
CHAPTER 2

Regulatory oversight and supervision of the audit
and accountancy profession

1. Introduction

This Chapter outlines IAASA's activities during the year to oversee the regulatory functions of the RABs applied to statutory auditors and to examine and promote improvements in the quality of the PABs regulatory activities.

The Act and SI 312 provide that IAASA's principal functions relating to the PABs include:

- oversight of the RABs' performance of the regulatory functions assigned to them in respect of statutory auditors;
- approval of the PABs' constitutional documents and other related rules, regulations and standards applying to their members; and
- supervision of the PABs' investigation and disciplinary processes.

2. Overview of supervisory activities

2.1. PABs

A PAB is an accountancy body that comes within IAASA's supervisory remit. There are currently nine PABs:

- **ACCA** Association of Chartered Certified Accountants;
- **AIA** Association of International Accountants;
- **CIMA** Chartered Institute of Management Accountants;
- **CIPFA** Chartered Institute of Public Finance and Accountancy;
- **CPA** Institute of Certified Public Accountants in Ireland;
- **ICAEW** Institute of Chartered Accountants in England and Wales;

- **ICAI** Institute of Chartered Accountants in Ireland;
- **ICAS** Institute of Chartered Accountants of Scotland; and
- **IIPA** Institute of Incorporated Public Accountants.

Details of the PABs' membership, student numbers, public practice profiles and their regulatory activities during the year are set out in a separate publication entitled *Profile of the Profession 2016*, available on the IAASA website.

2.2. RABs

Six of the nine PABs are also RABs i.e. ACCA, CPA, ICAEW, ICAI, ICAS and IIPA. RABs are responsible for authorising their members/member firms to practice as auditors. In addition to approvals and registration, SI 312 assigns responsibility for the following tasks in respect of statutory auditors and audit firms to the RABs:

- continuing education;
- approval of the PABs' constitutional documents (Section 4);
- quality assurance reviews of statutory auditors and audit firms in relation to audits of entities that are not PIEs; and
- investigations and discipline (other than those investigations which must be undertaken directly by IAASA - Chapter 3 refers).

SI 312 also provides that IAASA is responsible for the oversight of the RABs' performance of these tasks.

Details of the RABs' auditor members and further information on their regulatory activities, as assigned by SI 312, are provided in the Annual Audit Programme and Activity ('AAPA') Report, which is contained in Chapter 5 of this Report.

2.3. Supervisory activities

IAASA's supervisory activities in relation to auditor oversight and the nine PABs fall broadly into the following categories:

- supervisory visits and review meetings;
- approval of the PABs' constitutional documents and attachment of conditions to the RABs' recognitions;
- complaints handling and Section 933 enquiries;
- the PABs' annual return process, the results of which are summarised in the *Profile of the Profession 2016*, available on the IAASA website and the AAPA Report contained in Chapter 5 of this report.

IAASA's activities in the area of general supervision of the accountancy and auditing profession also encompass:

- responding to queries from members of the public;
- cooperating with IAASA's EU counterparts, as well as with other national authorities; and
- acting as advisor to the Minister, in particular regarding the entry into force of SI 312 and the Regulation (EU) No 537/2014 ('the EU Audit Regulation').

3. Supervisory visits and review meetings

3.1. Overview of supervisory visits

IAASA issued supervisory visit reports to four RABs during the year. The primary focus of three of these reports was the RABs' processes for the licensing of auditors and one report dealt mainly with a RAB's quality assurance system for auditors. Arising from these visits, a number of common issues were identified across the RABs, as detailed in Section 3.2 below.

In addition, two on-site supervisory visits relating to the PABs' investigation and disciplinary processes were conducted during the year and a

summary of the initial findings arising from these visits is set out in Section 3.3 below.

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

Two of the supervisory visits commenced in 2016 were undertaken jointly with the FRC. While IAASA and the FRC are subject to separate legislative frameworks, both regulators have responsibility for the oversight of the regulatory activities of ACCA, ICAEW, ICAI and ICAS in respect of statutory auditors. Joint supervisory visits allow a pooling of regulatory resources, enhanced consistency of approach and an efficiency for the relevant RABs in dealing with one review.

3.2. Licensing of Auditors – common findings and recommendations

Given the level of reliance placed by various stakeholders on the work performed by auditors, it is essential that the RABs have robust and efficient licensing systems in place to ensure that they approve only those members with adequate skills and experience and who are of good repute to provide statutory audit services.

In general, the auditor licensing processes of the reviewed RABs were found to be of a good standard and carried out in accordance with the respective RABs' approved regulations and procedures.

However, a number of common areas where there is scope for improvement were identified and a summary is set out below. While the findings arise from visits to three of the six RABs, these recommendations should be considered by all six RABs to ensure that any potential areas for improvement are identified. The RABs' actions will be monitored as part of IAASA's ongoing supervisory activities, such as review meetings and future supervisory visits.

3.2.1. Assessment of audit experience

It was observed that applicants for audit approval were permitted to submit information in a way that did not always contain sufficient detail to adequately assess the applicant's audit experience. IAASA's principal recommendations in this respect are listed below.

- o Applicants should be required to provide adequate information regarding their audit experience, including the number and nature of their audit clients, their role in those audits, the audit competencies they possess, their level of proficiency in each and the length of their audit experience.
- o Audit experience should normally be certified by the auditor who supervised that particular training, as he/she is in the best position to verify the information provided by the applicant. However, if this is not possible, the applicant should be required to document the reason(s) for certification by a different auditor.
- o If an applicant is unable to complete some or all of the experience record to an appropriate standard, the experience that is not adequately recorded should not count towards the total experience claimed.
- o the use of a written checklist, which should also contain a conclusion on whether to grant approval and be subject to review on at least a sample basis by senior licensing staff or the relevant regulatory committee; and
- o the necessity to verify compliance with all criteria for approval in advance of awarding audit authorisation rather than on a subsequent quality assurance visit.

3.2.3. Higher risk applications

Whilst it was observed that the RABs' licensing staff appear to be familiar with the relevant processes, it was not always apparent that they adequately considered the risks associated with the licensing of auditors, particularly for those applicants where an element of judgement was required. In this context, IAASA has recommended that:

- o each RAB should identify higher risk categories of applicants (e.g. those with limited recent audit experience; recently qualified sole practitioners; individuals whose practical experience includes experience gained prior to admission; and individuals subject to disciplinary proceedings);
- o for each category of higher risk applicant, consider what additional verifications may be appropriate when assessing such applications as well as the impact such risks may have on their eligibility for appointment as an auditor;
- o where an application would not appear to comply with the requirements for approval, it is referred to the relevant committee for consideration; and
- o where discretion is permitted to staff, the scope of that delegation should be specified, and the reasons for staff waiving any requirements

3.2.2. Assessment of applications

Each RAB must undertake an adequate assessment of an applicant's training and experience, fit and proper status, professional indemnity insurance ('PII'), continuity of practice and other criteria as appropriate, including the structure and ownership of firms. While comprehensive checks on audit applications were normally carried out in practice, they were not always evidenced by the RAB. IAASA has made a number of recommendations in this respect, including:

should be documented, subject to senior management review, and the relevant committee should be advised of such cases.

3.2.4. Conditions on approval

IAASA also made recommendations in relation to the attachment of terms or conditions to an auditor's approval, where he/she has been assessed as high risk, as detailed below.:

- o The RAB should consider the imposition of conditions such as the submission of hot file reviews, an early quality assurance visit or completion of audit relevant CPD.
- o The applicant should be notified of the terms and condition(s) upon the award of audit authorisation and they should be subject to appropriate monitoring and follow-up on a timely basis.
- o Approval by senior management/committee should be required before terms or conditions are lifted.

3.2.5. Improvements to RABs' forms and processes

A number of instances were identified where the RABs' forms could be enhanced to enable ease of review and verification of applicants' eligibility, as well as ensuring consistency between applications and providing evidence of the judgements made by RAB staff. For example, IAASA recommended the inclusion of a dedicated section regarding fitness and probity in all application forms, including questions regarding the applicant's disciplinary and regulatory history, financial position and tax compliance.

In addition, it was recommended that in some instances the RABs' auditor licensing process could be further enhanced by increased communication between licensing staff and other regulatory units (e.g. conduct team or quality assurance team).

IAASA also recommended that the RABs ensure their process documentation details the actions to be taken in circumstances

where incorrect or misleading information is included on an individual's application form and the impact this may have on the individual's application.

3.2.6. Members of other RABs

Where a firm applies to a RAB to appoint an individual who is a member of another RAB as an auditor within the firm, the RAB is required to undertake appropriate checks to ensure that it is in order to authorise that individual as an auditor. In this context, each RAB should have a policy outlining the extent to which it places reliance on other RABs and how it satisfies itself as to the appropriateness of this reliance. At a minimum, a RAB should request the relevant accountancy body to provide confirmation that the applicant is currently authorised to audit (or not precluded from auditing) and a member in good standing of that body. This should be re-confirmed on at least an annual basis, as well as CPD compliance, to ensure it remains in order for the RAB to authorise that individual as an auditor.

3.3. Investigation and disciplinary processes - initial findings

As noted in Section 3.1 above, on-site supervisory visits relating to the investigation and disciplinary processes of two PABs were conducted during the year. Drafting of the final reports in respect of these visits was ongoing at year end and since then one further visit to another PAB has been conducted. Some common areas identified during the reviews, where it is intended to provide recommendations to the PABs are:

- avoiding unnecessary delays in the complaints process;
- improvements to management information and disciplinary statistics, including the use of key performance indicators;
- documentation of policies, including the level of oversight required and consideration of previous complaints; and
- communication with other regulatory units within the PAB, including those responsible for licensing and quality assurance.

3.4. Desktop review – quality assurance cycle

Since May 2010, the RABs are required under law to conduct a quality assurance review of each statutory auditor that does not have any PIE audit clients at least once every six years.

As six years has passed since this requirement became effective, a desktop review of the RABs' compliance with the quality assurance inspection cycle was undertaken during the year. The review was completed by means of a written questionnaire, the results of which are summarised in Table 2.1.

The RABs reported substantial compliance with the quality assurance cycle, with the majority of statutory auditors subject to at least one quality assurance visit within the previous six years. This is a welcome outcome and reflects the efforts of the RABs' quality assurance teams. For a number of RABs, the target was a demanding one, requiring the application of extra resources in the last two years to achieve the cycle.

In total, there were 41 statutory auditors across four of the RABs which should have been visited by 19 May 2016 where a quality assurance review had not been conducted. By the end of September 2016, 10 of these had been removed from the Statutory Auditor Register and 17 had been subject to a quality assurance visit. Of the 14 remaining statutory auditors, 12 (10 in ICAI, one in ACCA and one in CPA) had their visits postponed due to long term illness while two ICAI auditors were in the process of surrendering their audit registration.

This matter has been discussed with the relevant RABs and, in particular, the necessity for the timely scheduling of visits to allow for any delays and minimise the risk of a visit not being completed within the maximum six year period. Also:

- the RABs have been requested to ensure that, where a quality assurance visit has been postponed beyond the six year cycle due to long term illness, the member has taken appropriate steps to provide that their audit clients' needs are being properly met. It is IAASA's expectation that such arrangements would most likely involve the performance of those audits by an alternative statutory auditor; and
- where relevant, the RABs have been advised that a member's stated intention to surrender audit registration does not negate the requirements for a quality assurance visit at least once every six years.

3.5. Periodic review meetings

IAASA met with representatives of each PAB at least once during the year, with a total of 17 review meetings held in 2016. The purpose of such meetings is, amongst other things, to:

- review progress with outstanding actions and obtain updates on all outstanding regulatory matters, such as amendments to the PABs' constitutional documents;

Table 2.1 Quality assurance cycle at May 2016

	Total	ACCA	CPA	ICAEW	ICAI	ICAS	IIPA
Statutory auditors at May 2016	5,207	483	339	3,236	868	193	88
<i>Of which:</i>							
Subject to at least one quality assurance visit since May 2010	(4,795)	(446)	(317)	(3,012)	(765)	(185)	(70)
Registered since May 2010 i.e. not required to be visited by May 2016	(371)	(22)	(21)	(221)	(81)	(8)	(18)
Visits outstanding	41	15	1	3	22	-	-

- discuss progress on the implementation of IAASA's recommendations for improvements where IAASA has identified potential weaknesses in the manner in which the PABs regulate and monitor their members;
- identify and discuss forthcoming developments, including strategic initiatives entered into by the PABs and changes to their education processes;
- consider the impact of any recent changes to relevant Irish legislation for the PABs and their members; and
- discuss regulatory matters of mutual interest, such as the potential consequences of Brexit and the professional indemnity insurance requirements for liquidators (Chapter 4 refers).

In addition, bilateral meetings were held with the PABs as and when required.

4. Approval of the PABs' constitutional documents and attachment of conditions

IAASA approved 32 constitutional documents during the year, which related to the ACCA, CIMA, CPA, ICAEW, ICAI and the ICAS. The review of a further eight constitutional documents was ongoing at 31 December 2016.

Section 931 of the Act provides that IAASA may attach such terms or conditions as it considers necessary to the recognition of a RAB. No new conditions were imposed during the year and the Authority continued to monitor the RABs' compliance with the extant conditions.

5. Complaints handling and statutory enquiries

5.1. Overview

During the year, IAASA responded to 12 complaints received from members of the public and provided them with assistance and information about IAASA's and the PABs' respective roles in the processing of complaints. The principal issues raised by complainants related to dissatisfaction with aspects of the PABs' investigation and disciplinary procedures and alleged non-compliance with the PABs' bye-laws.

Although IAASA has no statutory role in facilitating the resolution of individual complaints made to the PABs or in operating a system of final appeal against decisions taken by the PABs in relation to complaints, it does have a statutory role to oversee the PABs' compliance with their approved investigation and disciplinary procedures. Therefore, where potential issues in relation to a PAB's handling of a complaint come to its attention, IAASA considers such matters in the context of its ongoing supervision of that PAB and, if concerns arise, it may take a range of supervisory action as it considers appropriate in the circumstances.

In addition, section 905(2) of the Act provides that IAASA may conduct enquiries into whether a PAB has complied with its approved investigation and disciplinary procedures and, where appropriate, impose sanctions. The decision as to whether to initiate such an enquiry is at the sole discretion of the Board of the Authority. An overview of the section 933 process is available on the IAASA website and Table 2.2 provides a summary of the section 933 enquiry activity during the year.

Table 2.2 Summary of section 933 enquiry activity

	Preliminary Enquiry Stage	Full Enquiry Stage	Total
S.933 enquiries ongoing at 1 January 2016	1	2	3
Enquiries completed during the year	(1)	(1)	(2)
S.933 enquiries ongoing at 31 December 2016	-	1	1

One full enquiry was completed during the year following High Court confirmation of its findings. It was determined that the ICAI had failed to comply with its approved investigation and disciplinary procedures. The sanctions applied included a fine of €15,000 and a requirement for the ICAI to undertake a fresh investigation.

In addition, one preliminary enquiry was concluded during 2016, following the agreement of terms of settlement between the Authority and the ICAI. It was determined that the ICAI had failed to comply with its approved investigation and disciplinary procedures. The sanctions agreed included a fine of €15,000 and a requirement for the ICAI to refer certain decisions of its Complaints Committee to an independent reviewer.

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

5.2. Supervision of PABs' responses to matters of public interest

As detailed in the 2015 Annual Report, IAASA considered the Chartered Accountants Regulatory Board's ('CARB') *Report on the reviews of the audits of the provisions for impairments by certain Financial Institutions for the financial years ended between 30 September 2008 and 31 March 2009*. CARB was the then regulatory arm of the ICAI. The reviews were carried out at IAASA's instigation and in the context of ICAI's responsibility to regulate and monitor its members and member firms. IAASA also advised ICAI that the work should be overseen by an independent expert, possessing relevant experience and preferably sourced from outside the jurisdiction.

IAASA notes the many changes in the framework governing the preparation of financial statements and their audit in the period since these audits took place. Some of these have arisen as a direct response to the financial crisis and include changes to the accounting standards, auditing standards, audit methodology in the firms concerned and audit reform legislation. In particular, since June 2016, responsibility for the inspection and sanctioning arising from the investigation of PIE audits including those of banks transferred from

the ICAI to IAASA as is further discussed in Chapter 3 and which is an important enhancement of the oversight of the audit profession. Additionally, arising from the banking crisis, there are a number of outstanding disciplinary matters in relation to members of the PABs, and the Authority will continue to supervise the ICAI's regulatory responses to those and related issues.