

2021

Feedback Paper
Revision of the Irish
Quality Management
Standards

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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.

Table of Contents

1. Summary	2
2. Responses received	2
3. Matters on which IAASA consulted and summary of responses	3
4. Additional comments	6
5. Conclusion.....	7

1. Summary

Following public consultation, IAASA is issuing the following standards:

- International Standard on Quality Management ('ISQM') (Ireland) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
- International Standard on Quality Management (Ireland) 2, *Engagement Quality Reviews*; and
- International Standard on Auditing ('ISA') (Ireland) 220 (Revised December 2021), *Quality Management for an Audit of Financial Statements*.

The standards are effective as of 15 December 2022 and will apply to periods as set out in the table below. They will replace International Standard on Quality Control (Ireland) 1 (Revised November 2020) and ISA (Ireland) 220 (Revised November 2020). Early adoption is permitted.

ISQM (Ireland) 1	ISQM (Ireland) 2	ISA (Ireland) 220 (Revised December 2021)
Systems of quality management in compliance with ISQM (Ireland) 1 must be designed and implemented by 15 December 2022. The evaluation of the system of quality management required by paragraphs 53-54 must be performed within one year following 15 December 2022.	Effective for: <ul style="list-style-type: none">• Audits and reviews of financial statements for periods beginning on or after 15 December 2022; and• Other assurance or related services engagements beginning on or after 15 December 2022.	Effective for audits of financial statements for periods beginning on or after 15 December 2022.

IAASA is also making conforming amendments to other standards in line with the changes made by the International Auditing and Assurance Standards Board ('IAASB') and Financial Reporting Council ('FRC').

2. Responses received

IAASA received six responses, as listed below – two from recognised accountancy bodies and four from audit firms. The full responses are available [here](#) on the IAASA website.

- Chartered Accountants Ireland ('CAI')
- CPA Ireland
- EY
- Grant Thornton
- KPMG
- PwC

3. Matters on which IAASA consulted and summary of responses

A summary of the responses received to the specific questions asked in the consultation, and IAASA's response are set out below.

No.	Matters on which IAASA consulted
1.	<p>In the context of IAASA's policy to make minimal amendments to the UK standards, are there any provisions in the proposed quality management standards that, in your opinion, conflict with Irish or EU law?</p> <p>If so, please:</p> <ol style="list-style-type: none"> i. Identify the relevant legal provisions; ii. Give reasons for your view; and iii. Explain what actions, if any, you believe should be taken to revise the quality management standards in Ireland in respect of the matters concerned.
Summary of Responses	<p>Three respondents did not identify any potential conflicts with Irish or EU law.</p> <p>Three respondents noted that the language in some paragraphs relating to provisions of the Companies Act 2014 had been amended from that contained in ISQC (Ireland) 1 (Revised November 2020) to refer to "firms" rather than "auditor" and "audit firm". These provisions transpose the requirements of Directive 2006/43/EC, as amended by Directive 2014/56/EU ('the EU Audit Directive') into Irish law.</p> <p>The term "firm" applies to both audits and assurance engagements. Respondents noted that the EU Audit Directive establishes rules concerning statutory audit but does not extend to other engagements carried out by professional accountants. They expressed the view that, as these requirements derive from the EU Audit Directive, they should apply to auditors only.</p> <p>Two respondents also requested clarity regarding whether paragraph 34D-3 of ISQM (Ireland) 1 requires firms to identify an additional component in the system of quality management to those identified in paragraph 6 of the standard and develop objectives/risks/responses in relation to "administrative and accounting practices".</p>
IAASA Response	<p>The paragraphs in the new standards relating to requirements of the EU Audit Directive have been amended where necessary to clarify that they relate to auditors or audit firms.</p> <p>In addition, paragraph 34D-3 of ISQM (Ireland) 1 has been amended to clarify that auditors are required to be able to demonstrate that the firm's policies and procedures designed to achieve compliance with the requirement of the EU Audit Directive set out in the standard are appropriate given the scale and complexity of the firm's activities.</p> <p>It is a matter for each firm to assess how it shall ensure compliance with these requirements.</p>

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2. In the context of IAASA’s policy to make minimal amendments to the UK standards, are there any areas not identified in the consultation paper where there are distinct differences between the Irish and UK markets which, in your opinion, would impact on the applicability of the proposed quality management standards in Ireland?

If so, please:

- i. Give your reasons;
- ii. Identify the market sectors, audited entities etc. in Ireland impacted by the proposed amendments; and
- iii. Explain what actions, if any, you believe should be taken to revise the quality management standards in Ireland in respect of the matters concerned.

Summary of Responses

Two respondents did not identify any market differences.

Responsibility for the system of quality management

Two respondents were of the view that the proposed wording of ISQM (Ireland) 1 could obstruct the operation and structure of an audit firm in Ireland.

They noted that paragraph 20 states that a firm shall assign:

- Ultimate responsibility and accountability for the system of quality management to the firm’s chief executive officer or the firm’s managing partner (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent); and
- Operational responsibility for the system of quality management.

Paragraph 21D-1 of the draft standard required that these roles must be assigned to “at least one individual who is qualified as a statutory auditor”.

In their opinion, the requirement to assign both operational and ultimate responsibility for the system of quality management to individuals who are qualified as a statutory auditor may conflict with the current structure of Irish firms providing both audit and non-audit services. They noted that it would prevent ultimate responsibility being assigned to a firm’s chief executive officer/managing partner or operational responsibility being assigned to the head of quality and risk if they are not qualified as auditors.

They also requested clarification regarding the term “qualified as a statutory auditor” and whether it could include individuals who hold relevant qualifications and are eligible for approval as an auditor, as well as those approved as a statutory auditors.

Scope of ISQM (Ireland) 1

One respondent noted that while the scope of ISQM (Ireland) 1 includes “other assurance or related services engagements”, assurance services are not usually provided by auditors. They requested clarification regarding which provisions of the standard apply to such engagements.

Adoption of UK standards in Ireland

One respondent stated that, while they did not believe there are any differences between the Irish and UK markets which would impact the applicability of these standards, ongoing consideration should be given to IAASA’s policy of adopting the UK standards with minimal amendments.

They noted that there may be divergence between UK and EU requirements arising from the reform agenda in each jurisdiction.

Implementation challenges for SMPs

One respondent stated that implementation of these standards will be a challenge for small and medium sized practices ('SMPs'). They referred to the loss of the audit exemption due to late filing of an annual return as a key difference between the UK and Irish markets and stated that such audits are often performed by small Irish firms.

They also expressed the view that further regulatory requirements are likely to accelerate the reduction in the number of auditors in Ireland. They stated that implementation guidance would be of great assistance.

IAASA Response

Responsibility for the system of quality management

Paragraph 20 of ISQM (Ireland) 1 requires a firm to assign both ultimate and operational responsibility for the system of quality management to appropriate individuals. It applies to both audit and assurance engagements.

In addition, Section 1541(g)(ii) of the Companies Act 2014 requires an audit firm to establish an internal quality control system to ensure the quality of statutory audit so that responsibility for such system lies with a person who "is qualified as a statutory auditor". Consequently responsibility for the system of quality control in respect of statutory audits must be assigned to an individual who has been approved as a statutory auditor in accordance with Part 27 of that Act.

In response to the comments received and to provide clarity to readers, paragraph 21D-1 has been amended to require that "The audit firm shall ensure that, in accordance with paragraph 20 of this ISQM (Ireland), at least operational responsibility for the system of quality management for audits of financial statements is assigned to an individual who is approved as a statutory auditor".

It is a matter for each firm as to how they ensure compliance with these requirements in practice.

Scope of ISQM (Ireland) 1

The international standard applies to both audit and assurance engagements. In Ireland, this is the ISAs (Ireland) and International Standard on Review Engagements (Ireland) 2410. It will also apply to the Standards for Investment Reporting (Ireland)), when issued. As noted in question 1, paragraphs of the standard containing provisions that relate to the EU Directive have been amended to clarify that they relate to audit only.

Adoption of UK standards in Ireland

IAASA monitors proposed changes to the UK auditing framework on an ongoing basis to ensure that it is appropriate to continue to adopt the UK standards with minimal changes in Ireland, particularly in the context of Brexit and the recent consultation by the Department of Business, Energy and Industrial Strategy on restoring confidence in audit.

Implementation challenges for SMPs

The new standards do not impose additional requirements for auditors beyond those in the international standards and Irish legislation. It is anticipated that they will be adopted in the majority of EU member states.

With regard to implementation guidance, the quality management section of the IAASB’s website (<https://www.iaasb.org/focus-areas/quality-management>) contains a wide range of resources. These include first time implementation guidance to guide firms through the process of implementing a system of quality management and understanding some of the detail around this, as well as fact sheets and videos to further support firms.

3.	Is the proposed effective date of 15 December 2022, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.
Summary of Responses	All respondents were in agreement with the effective date.
IAASA Response	The effective date of ISQM (Ireland) 1, ISQM (Ireland) 2 and ISA (Ireland) 220 (Revised December 2021) is 15 December 2022. Early adoption is permitted.

4. Additional comments

4.1 Definition of listed entity – recent consultations

One respondent noted that the standards may need to be updated following the outcome of recent consultations on the definition of listed entities by IAASA and on the definition of listed entity and public interest entity (‘PIE’) by the International Ethics Standards Board for Accountants (‘IESBA’).

The definition of listed entity in ISQM (Ireland) 1 has been amended to reflect the outcome of IAASA’s consultation. We will consider whether amendment may be required to the Irish auditing framework, particularly the Ethical Standard for Auditors (Ireland), when the IESBA have issued their final documents. We note that the IAASB is also monitoring this project and considering its implications for the international auditing standards.

4.2 Scope of engagement quality review of components

Two respondents expressed concern regarding the proposed wording of paragraph 25-3 in ISQM (Ireland) 2 relating to the scope of the engagement quality review (‘EQR’) in the case of group audits of PIEs. They expressed the view that proposed wording would require the reviewer to consider immaterial components that have no impact in the overall group audit. They suggested that the review should be required only for components where work has been carried out for the purposes of the group audit. They noted that this is required by the extant ISA (Ireland) 220 (revised November 2020).

The language in paragraph 25-3 of ISQM (Ireland) 2 has been amended to clarify that, for audits of group financial statements of PIEs, the engagement quality reviewer must consider the matters required by Article 5.4 of EU Regulation 537/2014 for components where work has been carried out for the purposes of the group audit.

4.3 PIE definition

One respondent recommended that the reference to a PIE clarify that the entity must be incorporated within the EU. They also suggested that the definition distinguish between “regulated market of any member state” and “UK regulated market”.

As the definition of PIE in the standards is consistent with the Companies Act 2014, it is not proposed to make substantive amendments. However, additional wording has been inserted to clarify that it includes undertakings listed on a regulated market of an EU Member State or EEA state.

5. Conclusion

Following the consultation and having regard to the responses received, IAASA is issuing:

- International Standard on Quality Management (Ireland) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
- International Standard on Quality Management (Ireland) 2, *Engagement Quality Reviews*; and
- International Standard on Auditing (Ireland) 220 (Revised December 2021), *Quality Management for an Audit of Financial Statements*.

The final ISQM (Ireland) 1 can be found [here](#).

The final ISQM (Ireland) 2 can be found [here](#).

The revised ISA (Ireland) 220 (Revised December 2021) can be found [here](#).

The related conforming amendments can be found [here](#).

A presentation setting out the key features of the revised standards is available [here](#).

The effective date of the revised standards is 15 December 2022 and will apply to each standard as set out in section 1. Early adoption is permitted.



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