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# CHAPTER 3

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*Audit quality unit*

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## 1. Introduction

This Chapter details IAASA's activities during the year in relation to the Audit Quality Unit ('AQU'), which comprises an Audit Inspections Team ('AIT') and Audit Standards Team ('AST'). Both functions are new functions, which commenced on 17 June 2016, following the implementation of the EU Audit Reform legislation in Ireland.

## 2. Audit Inspections Team

### 2.1. Introduction

On 17 June 2016, SI 312 was enacted and on that date IAASA assumed responsibility for inspecting the quality of audit work performed by the auditors of PIEs. Within IAASA, the AIT is responsible for this function. The responsibility for the quality assurance of auditors of PIEs had previously rested with the RABs.

### 2.2. Staffing

IAASA has obtained sanction for a Head of Unit, nine Audit Inspectors and one Administrative Executive. At 31 December 2016, IAASA employed a Head of Unit, two Audit Inspectors and one Administrative Executive.

### 2.3. Audit reform legislation

During the year, IAASA liaised extensively with the Department in relation to the transposition of the EU Audit Reform legislation during the process of drafting SI 312. SI 312 in conjunction with the EU Audit Regulation sets out a number of changes that affect both the performance and oversight of PIE audits. The new measures included additional requirements for group auditors, updates on independence requirements, audit rotation, provision of non-audit services as well as a broadening of the functions, roles and responsibilities of the PIEs' audit committees. The EU Audit Regulation also placed additional requirements on IAASA for monitoring and reporting on the audit market as well annual publication of a PIE auditor listing to enhance competition and transparency in the market.

### 2.4. Audit inspections methodology

Under Regulation 107 of SI 312, IAASA is responsible for the quality assurance of the statutory audit of PIEs. The AIT's overall objective is to inspect PIE auditors' work and to promote improvements in the quality of auditing of PIEs. At 31 December 2016, there were ten audit firms confirmed as engaged in the audit of approximately 1,200 PIEs in Ireland. During the year, IAASA commenced one audit inspection, which was in progress at year-end.

Prior to the commencement of SI 312, in addition to liaising in relation to the transposition, the AIT focussed on preparation for commencement in audit inspection activities. This involved researching the audit inspection regimes of other countries and developing processes, procedures and inspection working papers for use in Ireland. Additionally, the team identified, sourced and implemented an appropriate IT system for recording the results of audit inspections.

Each PIE audit firm is required to be inspected, at a minimum, once every three years, save where an audit firm audits only PIEs who are either 'small' or 'medium-sized undertakings' (as defined in points (17) and (18) of Article 2 of Directive 2006/43/EC), in which case, the audit firm must be inspected every six years. A quality assurance inspection includes an assessment of the internal quality control system of the audit firm and testing the effectiveness of that internal quality control system, through compliance testing and review of individual audits of PIEs.

IAASA has implemented the Common Audit Inspection Methodology ('CAIM') for assessing the internal quality control systems of PIE audit firms. CAIM was developed within the European Audit Inspection Group, a pan-European platform for cooperation among audit regulators, to develop and promote a common audit inspection methodology across member states. An overview of the methodology can be found here. IAASA has also developed a suite of working papers for the assessment of individual audits of PIEs.

A report will be issued to the audit firms in respect of each individual audit inspected which will

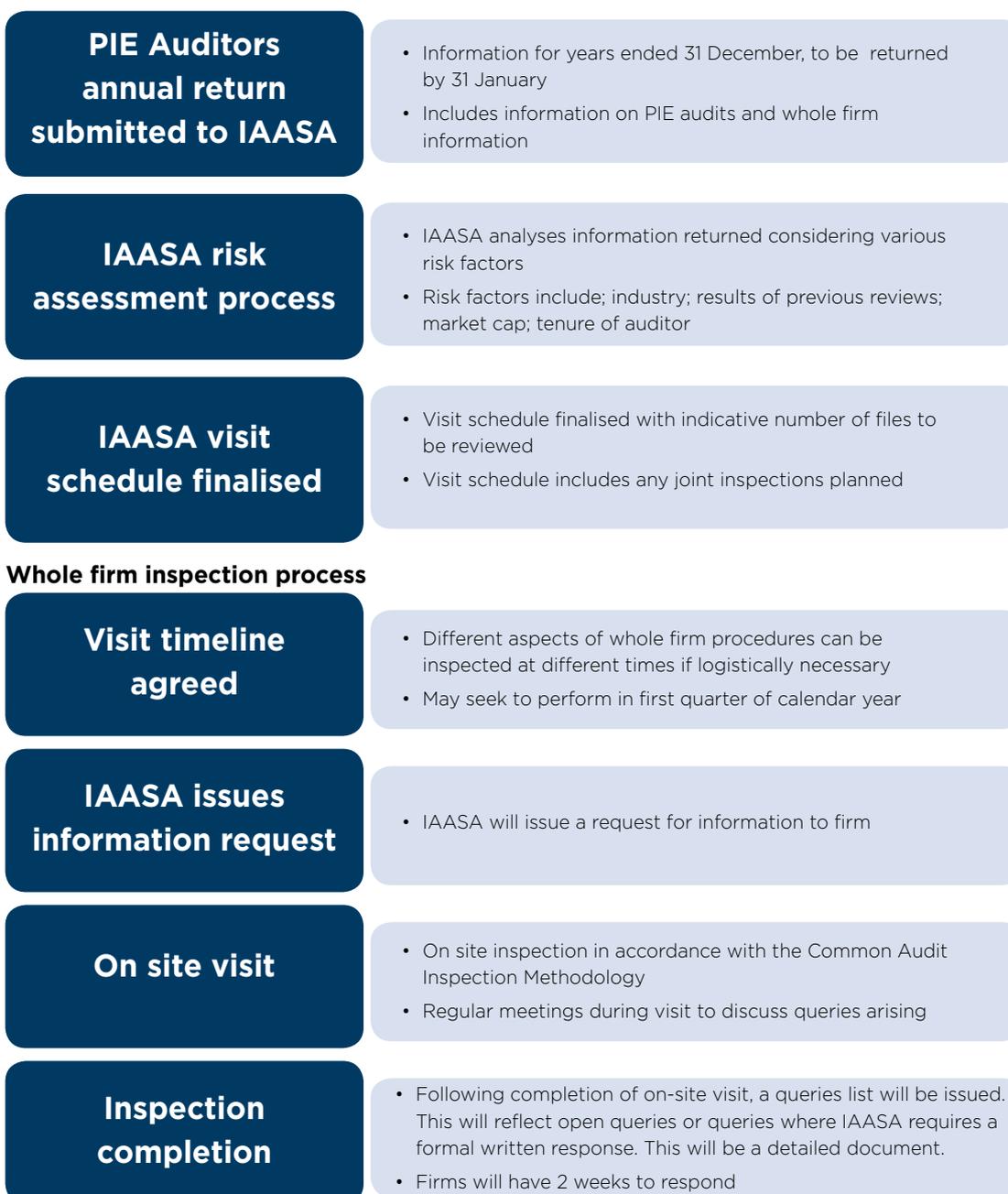
<sup>4</sup> A PIE is generally defined as a listed entity, credit institution or insurance undertaking

contain details of the findings of that inspection and recommendations for improvement. Additionally, following each inspection, an overall firm inspection report will be issued which will detail the findings of the inspection of the internal quality control system and recommendations for improvement, as well as a summary of the

individual audits inspected.

The diagram below outlines the stages of the IAASA inspection process from pre-inspection to completion.

#### Pre-inspection process



**Audit Inspection process****Audit selection completed**

- Audits selected for review based on risk
- 2 weeks notice will be given
- No changes may be made to the file following notification
- For logistical reasons, IAASA likely to return to firm several times through the year following completion of the audits selected

**On site inspection**

- Each audit review expected to take between 1 and 3 weeks
- Inspection will involve a detailed review of a number of sections of the audit
- Regular meetings throughout visit between inspector and audit team

**Inspection completion**

- Following completion of on-site visit, a queries list will be issued, as per whole firm inspection.
- Firms will have 2 weeks to respond
- A closing meeting will be scheduled within 2 weeks of responses.
- It is intended to rate each audit inspected, but this may not happen initially

**Inspection completion****Overall inspection report**

- Overall inspection report compiled summarising results of whole firm inspection and all files inspected in the year
- This will be issued to firm prior to finalisation
- It is intended that this report will be published, but this may not happen initially

**2.5. International Cooperation**

IAASA continued to liaise with various international authorities as part of its current remit in this area. This included involvement in various fora together with bilateral engagement with other authorities in order to progress Memoranda of Understanding. Those engagements included liaising with the:

- UK Financial Reporting Council including its Audit and Assurance Council;
- Committee of European Auditing Oversight Bodies ('CEAOB');
- International Forum of Independent Audit Regulators ('IFIAR');
- US Public Company Accounting Oversight Board ('PCAOB'); and
- Swiss Federal Audit Oversight Authority.

During the year, following enactment of the EU Audit Regulation, the European Group of Audit Oversight Bodies transitioned to the CEAOB. IAASA was a member of a sub-group set up to prepare for the transfer of responsibilities. This sub-group drafted the charter and work plan for the CEAOB and its sub-groups. IAASA is now a member of each of the permanent sub-groups of the CEAOB, which are made up of the following:

- Sub-group on International Equivalence and Adequacy whose remit is to contribute to the technical assessment of the equivalence of the systems of public oversight, quality assurance, investigation and penalties of third countries. The objective of the sub-group is to promote investor protection globally to the benefit of cross-border investment and high-quality audits.

- Inspections sub-group. The purpose of the sub-group is to further enhance the cooperation and consistency among CEAOB members on the subject of inspection activity and to have effective communications with the audit firms and other third parties, with the aim of supporting the objective of the CEAOB to improve audit quality and confidence in audits.
- International auditing standards sub-group. The purpose of the sub-group is to further enhance cooperation and consistency in audit oversight in the European Union regarding the adoption and use of standards on professional ethics, internal quality control of audit firms and auditing and to contribute to technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption.
- Sub-group on enforcement. The purpose of the sub-group is to facilitate the exchange of information, expertise and best practices in the area of investigations and sanctions in order to promote convergence on enforcement matters.
- Market Monitoring sub-group whose purpose is to facilitate the monitoring of the quality and competition of the market for providing statutory audit services to PIEs, relating to assisting the Commission in preparing joint reports. The sub-group contributes to the convergence and coordination of the monitoring carried out by national authorities.

IAASA currently holds the chair of the Market Monitoring sub-group.

## **2.6. Registration of third country auditors and audit entities**

The EU Commission has put in place a framework whereby auditors and audit entities from non-EEA countries ('third countries') can continue to issue valid audit opinions in the EU provided that certain requirements are met. 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 ('full registration'). In addition,

auditors from certain third countries, as designated by the European Commission, are exempt from this requirement for a transitional period on condition that they provide specific limited information to IAASA ('transitional registration').

During the year, IAASA renewed the full registration of 11 (2015: 11) third country audit firms.

IAASA is also responsible for updating the Register of Third Country Auditors (which is available on the Companies Registration Office ('CRO') website, [www.cro.ie](http://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.

## **3. Audit standards for use in Ireland**

### **3.1. Introduction**

SI 312 has conferred upon IAASA responsibility for the adoption of standards on auditing, professional ethics and internal quality control for audits of financial periods beginning on or after 17 June 2016. For audits of financial periods beginning before 17 June 2016, auditors in Ireland were required to apply the FRC Ethical Standards 1 - 5 and International Standards on Auditing (UK and Ireland), which were mandated by their respective RABs.

During 2016, IAASA engaged with various stakeholders and announced its intention to temporarily adopt an amended version of the FRC Ethical Standard and International Standards on Auditing (UK) 2016 and to carry out a public consultation in relation to the longer term options for adopting standards for use in the Irish market.

As at 31 December 2016, IAASA was continuing negotiations on the license of the FRC standards. Additionally, the public consultation was issued and responses received were under review.