



**Annual Audit Programme and Activity Report ('AAPA')
2017**

Mission

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

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WHAT WE DO

IAASA’s overall structure, function and mission are set out in its Annual Report. **SI 312 of 2016**¹ designates IAASA as the competent authority with overall responsibility for the oversight of statutory auditors in Ireland. Regulation 34 of SI 312 sets out the requirement to publish an Annual Audit Programme and Activity (“AAPA”) Report. This report provides further detail on IAASA’s activities in relation to oversight of statutory audit in order to achieve the mission of supervising and promoting high quality auditing in the public interest.

Our audit oversight role is currently governed by the Companies Act 2014 (‘the Act’), Regulation 537/2014 and SI 312, which came into effect on 17 June 2016. SI 312 transposed EU audit reform legislation into Irish law. At the year-end the Department of Business, Enterprise & Innovation was well advanced in its work of replacing this with new primary legislation, the Companies (Statutory Audits) Bill. This legislation will repeal SI 312 and amend the the Act in particular by adding a new Part 27 to the Act to cover auditor oversight.

The legislation in place sets out key tasks and functions to be carried out in relation to the registration and oversight of auditors. The legislation introduced certain requirements for all statutory auditors and additional requirements for Public Interest Entities (PIEs) and their auditors. In some cases, IAASA is directly responsible for those tasks, as required by EU legislation, and in other cases, the tasks are assigned to the Recognised Accountancy Bodies (RABs) in Ireland, and are overseen by IAASA. IAASA operates in five different Units, three of whom are involved in oversight of auditors. The table below sets out, at a high level, the key tasks in relation to oversight of auditors, as set out in the legislation, along with details of who carries out the task.

| Task | IAASA carries out task directly (Chapters 1 & 2) | RABs carry out task directly, overseen by IAASA (Chapter 3) |
|---|---|--|
| Quality assurance – PIEs | √ | |
| Quality assurance – non-PIEs | | √ |
| Investigative and disciplinary – PIEs | √ | |
| Investigative and disciplinary – non-PIEs | | √ |
| Approval and registration of third country auditors | √ | |
| Approval and registration of other auditors | | √ |
| Adoption of standards | √ | |
| Continuing education | | √ |
| Quality assurance – Third Country Auditors | √ | |
| Consideration of requests for extension of auditor tenure | √ | |

Chapters 1, 2 and 3 of this report set out further detail of IAASA’s activities in relation to these tasks during 2017 along with the priorities for 2018.

¹ Statutory Instrument 312 of 2016 *European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, And Regulation (EU) No 537/2014) Regulations 2016*

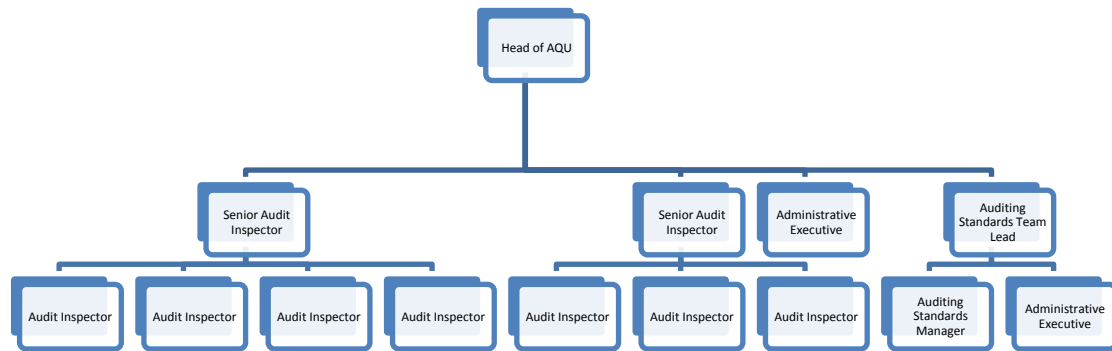
1. Introduction

Functions

This Chapter details the key functions of the Audit Quality Unit. The functions largely fall within five areas: quality assurance, auditing standards, third country auditors, requests for extension and international cooperation. These functions are explained further below, with details of the 2017 activities and 2018 priorities.

Structure

The Audit Quality Unit is structured into two separate teams – the Audit Inspections Team (AIT) and the Auditing Standards Team (AST). The organisation structure below sets out the approved staffing levels for the teams.



Recruitment

At 31 December 2017, four of the audit inspector roles and the two administrative executive roles were vacant. One administrative executive role was filled post year-end and recruitment for the second is on hold while the team evolves. The current complement of senior audit inspectors and audit inspectors have all been recruited from PIE audit firms and have all operated in senior management roles in those firms. It is important that audit inspectors are independent of the firm they are inspecting and that they have sufficient specialist skills in auditing PIEs in various industries in order to appropriately challenge the audit firm being inspected. Staff in the AIT have come from a variety of firms and have a variety of industry backgrounds.

We are currently actively recruiting the remaining inspectors; however, given the specific nature of the skills required and the current market conditions, this is expected to take some time to complete. In addition, we must maintain the balance of skills to ensure we have sufficient coverage in all skill areas; furthermore, we must maintain a balance in the firms from which inspectors have come, to ensure that we have sufficient staff who are independent of each firm. We utilize the services of a specialist recruiter for the audit inspector roles and interview candidates as they are identified. From time to time, we run additional advertising campaigns for these posts on selected recruitment websites.

Funding

The Minister for Business, Enterprise and Innovation ('the Minister') approves IAASA's overall budget. The functions of IAASA are funded in a variety of ways. Both AIT and AST are funded by levies, which are proposed by IAASA and approved by the Minister.

The AST is fully funded by a levy on the RABs. The budgeted costs are allocated amongst the RABs on the basis of the number of statutory auditors located in Ireland.

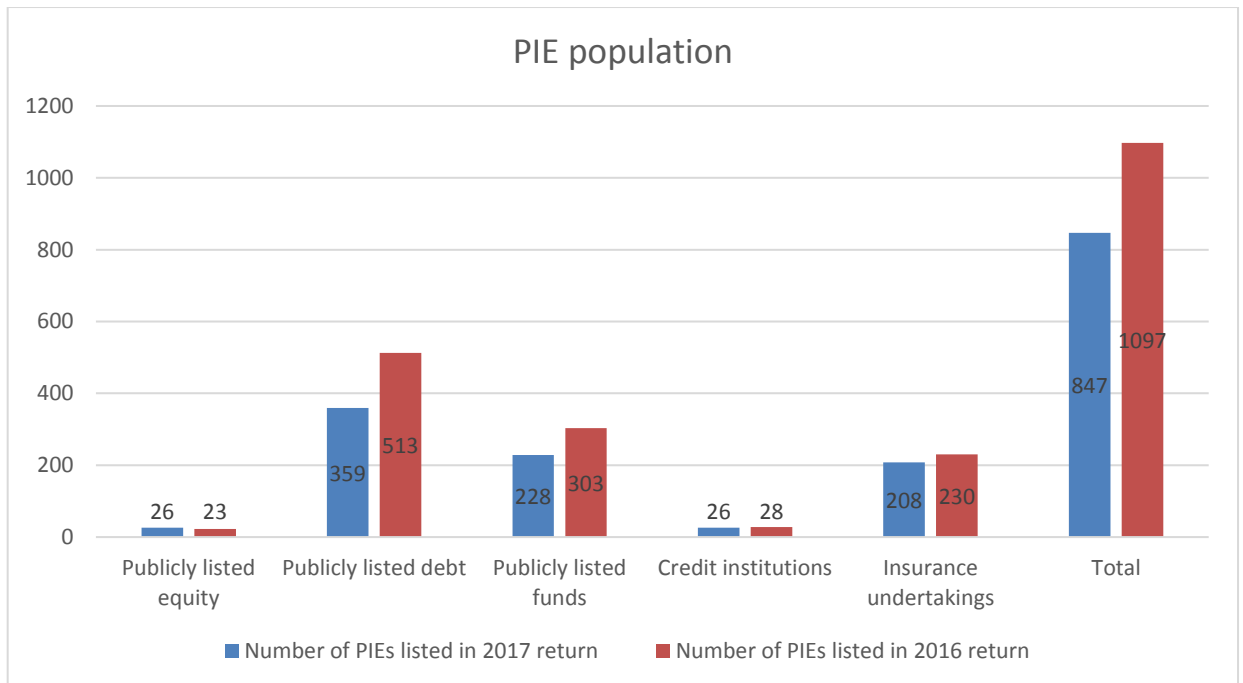
The AIT is fully funded by way of a levy on the PIE audit firms. There are two parts to the levy. The first part is a standing charge of €3,500. This recognises the fact that there is a base level of work involved in inspecting a PIE auditor, regardless of how many PIE clients they audit. The remainder of the AIT budget is allocated amongst the PIE audit firms based on the PIE statutory audit fees earned by the firms.

2. Quality Assurance

Public interest entities and their auditors

The term PIE is defined in SI 312 and includes entities with securities listed on an EU regulated stock exchange, credit institutions and insurance undertakings. Further specific guidance on the definition of a PIE is available [here](#). PIE auditors are individual auditors or audit firms that audit a PIE. Auditors are required by law to inform IAASA the first time they are appointed as auditors to a PIE.

At 31 December 2017, there were nine (2016: 10) PIE auditors, auditing approximately 1,000 (2016: 1,200) PIEs. PIE firms are required to provide an annual return, which sets out details on the PIEs audited in the year. The annual return is a useful tool for tracking the movement of the PIE population and assessing the impact of the audit regulation both in terms of competition amongst audit firms and in terms of the number of PIEs within Ireland. Based on the most recent PIE audit firm returns the population of PIEs can be broken down as follows:-



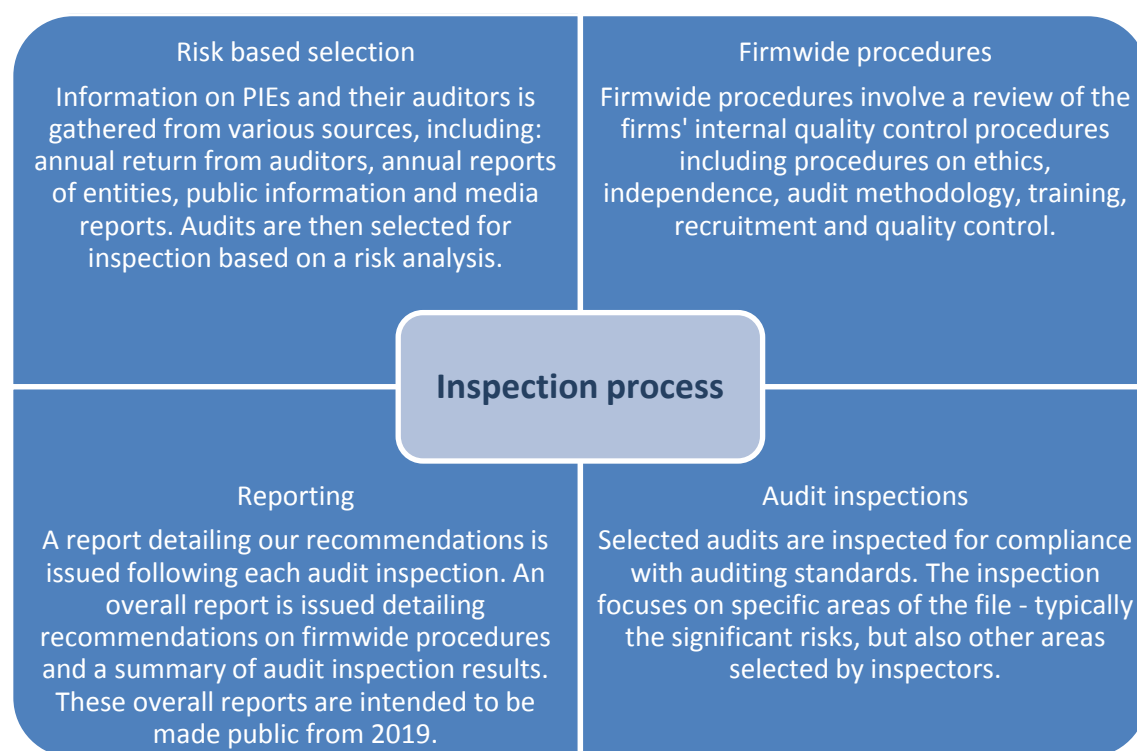
The number of PIEs is based on the number of audit reports signed by PIE auditors in the 2017 calendar year. This will vary slightly to the number of active PIEs at year-end given the dynamic nature of the PIE population. The number of publicly listed equity issuers does not include credit institutions.

At 31 December 2017, there were 5,030 statutory auditors registered in Ireland, any of whom can be appointed as auditor to a PIE. A full list of auditors can be obtained from the Companies Registration Office (“CRO”). There are currently nine audit firms in Ireland who audit PIEs. These are (in alphabetical order); BDO, Deloitte, EisnerAmper, EY, Grant Thornton, KPMG, Mazars, Moore Stephens and PwC. These include what are commonly known as the “Big 4 auditors”; Deloitte, EY, KPMG and PwC. The Big 4 auditors audit approximately 95% of the PIEs in Ireland, earning approximately 98% of the PIE audit fees.

Inspection process

As noted above, IAASA assumed responsibility for PIE auditor inspections in June 2016. IAASA is currently progressing its first round of inspections on all PIE auditors, which is expected to be completed by the end of 2018. From 2019, Big 4 auditors will be inspected annually and other PIE auditors inspected every 3 years. The frequency of inspections of other PIE auditors may increase at IAASA’s discretion. Auditors are informed of IAASA’s inspection one month in advance. Auditors are notified of the audit selection two weeks in advance and may not edit the audit file after notification without prior discussion with IAASA.

The graphic below sets out key phases in a quality assurance review, also known as an inspection.



Auditors are required by law to implement recommendations made by IAASA within 12 months of the date of the final inspection report. IAASA is required to impose a sanction on auditors who fail to do so. IAASA makes recommendations to ensure that matters noted are appropriately dealt with. In doing so, IAASA liaises with the firm concerned to take account of any concerns the firm has with their ability to implement the recommendations within 12 months. While not required, IAASA welcomes engagement with the firms concerned during the 12 month period to understand what actions the firm is taking to ensure these actions are sufficient.

Inspections undertaken in 2017

AIT planned to carry out inspections in all Big 4 firms by the end of 2017. This was achieved and in addition to this, a joint inspection took place with the Public Companies Accounting Oversight Board ('PCAOB'), the U.S. audit oversight body. Further detail on this joint inspection is given in the international cooperation section below.

Generally, audits were found to be of a good standard of quality. Some areas of recommendation were as follows:-

- Auditing accounting estimates – ensuring that sufficient challenge of management assumptions is performed and evidenced;
- Groups – when relying on work of other auditors in a group scenario, it is important to ensure that there is a full understanding of the work performed and that it is reviewed;
- Risk assessment – auditors must identify risks prior to commencing audit procedures and plan procedures to address those risks. Those procedures must then be carried out as planned. Any changes during the audit must be considered and explained on the audit file;
- Engagement quality control review – PIE audits are required to be reviewed by a second statutory auditor. There are detailed requirements about the timing and extent of involvement required by these reviewers.

2018 priorities

The priority for the AIT in 2018 is to complete the first round of inspections, i.e. first inspection of all PIE audit firms. In addition, the team will finalise a rating system, which will be used to rate the quality of the audits inspected. This rating system will be used on audit inspections from 2019. In addition, the team will work to finalise the style of the overall reports, which will be made public from 2019. A key consideration in developing the style of the public reports is to ensure that sufficient context is given for the public to understand the recommendations and minimise the risk of misinterpretations. In relation to the audits inspected, a summary will be provided, but it is important to anonymise the details so as not to cause an adverse impact on the audited entity, as any matters noted on an audit inspection will not necessarily indicate an issue with the financial statements of the entity.

3. Auditing Standards

Framework Adopted

After becoming responsible for the adoption of the Auditing Framework for Ireland, IAASA undertook a consultation seeking views as to which auditing framework should be used to form the basis of the Auditing Framework for Ireland. Following that consultation, IAASA issued International Standards of Auditing (Ireland) ('ISAs (Ireland)') and related standards on ethics and quality control in January 2017 and, having assessed views of respondents, confirmed its view that the Auditing Framework for Ireland should be based on the Financial Reporting Council's ('FRC') Auditing Framework for the UK. Doing so retains continuity with ISAs (UK and Ireland) that were issued by the FRC and in force in Ireland prior to June 2016. It also provides support for the operation of auditors who report on financial statements of companies based in both Ireland and the UK. It remains IAASA's policy that the Irish Framework will continue to be based on that issued by the FRC for use in the UK; the policy will be kept under review in the light of future international developments.

IAASA's policy is to minimise substantive changes from the UK standards. There are significant amendments required, however, in relation to legislative referencing. A number of amendments and updates were made in the year, in line with the UK and international changes. All changes to the UK standards going forward are expected to be implemented in Ireland.

Guidance

A body of guidance and supplementary standards had been issued by the FRC prior to June 2016 to support the application of ISAs (UK and Ireland) in the context of audits undertaken in both the UK and Ireland. The FRC has also issued a number of supplementary standards, in particular Standards for Investment Reporting, which have been applied in the context of listings on the Irish Stock Exchange since their initial issue. IAASA undertook a consultation in November 2017 seeking views on its proposals to update and adopt relevant guidance documents and supplementary standards. In overall terms, respondents supported IAASA's intentions about amending and issuing guidance.

Adoption process

The AST was staffed from the second half of 2017. IAASA is continuing to develop the process around the adoption of standards and guidance going forward. It is intended that in most cases, a public consultation will take place prior to amendments in order to seek the views of stakeholders. In addition, IAASA announced its intention to set-up a Technical Advisory Panel and sought expressions of interest. This Panel was established post year-end. This Panel will provide advice and technical input to the AST in amending standards going forward. It is also anticipated that ad hoc working groups will be established for particular specialist areas to understand the views of expert and interested parties.

2018 priorities

As noted, the Technical Advisory Panel was established in early 2018. The AST will work to formalise processes around adoption of standards. IAASA will commence the issuance of guidance and develop a clear plan to complete this, which is expected to be a multi-year project.

4. Third country auditors

Registration

A third country auditor is an auditor who issues an opinion in relation to an entity not registered within the EU, which is listed on an EU regulated stock exchange. In Ireland, such auditors must make an application to register with IAASA following which a detailed assessment is undertaken to ensure that such auditors meet the relevant criteria. During the year, IAASA renewed the full registration of eight (2016: 11) third country audit firms. IAASA is also responsible for updating the Register of third country auditors (which is available on the CRO website: www.cro.ie) for approved applications and notifying any changes to the CRO. The register of transitional third country auditors is available on the IAASA website.

Quality Assurance

Third country auditors are subject to IAASA's system of inspection. EU and Irish legislation allows audit regulators to exempt a third country auditor from inspection where the inspection regime of the third country has been deemed equivalent by the EU. In order to avail of this exemption, the third country must reciprocate by relying on IAASA's inspection regime.

Availing of the above exemption also requires the audit regulators to enter into an agreement with each other. At 31 December 2017, IAASA had entered into such agreements with Canada, Switzerland and the US. The agreements with Canada and Switzerland allow for mutual reliance. The agreement with the US allows the US and Ireland to carry out joint inspections of Irish firms.

2018 priorities

IAASA will process third country auditor applications as they arise. IAASA is a member of a group that assesses countries wishing to be deemed equivalent by the EU, and which makes a recommendation to the EU in that regard. In addition, IAASA is consulting with other EU audit regulators to understand what quality assurance work is required in relation to third country auditors from the US, given that the US agreement does not provide for the requisite reciprocity regarding reliance on the IAASA inspection regime.

5. International cooperation

Co-operating with peers

IAASA believes that co-operating with international audit regulators is fundamental to our success. As the entities and firms within our remit often operate within global structures, it is vital that regulators co-operate effectively to share knowledge, experience and be consistent if possible. Such activities contribute to regulators achieving their aim of effectively and efficiently contributing to continuing improvements in audit quality.

IAASA actively participates in both the Committee of European Audit Oversight Bodies ('CEAOB') and the International Forum of Independent Audit Regulators ('IFIAR'). IAASA has representatives on all CEAOB sub-groups as well as a number of task forces and colleges. IAASA is the chair of the sub-group on market monitoring.

In keeping with our commitment to international co-operation, IAASA hosted meetings of three CEAOB sub-groups in October. The Inspections sub-group agenda includes dialogue with senior members of the largest audit firms on a rotational basis. On this occasion, it met with EY European representatives. Jointly, with the International Auditing Standards sub group of the CEAOB, the Inspections sub-group met with the representatives of the IAASB and IESBA, an engagement sought on an annual basis. There was also a separate meeting of the Market Monitoring sub-group

Third country regulators

In October 2017, IAASA entered into a cooperative agreement with the United States audit regulator, the PCAOB. The cooperative agreement allows for cooperation between IAASA and the PCAOB, including joint inspections, in the oversight of audit firms subject to the regulatory jurisdiction of both organisations.

In December 2017, IAASA began its first joint inspection with the PCAOB, which is expected to be concluded in 2018. The PCAOB intends to carry out a joint inspection in Ireland annually, visiting each firm within its remit once every three years.

Given the high level of US investment in Ireland, resulting in Irish auditors carrying out significant work on US issuers or components thereof, this was a significant development for IAASA and was an important development in the audit market both in Ireland and in the US.

2018 priorities

IAASA will continue to engage with relevant third country regulators to enter into cooperation agreements. In addition, existing cooperation agreements will be reviewed for compliance with new data protection legislation. The team will continue to actively participate in the international fora of regulators and support the activities of these groups by moderating and presenting at meetings and workshops. The team will also consider hosting further meetings or workshops in future years.

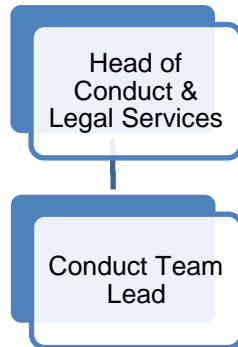
1. Introduction

Functions

This Chapter outlines IAASA's activities in respect of conduct of investigations into possible contraventions by statutory auditors. There are two types of enforcement directly against auditors available to IAASA as detailed below.

Structure

The organisation structure below sets out the approved staffing level for the conduct team that is a part of the Conduct and Legal Services Unit.



Recruitment

The position of Conduct Team Lead was filled in late 2017.

Funding

The Conduct function is funded 60% by a levy on the Prescribed Accountancy Bodies ('PABs') and 40% by the Exchequer. The levy on the PABs allocates the costs on the basis of the number of members and audit firms.

2. Types of Enforcement against auditors

2.1. Section 934 of the Act

A Section 934 investigation is concerned with possible breaches of a RAB's standards by a statutory auditor. IAASA may investigate a suspected breach, if IAASA is of the opinion that it is appropriate or in the public interest to do so. A Section 934 investigation may include an investigation into matters where a RAB decided not to withdraw an auditor's approval as a statutory auditor. If IAASA determines that a breach of a RAB's standards has occurred, IAASA may impose any sanction to which a statutory auditor would have been liable under the constitution and byelaws of the RAB.

2.2. Section.935 of the Act

A Section 935 investigation is concerned with possible contraventions of legislation by a statutory auditor. IAASA may investigate suspected contraventions and has a range of powers including requiring a person to produce documentation, attend before it and give IAASA any other assistance in connection with an investigation which that person is reasonably able to give. Sanctions which may be imposed, include but are not limited to, temporarily banning a statutory auditor from carrying out statutory audits, declaring an audit report does not meet certain requirements and imposing financial sanctions.

3. 2017 Activity

There was no investigation activity during 2017. As noted earlier, the team lead position was filled in late 2017. Work is underway to develop procedures surrounding the investigation and sanctioning processes.

4. 2018 Activities

The legislative position in respect of conduct of investigations is evolving due to the impending enactment of the Companies (Statutory Audits) Bill 2017. This new legislation will provide for streamlined investigative powers by merging the Section 934 and Section 935 investigations outlined above. Work is underway to put in place procedures and processes to implement the new legislation once enacted.

1. Introduction

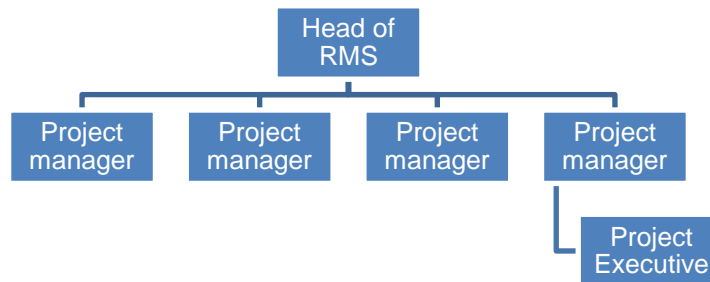
Functions

This Chapter deals with the key functions of IAASA as they relate to oversight of the six RABs and their performance of the functions assigned to them in law in relation to the oversight of auditors. It sets out:

- an activity report on the functions performed by the RABs during the year in respect of statutory auditors (section 2);
- an activity report on the oversight carried out by IAASA of the RABs audit related activities during 2017 (section 3); and
- IAASA's work programme regarding its oversight functions for 2018 (section 4).

Structure

The organisation structure of the Regulatory and Monitoring Supervision Unit ('RMS'), which is responsible for oversight of the RABs' activities, is set out below.



Funding

The oversight function is funded 60% by a levy on the PABs and 40% by the Exchequer. The levy on the PABs allocates the costs on the basis of the number of members and audit firms.

2. Functions performed by the RABs

2.1 Overview

Part 3 of SI 312 assigns the performance of certain functions in respect of statutory auditors to the RABs subject to oversight by IAASA, namely:

- Approvals and registration;
- Continuing education;
- Quality assurance reviews of statutory auditors and audit firms in relation to audits of entities that are not PIEs; and
- Investigations and discipline in relation to audits of entities that are not PIEs.

The RABs' activities in these areas during the year are summarised in sections 2.2 to 2.5 below. More detail is available on IAASA's website in a separate publication *Profile of the Profession 2017*, which provides further information on the RABs' performance of these functions and provides details of their non-audit activities. Chapter 3 of IAASA's Annual Report also provides a summary of IAASA's activities in respect of supervision of the accountancy bodies.

At 31 December 2017, there were six accountancy bodies recognised to undertake the above functions – ACCA, CPA, ICAEW, ICAI, ICAS, and IIPA. However, following the transfer of a majority of its membership to CPA in September 2017, at 31 December 2017 there were no statutory auditor members in IIPA.

IAASA has relied on the RABs to provide the information set out in Tables 3.1 to 3.4 below. In analysing this data, it is important to bear in mind that, in addition to differences in the structure and operations of the six RABs, there may be differences in their interpretation of the data requested. Consequently, care is required in interpreting the information presented below and direct comparison may not be meaningful in some cases.

2.2 Approval and registration of statutory auditors

Given the importance of the statutory audit of a financial report, the significant responsibility entrusted to the auditor and the expertise required to undertake the role, it is vital that only those individuals with adequate skills and experience and who are of good repute are authorised to provide audit services in the State. To that end, under law, the RABs are authorised to approve their members/member firms and other qualified individuals as statutory auditors/statutory audit firms in accordance with the criteria for approval set out in SI 312. In addition, each RAB sets out additional requirements in relation to that approval and requires members, member firms and authorised non-members to comply with those requirements on an ongoing basis.

As detailed in Table 3.1, at 31 December 2017 there were 4,745 statutory audit firms approved to provide audit services in the State, a decline of 285 firms from 5,030 at the end of 2016. During 2017, the RABs accepted 161 applications for new audit firm registrations, while 434 audit firms did not renew their registration. 12 firms had their registration withdrawn or suspended as a result of regulatory action. There were 1,291 registered statutory audit firms with offices in Ireland at 31 December 2017. There were 9,566 individuals in those firms authorised to act as auditors in Ireland, a decline of 1,025 from the year ended 2016.

Table 3.1: Movement in statutory audit firms during 2017

| | Total | ACCA | CPA | ICAEW | ICAI | ICAS | IIPA |
|--|--------------|------------|------------------|--------------|------------|------------|----------|
| Statutory audit firms registered 1 January 2017 | 5,030 | 461 | 339 ² | 3,121 | 844 | 189 | 76 |
| During the year: | | | | | | | |
| ADD: New applications for audit registration accepted | 161 | 27 | 16 | 80 | 35 | 3 | - |
| LESS: Audit registrations withdrawn/not renewed following a request from the audit firm | (434) | (68) | (33) | (249) | (67) | (9) | (8) |
| Audit registrations withdrawn/suspended as a result of disciplinary or other regulatory action | (12) | (4) | (2) | (4) | (2) | - | - |
| Other | - | - | 68 | - | - | - | (68) |
| Statutory audit firms registered at 31 December 2017 | 4,745 | 416 | 388 | 2,948 | 810 | 183 | - |
| Statutory audit firms with offices in Ireland at 31 December 2017 | 1,291 | 289 | 388 | 3 | 611 | - | - |
| Statutory auditors registered at 31 December 2017 | 9,566 | 556 | 477 | 6,572 | 1,430 | 531 | - |

² CPA adjustment to the opening balance figure from 340 to 339 due to a reporting error

2.3 Continuing education

To ensure that statutory auditors maintain their competence at a sufficient level, SI 312 obliges the RABs to attach a condition to the approval of all statutory auditors requiring them to complete sufficient continuing education to maintain their theoretical knowledge and skills at an appropriate level, particularly in relation to auditing.

The RABs adopt a number of approaches to ensure that auditors complete sufficient audit relevant Continuing Professional Development ('CPD'), including:

- completion of a CPD annual compliance declaration;
- desktop reviews of auditors' CPD records, on a random and/or risk basis; and
- review of auditors' CPD records as part of quality assurance reviews.

Where the CPD completed is found to be insufficient, the RABs require the auditor to take remedial action and, in more serious cases, they may take disciplinary or regulatory action against the auditor. Table 3.2 provides a summary of the CPD reviews of auditors undertaken by the RABs during 2017.

Table 3.2: Monitoring of CPD undertaken by statutory auditors in 2017

| | Total | ACCA | CPA | ICAEW | ICAI | ICAS | IIPA |
|--|--------------|------------|------------|--------------|------------|-----------|----------|
| Risk-based desktop reviews | 142 | 80 | 2 | - | 58 | 2 | - |
| Random desktop reviews | 53 | 2 | 31 | 18 | 2 | - | - |
| Reviews of CPD records as part of quality assurance visits | 1,562 | 55 | 54 | 1,266 | 115 | 72 | - |
| Other CPD-related monitoring activities | 778 | 377 | 401 | - | - | - | - |
| Total | 2,535 | 514 | 488 | 1,284 | 175 | 74 | - |
| Number of CPD records found to be unsatisfactory | 23 | 7 | - | - | 13 | 3 | - |
| Number of statutory auditors where regulatory/disciplinary action was instigated due to non-compliance with CPD requirements | 9 | - | - | - | 6 | 3 | - |

2.4 Quality assurance systems

Once a member of a RAB has been approved as an auditor, it is important that the quality of the members' audit work is monitored and, where deficiencies are identified, that adequate remedial action is undertaken on a timely basis. SI 312 confers a statutory responsibility on the RABs to operate a system of quality assurance of statutory audits (with the exception of the audits of PIEs that are directly inspected by IAASA as described in chapter 1 above).

Table 3.3 summarises the RABs' quality assurance activities during the year. A total of 915 quality assurance reviews to audit firms were concluded in 2017, following which conditions, restrictions and/or penalties were imposed on 137 firms in order to address deficiencies arising. The conditions imposed ranged from a requirement to provide additional information to suspension or withdrawal of audit registration.

Table 3.3: Quality Assurance reviews in 2017

| | Total | ACCA | CPA | ICAEW | ICAI | ICAS | IIPA |
|--|------------|----------------|----------|-----------|----------------|----------|----------|
| Quality assurance reviews open at 1 January 2017 | 136 | 9 ³ | 12 | 97 | 4 ⁴ | 5 | 9 |
| ADD: Quality assurance reviews commenced during 2017 | 887 | 96 | 58 | 598 | 84 | 44 | 7 |
| LESS: Quality assurance reviews concluded during 2017 | (915) | (94) | (68) | (611) | (79) | (47) | (16) |
| Quality assurance reviews open at 31/12/17 | 108 | 11 | 2 | 84 | 9 | 2 | - |
| Quality assurance reviews that resulted in regulatory action | 137 | 14 | 14 | 57 | 28 | 24 | - |

2.5 Investigative and administrative disciplinary systems

Where an auditor's conduct may have fallen short of the standards required, it is important that robust, timely and proportionate action be taken. To that end, SI 312 requires the RABs to institute arrangements to ensure that they have effective systems of investigations and penalties. There were 185 new cases concerning statutory auditors opened by the RABs in 2017 and a total of 192 cases were closed, as detailed in Table 3.4. The nature of these complaints can vary and may relate to audit or non-audit work. The majority of new complaints arose under the categories of poor work/unsatisfactory professional service/conduct, breach of code of ethics, other audit related matters or breach of Institute/Association rules or regulations.

Table 3.4: Movement in complaints relating to statutory auditors during 2017

| | Total | ACCA | CPA | ICAEW | ICAI | ICAS | IIPA |
|---|------------|-----------|-----------------|-----------------|-----------------|----------|-----------|
| Complaints outstanding at 1 January 2017 | 255 | 36 | 13 ⁵ | 99 ⁶ | 96 ⁷ | 3 | 8 |
| During the year: | | | | | | | |
| ADD: New cases arising during the year | 185 | 29 | 17 | 73 | 57 | 4 | 5 |
| LESS: Cases closed during the year by: | | | | | | | |
| Adverse finding made including consent order | (40) | (6) | (7) | (15) | (8) | (3) | (1) |
| No case to answer | (89) | (15) | (6) | (44) | (20) | (3) | (1) |
| Out of scope | (30) | (5) | - | - | (25) | - | - |
| Closed by conciliation | (4) | (3) | - | - | (1) | - | - |
| Closed by member resignation | (3) | - | (3) | - | - | - | - |
| Closed by rest on file | (14) | (10) | - | - | - | - | (4) |
| Closed by other | (12) | - | - | - | (5) | - | (7) |
| Total complaints closed in 2017 | 192 | 39 | 16 | 59 | 59 | 6 | 13 |
| Complaints open at 31 December 2017 | 248 | 26 | 14 | 113 | 94 | 1 | - |

³ACCA adjustment to opening balance figure from 7 to 9 is due to appeals made in 2017

⁴ICAI adjustment to opening balance figure from 7 to 4 is due to misclassification of reviews

⁵CPA adjustment to opening balance figure of 14 to 13 is due to a change in members' status

⁶ICAEW adjustment to opening balance figure of 77 to 99 to include complaints under assessment

⁷ICAI adjustment to opening balance figure of 86 to 96 is to include all allegations

3. 2017 Activities

3.1 Overview

Table 3.5 provides a summary of the oversight carried out by IAASA on the functions carried out by the RABs during 2017.

Table 3.5: Summary of IAASA's work programme for 2017

| Activity | Work programme |
|--|---|
| Supervisory visits & reviews | <ul style="list-style-type: none"> • Four on-site supervisory visits were conducted during 2017 focused on investigation & disciplinary processes, quality assurance processes and auditor licencing; • Three final supervisory reports were issued focused on RABs' investigation & disciplinary processes; • A desktop review on the monitoring of RABs' CPD arrangements was commenced. |
| Review meetings with the RABs | <ul style="list-style-type: none"> • 14 review meetings were held with RABs during 2017 covering progress with open action points, the implementation of recommendations arising from supervisory visits as well as discussions on relevant regulatory matters and developments. |
| Oversight of IIPA & CPA arrangement | <ul style="list-style-type: none"> • During 2017, a majority of IIPA's membership transferred to CPA. This was actively overseen by IAASA to ensure the orderly transfer and that all regulatory obligations were adequately fulfilled or transferred accordingly. |
| Review of Constitutional Documents | <ul style="list-style-type: none"> • There were 32 approvals of RABs' constitutional documents. |
| Preparation for revised oversight model | <ul style="list-style-type: none"> • Preparation for enactment and commencement of the Companies (Statutory Audits) Bill 2017, including engagement with the RABs on the revised regulatory framework. IAASA's Annual Report 2017 provides further information on this Bill; • Engagement with the Department regarding the Companies (Statutory Audits) Bill 2017. |

3.2 Overview of supervisory visits

IAASA issued three final supervisory visit reports in relation to the RABs during the year and the drafting of reports in respect of two other RAB supervisory visits was ongoing at 31 December 2017.

The primary focus of the three supervisory visit reports issued during the year (to ACCA, ICAI and CPA) was in relation to investigation and disciplinary processes. Two of these reports were issued jointly with the FRC. Although in general the investigation & disciplinary ('I&D') procedures of the RABs were deemed fit for purpose, there were a number of areas identified where improvements were recommended.

In the context of IAASA's statutory function to supervise the I&D procedures of the RABs, including by requiring access to their records and by requiring explanations about the performance of their duties, the recommendations summarised in Table 3.6 below relate in the main to improvements to those procedures.

It is important to note that the recommendations listed below are a summary from all reports and cannot be considered to reflect the findings in an individual RAB.

Table 3.6: Summary of recommendations on RABs' investigation and disciplinary processes

| Finding and Observations | Recommendations |
|---|--|
| Complaints and discipline regulations and policies | <p>We recommended that RABs develop more clearly defined policies on matters such as:</p> <ul style="list-style-type: none"> i) reporting obligations and the engagement required with relevant regulatory bodies (e.g. reporting to the ODCE); ii) disciplinary history including how such information is recorded and utilised; iii) the grounds for investigating a complaint based on a time limit; all complaints of public interest should be investigated regardless of time limit; iv) guidance on when cases can be concluded by way of consent orders or rest on file; and v) guidance on sanctions for committees where appropriate. |
| Complaints handling processes and procedures | <p>We recommended that the RABs take measures to:</p> <ul style="list-style-type: none"> i) ensure publication of the outcome of cases is in accordance with the agreed principles governing the timing and manner of disclosure of penalties and sanctions, and that such decisions are adequately documented; ii) ensure a consistent assessment for all complaints and to ensure decisions at all stages are adequately documented; iii) improve the accuracy of records relating to members' status and in relation to obtaining corroborative third party evidence; and iv) enhance the degree of managerial oversight in certain processes. |
| Timeliness of the disciplinary process | <p>We recommended that the RABs:</p> <ul style="list-style-type: none"> i) develop Key Performance Indicators (KPIs) for key stages of the investigation and disciplinary process along with appropriate oversight of these KPIs; ii) monitor the timeliness of their investigation & disciplinary processes; and iii) assess their staffing levels to address any avoidable delays in the system. |
| Reporting and management information | <p>We recommended that the RABs implement measures to:</p> <ul style="list-style-type: none"> i) enhance cross-departmental cooperation and interaction in respect of oversight of their members and to introduce effective internal reporting where appropriate and beneficial; ii) improve the management information process and take steps to ensure the accuracy and consistency of information provided to IAASA; iii) increase management oversight of management information and reporting; and iv) review the adequacy of information being provided to oversight boards/committees. |
| Committees role and responsibilities | <p>We recommended that:</p> <ul style="list-style-type: none"> i) relevant and timely training be provided to committee members, including induction and periodic refresher updates; ii) guidance in relation to conflicts of interest for individuals on committees be drafted; and |

| Finding and Observations | Recommendations |
|---------------------------------|--|
| | iii) confidentiality agreements should be in place for all committee members. |
| Governance and oversight | <p>We recommended that:</p> <ul style="list-style-type: none"> i) The keys risks relevant to the investigation & disciplinary process and relevant mitigating actions are adequately documented and addressed in the risk register; and ii) RABs periodically assess the effectiveness and efficiency of the investigation and disciplinary system in place. |

4. 2018 Activities

There are a number of tasks planned for 2018 with regard to IAASA's oversight of the RABs' performance of the functions assigned to them in SI 312 including:

- A number of on-site supervisory visits are scheduled, themed on quality assurance systems as well as auditor licensing activities. In addition, we will finalise a desktop review of CPD monitoring of members undertaken by the RABs;
- Review and approval of amendments to constitutional documents proposed by the RABs;
- Analysis of supervisory data and periodic review meetings with RABs to ensure progression of action points including those taken to implement recommendations arising from supervisory visits; and
- Liaison with the RABs with regard to the commencement of the Bill and the revised regulatory model.