



**Irish Auditing & Accounting Supervisory Authority**

# An Overview of IAASA

Institute of Public Administration

CPD Event –

Information and updates for financial  
managers

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IAASA

Eileen Townsend, Project Manager

# *Disclaimer*

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

# Presentation Overview

- Context for establishment of IAASA
- Role and Organisation of IAASA
- Supervision of the Prescribed Accountancy Bodies
- Financial Reporting Supervision

# Role of the Accounting Profession in Corporate Governance

- Integrity of Corporate Reporting
- Credibility of the External Audit
  - ‘Auditors, traditional gatekeepers of the financial reporting regime, play a significant role in strengthening corporate governance’

# Accounting Profession Regulation

- Self-regulation
  - Control by a governing body over its membership and the activities of its members
- Self-regulation in the Accounting Profession
  - Entry qualifications
  - Quality assurance processes
  - Conformity with accounting regulations and
  - Rules development and enforcement

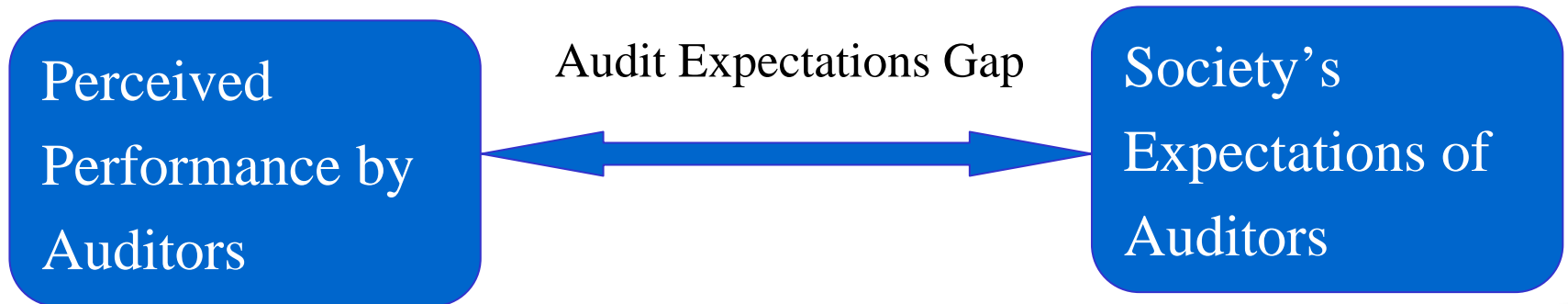
Dellaportas et al. (2005, p. 63)

# Failures in corporate governance

- Financial statements as the instrument of corporate scandals
- Credibility gap in relation to accounting and auditing functions

# The Audit Expectations Gap

Auditors are performing in a manner which is at variance with the beliefs and desires of others who are interested in the audit.





# Irish Context

- Tribunal and PAC
- Review Group on Auditing (2000) - Terms of reference included an examination of:
  - whether self regulation of the accountancy profession was working effectively and consistently;
  - auditor independence; and
  - role of the auditor in ensuring companies' compliance with law and regulations.

# Irish Context Cont'd

- RGA recommendations included
  - establishment of an oversight body;
  - financial reporting review function; and
  - requirement for directors' compliance statements.
- RGA's recommendations given the force of law by the Companies (Auditing and Accounting) Act, 2003.

# IAASA Board

- Company Ltd. by guarantee - Board comprises 15 directors, nominated thus:
  - 2 (including the Chairperson) nominated by the Minister;
  - 3 nominated jointly by the prescribed accountancy bodies;
  - 9 nominated by the following bodies (1 each):
    - IBEC
    - IAIM
    - Pensions Board
    - Revenue
    - Law Society
    - ICTU
    - ISE
    - IFSRA
    - DCE
  - Chief Executive
- A maximum of 5 of the 15 directors may be members of prescribed accountancy bodies.

# IAASA Mission Statement

## Mission Statement

- 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
  - Supervision of Accountancy Bodies' Regulation of their Members
  - Supervision of Financial Reporting

# Statutory Remit (S.8)

1. To supervise how the prescribed accountancy bodies regulate and monitor their members;
2. To promote adherence to high professional standards in the auditing & accountancy profession;
3. To monitor whether the accounts of certain classes of companies and other undertakings comply with the Companies Acts and, where applicable, Article 4 of the IAS Regulation [reference to IFRS inserted by S.I. No. 116 of 2005]; and
4. To act as a specialist source of advice to the Minister on auditing and accounting matters.

# Supervision of the Prescribed Accountancy Bodies

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- 9 Prescribed Bodies
  - 6 Recognised Bodies
    - ACCA, ICAEW, ICAI, ICAS, ICPAI, IIPA
  - 3 Prescribed Bodies
    - AIA, CIMA, CIPFA

# Supervision of the Prescribed Accountancy Bodies

- **Approval Function**
  - Grant recognition
  - Attach conditions to recognition
  - Approve the constitution & bye-laws, investigation & disciplinary procedures & standards, & also any amendments



# Supervision of the Prescribed Accountancy Bodies

- **Supervisory Function**

- supervise how each recognised body monitors its members
- supervise the investigation & disciplinary procedures of each prescribed accountancy body
- conduct *section 25* reviews of members of recognised accountancy bodies, if deemed appropriate

# Supervision of the Prescribed Accountancy Bodies

## Prescribed Body Reviews

- Undertaking detailed reviews of each prescribed body
- Emphasis of reviews is on seeking to ensure adherence to a common high standard of regulatory activity from which the public can derive comfort

# Supervision of the Prescribed Accountancy Bodies

## Prescribed Body Reviews (cont.)

- Findings & recommendations are confidential
- Findings of reviews and complaints received will impact on:
  - the Authority's risk assessment & selection methodologies
  - the scope and frequency of future reviews

# Supervision of the Prescribed Accountancy Bodies

- **Investigation/Enforcement Function**
  - conduct enquiries into compliance with approved I&D procedures (S. 23)
  - undertake investigations into possible breaches of accountancy body standards by a member (S. 24)
  - impose sanctions on a body/member

# Further Developments

- The revised EU 8<sup>th</sup> Company Law Directive
  - Transposition into domestic legislation by mid 2008
  - All member states should establish public oversight systems

# Other Work Ongoing

- Approvals for amendments to Constitution/Byelaws etc.
- Complaints handling & enquiries
- Annual Reports to the Authority
- APB, EGAOB, IFIAR

# Financial Reporting Supervision Function

# Principal Functions of Financial Reporting Supervision Unit

- To monitor whether the accounts of certain classes of companies and other undertakings comply with the Companies Acts, the IAS Regulation and now the Transparency Directive
  - Liaising with other countries' financial reporting monitoring bodies
- Co-operating in the development of accounting standards and practice notes
- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters



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

- The Transparency Directive
- The IAS Regulation
- Section 26 of the 2003 Act

# Transparency Directive - Intro

- Article 24(4)(h) of the Transparency Directive (“TD”):
  - *“..to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.”*
- Directive deals with half-yearly reports

# Transparency Directive - Overview

- Scope
  - Entities admitted to trading on a regulated market in EU
  - Concept of ‘Home Member State’
- Periodic Financial Reporting Requirements
- Exemptions
- Effective date

# Transparency Directive – IAASA Powers

- Adopt rules and issue guidelines
- Require supply of documents, information and explanations
- Issue of notices and directions to issuers
- Appoint authorised officers
- Seek an enforcement order from the High Court
- Co-operate with other competent authorities
- Request FR to appoint an assessor for the purpose of determining whether a prescribed contravention has been committed – (Administrative Sanctions Regime)

# IAS Regulation

- Given effect to in Ireland by SI 116 of 2005;
- Requires EU Member States to take appropriate measures to ensure compliance with IFRS (applies to listed entities – consolidated a/c's only);
- Recital no.16 of the Regulation -

*“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.”*

# Section 26 of the 2003 Act

- The financial reporting supervision constituency comprises:
  - all plcs (whether listed or not);
  - all subsidiary undertakings of plcs;
  - all private companies limited by shares that, in both in the relevant financial year and the immediately preceding financial year, satisfy the following criteria:
    - balance sheet total exceeds €25m; and
    - turnover exceeds €50m.
  - all private companies limited by shares which, when aggregated with their subsidiary undertakings, exceed the aforementioned thresholds;
  - all subsidiary undertakings of the preceding class of private companies; and
  - certain other undertakings, and where applicable their subsidiary undertakings, that satisfy the aforementioned criteria, including unlimited companies and partnerships whose members having unlimited liability are themselves limited companies.

# Proposed Approach to Financial Statement Supervision

- Transparency Directive / IAS Regulation/ S26 suggests a proactive rather than reactive approach to monitoring
- Methodology for risk assessment and selection of entities / financial statements for review has been developed
- Written in context of S26 but also with a view to adherence to CESR Std No 1 “*Enforcement of Standards on Financial Information in Europe*”.

# Methodology for selection of entity for review

- Mixed model approach proposed
- Criteria for selection will include
  - Risk of material misstatement in the financial statements
  - Potential impact on users of financial statements in the event of material misstatement
  - Supplemented with random selection of F/S for review
  - Complaint from public may also trigger a review



# Methodology for selection of entity for review

- Risk of material misstatement in the financial statements – factors include:
  - Financial structure and business trends
  - Financial position and ratios
  - Industry specific issues
  - Corporate governance issues and internal control environment
  - Related party transactions
  - Incidence of business combinations and disposals
  - Audit qualifications and related issues
  - Administrative, court and regulatory actions
  - Third party signals (e.g. complaints received by the Authority, press reportage etc.)

# Methodology for selection of entity for review

- Potential impact on users – factors include:
  - Number, and nature of, retail investors
  - Size of undertaking (including number of employees)
  - Public profile
  - Industry profile
  - Whether the shares or other securities of the undertaking are traded on a public stock exchange.

# **Liaising with other countries' financial reporting monitoring bodies**

- IAASA an active participant in EECS (European Enforcement Co-ordination Sessions) – sub committee of CESR – monthly meetings
- EECS – Forum for discussing and co-ordinating “enforcement” decisions in EU/EEA
- A database of IFRS enforcement decisions in the EU/EEA has been established – not precedents but likely to be persuasive reference point
- Has been Irish EECS case which was brought to EU Roundtable on Consistent Application of IFRS

# Other financial reporting functions

- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters
  - Advice on various matters as have arisen
  - Member of CLRG and advice on part A6 of forthcoming Consolidation Bill dealing with accounting and auditing
- Co-operating in the development of accounting standards and practice notes
  - Irish Observer at ASB Board – twice monthly meetings

# Contacts & Further Information

**IAASA,  
2<sup>nd</sup> Floor, Willow House,  
Millennium Park,  
Naas,  
Co. Kildare.**

**Tel: +353 (0)45 983600    Fax: +353 (0)45 983601**

**Email: [info@iaasa.ie](mailto:info@iaasa.ie)**

**Web: [www.iaasa.ie](http://www.iaasa.ie) / [www.iaasa.eu](http://www.iaasa.eu)**