and that the documentation retained by the group auditor shall be such as to enable the relevant competent authority to properly review the work of the group auditor; and
- where a component of the group of undertakings is audited by an auditor/audit firm from a 3<sup>rd</sup> country with which working arrangements regarding the transfer of audit working papers and other documents have not been concluded, the group auditor is responsible for ensuring the proper delivery, when requested, of audit working papers and other documentation to the relevant Member State's public oversight authority. Moreover, in order to ensure such delivery, the group auditor shall retain a copy of such documentation, or alternatively agree with the 3<sup>rd</sup> country auditor/audit firm his/her proper and unrestricted access to the relevant documentation.

### 1.8 Transparency Reports

Member States shall ensure that statutory auditors and audit firms who carry out the statutory audit(s) of public interest entities publish on their websites, within three months of the end of each financial year, annual transparency reports that include, at least, the following information:

- a description of the legal structure and ownership of the firm;
- where a firm belongs to a network, a description of the network and the legal and structural arrangements in the network;
- a description of the governance structure of the firm;
- a description of the internal quality control system of the firm and a statement by the administrative or management body on the effectiveness of its functioning;

- an indication of when the last quality assurance review took place;
- a list of public interest entities for which the firm has carried out statutory audits during the preceding financial year;
- a statement concerning the firm's independence practices which also confirms that an internal review of independence compliance has been conducted;
- a statement on the policy followed by the audit firm concerning the continuing education of statutory auditors;
- financial information showing the importance of the audit firm, such as the total turnover divided into fees derived from the statutory audit of financial statements and fees derived from the provision of other services; and
- information concerning the basis for partners' remuneration.
- details of the auditor's registrations as a statutory auditor in other Member States and 3<sup>rd</sup> countries, together with details of the relevant registration authorities and, where applicable, registration numbers;
- name and address of the authorities responsible for:
  - the auditor's approval;
  - quality assurance of the auditor's audit work;
  - investigations into the auditor's conduct and imposition of penalties; and
  - public oversight of the auditor's activities.

### 1.9.2 Audit firms

In respect of statutory audit firms, the following information will be required to be made publicly available:

### 1.9 Registration<sup>127</sup>

While a Register of Auditors is currently maintained by the Registrar of Companies, the Directive requires that certain additional information will be required to be made publicly available regarding statutory auditors and audit firms. Under the Directive, the following information will be required to be made available to the public:

#### 1.9.1 Statutory Auditors

In respect of statutory auditors, the following information will be required to be made publicly available:

- auditor's name, address and registration number;
- where applicable, the name, address, registration number and website address of the audit firm in which the statutory auditor is employed or is associated as a partner or otherwise;
- audit firm's name, address and registration number;
- audit firm's legal form;
- firm's contact details, including primary contact person and website address;
- addresses of each office in the Member State;
- names and registration number of all statutory auditors employed by, or associated with as partners or otherwise, the firm;
- names and business addresses of all owners and shareholders in the firm;
- names and business addresses of all members of the administrative or management body of the firm;
- where applicable, details of the firm's membership of a network and a list of names and addresses of member firms and affiliates (or an indication of where such information is publicly available); and

127. Articles 15 to 17

## Appendices

- all other registrations as an audit firm in other Member States or as an audit entity in 3<sup>rd</sup> countries, together with details of relevant registration authorities and, where applicable, registration numbers.

### 1.10 International aspects

#### 1.10.1 Registration of 3<sup>rd</sup> country auditors

Article 45 of the Directive provides that the competent authorities of a Member State shall register every 3<sup>rd</sup> country auditor/audit entity<sup>128</sup> that provides an audit report on the statutory financial statements of a company that, while incorporated outside the EU, has had its transferable securities admitted to trading on a regulated market in that Member State<sup>129</sup>.

However, Article 45(5) provides that a Member State may only register 3<sup>rd</sup> country audit entities that meet, *inter alia*, the following criteria:

- audits performed by the 3<sup>rd</sup> country audit entity must be conducted in accordance with:
  - international auditing standards; and
  - the independence and objectivity requirements applicable to EU auditors (as set out in Articles 22 and 24 of the Directive); and
  - the provisions of the Directive relating to the setting of audit fees that apply to EU auditors (as set out in Article 25 of the Directive); or
  - other standards and requirements deemed to be equivalent by the EU Commission<sup>130</sup>; and
- each 3<sup>rd</sup> country audit entity must publish an annual Transparency Report on its website which provides the same information as is required to

be made publicly available by EU statutory auditors or audit firms, as applicable, or equivalent disclosure requirements.

#### 1.10.2 Oversight of 3<sup>rd</sup> country auditors

Article 45(3) provides that, subject to Article 46 (see below), Member States shall submit 3<sup>rd</sup> country audit entities to their systems of:

- oversight;
- quality assurance; and
- investigations and penalties.

Article 45(4) provides that audit reports issued by 3<sup>rd</sup> country audit entities that have not been registered in a Member State will have no legal effect in that Member State.

#### 1.10.3 Derogations from registration and oversight requirements in the case of equivalence

Article 46 of the Directive provides, however, that Member States may disapply or modify the requirements:

- that 3<sup>rd</sup> country audit entities register with their competent authorities; and/or
- that registered 3<sup>rd</sup> country audit entities be subjected to the registering Member State's systems of oversight, quality assurance and investigations and penalties,

where:

- those 3<sup>rd</sup> country audit entities are subject to systems of public oversight, quality assurance and investigations and penalties in the 3<sup>rd</sup> country that meet requirements judged to be equivalent to the Directive's requirements regarding EU auditors; and

128. Article 2(4) of the Directive defines a 'third country audit entity' as '...an entity, regardless of its legal form, which carries out audits of the annual or consolidated accounts of a company incorporated in a third country'. Article 2(5) defines a 'third country auditor' as '...a natural person who carries out audits of the annual or consolidated accounts of a company incorporated in a third country'.

129. The Directive does not, however, extend to companies that are exclusive issuers of debt where the denomination per unit is at least €50,000 (i.e. wholesale debt issuers).

130. Pending an equivalence assessment by the Commission, Member States may assess equivalence themselves.

- any modification or dis-application of the requirements is on the basis of reciprocity.

The assessment of equivalence referred to above shall be conducted by the Commission<sup>131</sup>.

### 1.10.4 Transitional provisions regarding derogations

Article 46(2) provides that, if the European Commission decides, having conducted an equivalence assessment, that the requirement of equivalence referred to above is not complied with by one or more 3<sup>rd</sup> countries, it may nevertheless allow the audit entities concerned to continue their activities in accordance with the relevant Member State's requirements during an appropriate transitional period.

### 1.10.5 Co-operation with 3<sup>rd</sup> countries' competent authorities

Article 47 of the Directive provides that, subject to certain conditions being met, Member States may permit the transfer of audit working papers and other documents held by statutory auditors and audit firms approved by them to the competent authorities of 3<sup>rd</sup> countries. The conditions that must be satisfied in order for such transfers to be permissible include:

- the working papers and other documents concerned must relate to the audits of companies which have issued securities in that 3<sup>rd</sup> country or which form part of a group issuing statutory

consolidated financial statements in that 3<sup>rd</sup> country;

- the transfer must take place *via* the home competent authorities to the competent authorities of that 3<sup>rd</sup> country and at the latter's request<sup>132</sup>;
- the competent authorities in the 3<sup>rd</sup> country must meet confidentiality requirements that have been declared adequate by the Commission;
- there are working arrangements in place on the basis of reciprocity agreed between the competent authorities concerned; and
- the transfer of personal data to the 3<sup>rd</sup> country is in accordance with EU Data Protection Directives.

### 1.11 Dismissal of auditors<sup>133</sup>

Member States shall ensure that statutory auditors and audit firms may only be dismissed where there are proper grounds. In the context of the foregoing, divergence of opinions on accounting treatments or audit procedures shall not constitute proper grounds for dismissal. The Directive further requires that the audited entity and the auditor will both be required to inform the oversight authority of the dismissal (or resignation) of the auditor during the auditor's term and to provide an adequate explanation of the reasons therefor.

131. Pending an assessment by the Commission, Member States may assess equivalence themselves or, alternatively, rely on assessments carried out by other Member States.

132. In accordance with Article 47(4), Member States may, in exceptional cases, allow a statutory auditor and/or audit firm to transfer working papers and other documents directly to the 3<sup>rd</sup> country competent authority, provided that (i) investigations have been initiated by a competent authority in that 3<sup>rd</sup> country; (ii) the transfer does not conflict with the obligations with which a statutory auditor or audit firm is required to comply in relation to the transfer of audit working papers and other documents to their home competent authority; (iii) there are working arrangements with the competent authority of the 3<sup>rd</sup> country that allow the competent authority in the Member State reciprocal direct access to audit working papers and other documents of the 3<sup>rd</sup> country's audit entities; (iv) the requesting competent authority of the 3<sup>rd</sup> country informs in advance the home competent authority of the statutory auditor or audit firm of each direct request for information, including the reasons therefore; and (v) there are agreed working arrangements in relation to reciprocity.

133. Article 38

## Appendices

### 1.12 Auditor liability

The Directive provides that, prior to 1 January, 2007, the Commission will publish a report on the impact of Member States' respective rules regarding auditor liability and, if considered appropriate, subsequently issue a recommendation to Member States<sup>134</sup>.

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134. Further to the above provision, the EU Commission issued both a report and a subsequent consultation paper on the issue of auditor liability. These and other relevant documents can be accessed on the Commission's website at [http://ec.europa.eu/internal\\_market/auditing/liability/index\\_en.htm](http://ec.europa.eu/internal_market/auditing/liability/index_en.htm)

### Appendix 4

#### Section 26 of the Companies (Auditing and Accounting) Act, 2003 - Composition of IAASA's financial statement review constituency

Section 26 provides that the following classes of entity come within scope:

- I. all public limited companies<sup>135</sup> (whether listed or unlisted);
- II. all subsidiary undertakings of public limited companies (whether those subsidiary undertakings are companies or undertakings referred to in Regulation 6 of the European Communities (Accounts) Regulations, 1993 ('the 1993 Regulations')<sup>136</sup>;
- III. all private companies limited by shares that, in both the relevant financial year and the immediately preceding financial year of the company, meet the following criteria:
  - balance sheet total<sup>137</sup> for the year exceeds:
    - €25,000,000, or
    - if an amount is prescribed under section 48(1)(h) for the purpose of this provision, the prescribed amount;
  - the amount of its turnover for the year exceeds:
    - €50,000,000, or
    - if an amount is prescribed under section 48(1)(h) for the purpose of this provision, the prescribed amount;
- IV. all private companies limited by shares that are parent undertakings, if the parent undertaking and all of its subsidiary undertakings together, in both the relevant financial year and the immediately preceding financial year of the parent undertaking, meet the aforementioned monetary criteria;
- V. each subsidiary undertaking of a parent undertaking that comes within IV above;

135. The term 'public limited company' is defined in section 2 of the Companies (Amendment) Act, 1983 as a 'public company limited by shares or a public company limited by guarantee and having a share capital, being a company: (a) the memorandum of which states that the company is to be a public limited company; and (b) in relation to which the provisions of the Companies Acts as to the registration or re-registration of a company as a public limited company have been complied with on or after the appointed day.'

136. Undertakings referred to in Regulation 6 of the 1993 Regulations are:

1. Unlimited companies and partnerships, where all the members thereof who do not have a limit on their liability are:
  - (a) companies limited by shares or by guarantee; or
  - (b) bodies not governed by the law of the State but equivalent to those in (a);
  - (c) any combination of the types of bodies referred to in (a) and (b)

and

2. Unlimited companies and partnerships where all the members thereof who do not have a limit on their liability are:
  - (a) (i) unlimited companies or partnerships of the type referred to in 1. above that are governed by laws of the State; or
  - (ii) bodies governed by the laws of a member State that are of a legal form comparable to those referred to in (i) above; or
  - (b) any combination of the types of bodies referred to in subparagraph (a) and subparagraphs (a) and (b) of 1. above.

137. Balance sheet total, pursuant to the provisions of section 8(4) of the Companies (Amendment) Act, 1986, equates to total assets.

## Appendices

- VI.** each undertaking referred to in Regulation 6 of the 1993 Regulations that, in both the relevant financial year and the immediately preceding financial year of the undertaking, meets the aforementioned monetary criteria;
- VII.** each undertaking referred to in Regulation 6 of the 1993 Regulations that is a parent undertaking, if the parent undertaking and all of its subsidiary undertakings together, in both the relevant financial year and the immediately preceding financial year of the parent undertaking, meet the aforementioned monetary criteria; and
- VIII.** each subsidiary undertaking of a parent undertaking that comes within VII above.

Section 26(1) further provides, however, that the scope of the section does not extend to any company or undertaking of a class exempted by the Minister under section 48(1)(j) of the Act.

### Appendix 5

#### Presentations delivered during 2006

Topic	Audience	Speaker
IAASA - An update	ACCA members: CPD Session - February, 2006	Ian Drennan, Chief Executive
The Financial Reporting Supervision Function of IAASA	IIPA Members: Accounting Standards update CPD seminar - March, 2006	Michael Kavanagh, Head of Financial Reporting Supervision
The Financial Reporting Supervision Function of IAASA	ICPAI members: CPD Seminar - March, 2006	Michael Kavanagh, Head of Financial Reporting Supervision
The Financial Reporting Supervision Function of IAASA	ACCA members: CPD seminar - May, 2006	Michael Kavanagh, Head of Financial Reporting Supervision
The Financial Reporting Supervision Function of IAASA	ICAI members: Accounting Standards update CPD seminar - June, 2006	Michael Kavanagh, Head of Financial Reporting Supervision
Future Changes in Financial Reporting in Ireland	ICPAI members: Accountants in Business Programme (Dublin and Cork) - October, 2006	Michael Kavanagh, Head of Financial Reporting Supervision
An Overview of IAASA	ICPAI members: Leinster Society - October, 2006	Ian Drennan, Chief Executive
An Overview of IAASA	AIA members: CPD Seminar - November, 2006	Michael Kavanagh, Head of Financial Reporting Supervision and Eileen Townsend, Project Manager
An Overview of IAASA	Students of DCU's Business School's MBS in Corporate Leadership - November, 2006	Michael Kavanagh, Head of Financial Reporting Supervision and Eileen Townsend, Project Manager

## Appendices

### Appendix 6

#### Respondents to the Authority's consultation on whether the term 'Accountant' should be afforded legal protection

1. Association of Chartered Certified Accountants
2. Association of International Accountants
3. The Charter Group
4. Chartered Institute of Management Accountants
5. Chartered Institute of Public Finance & Accountancy
6. Competition Authority
7. Mr. Charles Duignan
8. Institute of Certified Public Accountants in Ireland
9. Institute of Chartered Accountants in Ireland
10. Institute of Chartered Accountants of Scotland
11. Institute of Incorporated Public Accountants
12. Institute of Legal Cost Accountants
13. Irish Farmers' Association
14. Ms. Sheila McCarthy-McGroarty
15. National Consumer Agency
16. Omnipro Limited
17. Office of the Director of Corporate Enforcement
18. Office of the Revenue Commissioners
19. Russell Brennan Keane, Chartered Accountants
20. Ulster Bank Ireland Limited
- 21-22. Two contributors requested that their identities remain confidential

## Appendices

### Appendix 7 Authority Memberships/Representations

Forum	Authority member/representative
Accounting Standards Board	Ian Drennan (alternate: Michael Kavanagh)
Auditing Practices Board	Ian Drennan
Company Law Review Group	Ian Drennan
European Enforcer Co-ordination Sessions (EECS)	Michael Kavanagh
European Group of Auditor Oversight Bodies (EGAOB)	Ian Drennan
EGAOB Sub-group - Co-operation	Ian Drennan
EGAOB Sub-group - Quality Assurance	Helen Hall
International Forum of Independent Audit Regulators (IFIAR)	Ian Drennan



# Glossary

## Glossary of Abbreviations

<b>ABAS</b>	Alternative Bodies of Accounting Standards
<b>ACCA</b>	Association of Chartered Certified Accountants
<b>AIA</b>	Association of International Accountants
<b>APB</b>	Auditing Practices Board
<b>ASB</b>	Accounting Standards Board
<b>CESR</b>	Committee of European Securities Regulators
<b>CIMA</b>	Chartered Institute of Management Accountants
<b>CIPFA</b>	Chartered Institute of Public Finance & Accountancy
<b>CLRG</b>	Company Law Review Group
<b>CPD</b>	Continuing Professional Development
<b>CRO</b>	Companies Registration Office
<b>EEA</b>	European Economic Area
<b>EECS</b>	European Enforcer Co-ordination Sessions
<b>EGAOB</b>	European Group of Auditors' Oversight Bodies
<b>EU</b>	European Union
<b>FRC</b>	Financial Reporting Council
<b>FRRP</b>	Financial Reporting Review Panel
<b>FRSSE</b>	Financial Reporting Standard for Smaller Entities
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>IAASA</b>	Irish Auditing and Accounting Supervisory Authority
<b>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board

## Glossary of Abbreviations

<b>ICAEW</b>	Institute of Chartered Accountants in England & Wales
<b>ICAI</b>	Institute of Chartered Accountants in Ireland
<b>ICAS</b>	Institute of Chartered Accountants of Scotland
<b>ICPAI</b>	Institute of Certified Public Accountants in Ireland
<b>IFIAR</b>	International Forum of Independent Audit Regulators
<b>IFRS</b>	International Financial Reporting Standards
<b>IIPA</b>	Institute of Incorporated Public Accountants
<b>IOSCO</b>	International Organisation of Securities Commissions
<b>ISA</b>	International Standard on Auditing
<b>ISE</b>	Irish Stock Exchange
<b>ISQC1</b>	International Standard on Quality Control (UK and Ireland) 1
<b>ODCE</b>	Office of the Director of Corporate Enforcement
<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>PIOB</b>	Public Interest Oversight Board
<b>PLC</b>	Public Limited Company
<b>RGA</b>	Review Group on Auditing
<b>SME</b>	Small and Medium Enterprises
<b>The Act</b>	Companies (Auditing and Accounting) Act, 2003

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