



# **CONSULTATION PAPER**

## **The future auditing framework for Ireland**

**27 October 2016**

## **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**

## Contents

1. Summary .....	1
2. Introduction .....	1
3. Background .....	1
4. Options available .....	2
5. Auditing framework applied in selected other jurisdictions.....	4
6. Effective date .....	5
7. Matters on which IAASA is consulting .....	5
8. Making your submission .....	5
Appendix – Useful links.....	7

## 1. Summary

On the 15 June 2016, the Minister for Jobs, Enterprise and Innovation made the European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016 (S.I. No. 312 of 2016) (the 'Regulations'). The Regulations are effective since the 17 June 2016.

The effect of the Regulations is that the Irish Auditing and Accounting Supervisory Authority (IAASA) is now responsible for the adoption of an auditing framework in Ireland.

The purpose of this consultation paper is to set out IAASA's options with regard to available audit frameworks and to obtain the views of stakeholders.

## 2. Introduction

The European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016 (S.I. No. 312 of 2016) (the 'Regulations') came into operation on 17 June 2016.

Under the Regulations, IAASA is responsible for adopting '*the auditing standards to be applied and statutory auditors and audit firms shall carry out statutory audits in accordance with those standards*'<sup>1</sup> Auditing standards in this instance includes '*standards on professional ethics and internal quality control in addition to standards on auditing*'<sup>2</sup> (the 'audit framework').

On 14 July 2016 IAASA published its proposed approach with regard to the adoption of the framework in relation to the audit of financial statements for financial periods beginning on or after 17 June 2016<sup>3</sup>.

In summary the proposal outlined at that time was to:

- (a) obtain a licence from the UK's Financial Reporting Council ('FRC') and tailor the FRC audit framework which, as a temporary measure, would be issued for use prior to IAASA consulting on which audit framework to adopt in the longer term; and
- (b) issue a Consultation Paper outlining the following options with regard to which audit framework to adopt for Irish audit engagements in relation to financial periods beginning on or after 17 June 2016:
  1. Option 1 – adapt the UK FRC audit framework for the Irish market;
  2. Option 2 – adopt the international audit framework; or
  3. Option 3 – develop domestic standards.

The first two options are based on the premise that licence agreements can be put in place with the principal standard setter. However, should such a licence agreement prove not possible to put in place then the number of options available are reduced.

While negotiations regarding the licence agreement with the FRC are on-going it remains the intention to proceed with the adoption of FRC auditing standards which may or may not be on a temporary basis.

## 3. Background

Prior to the coming into force of the Regulations, the auditing standards used in Ireland were those issued by the FRC and auditors were mandated by their accountancy body to use the FRC framework when conducting an audit of an entity's financial statements. The practical consequence of the

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<sup>1</sup> Regulation 77(1)

<sup>2</sup> Regulation 77(5)

<sup>3</sup> <http://www.iaasa.ie/News/2016/Adoption-of-Auditing-Standards-by-IAASA> refers

Regulations is that, post 17 June 2016, standards issued by the FRC can no longer be promulgated for use in Ireland by the Irish Professional Bodies. The FRC framework continues to apply to Irish audit engagements with financial periods beginning before 17 June 2016.

This FRC auditing framework is comprised of:

- (a) International Standard on Quality Control (UK and Ireland) 1 ('ISQC 1');
- (b) International Standards on Auditing (UK and Ireland); and
- (c) FRC Ethical Standards.

As outlined above, for audits in relation to financial periods beginning on or after 17 June 2016, an Irish version of the FRC framework will be temporarily adapted and, following this consultation, a different framework may or may not be adopted.

## 4. Options available

The following table gives further detail on the frameworks available for adoption in the future and outlines some of the issues arising with their adoption.

Option	Summary
<p><b>Option 1 – Adapt the UK FRC audit framework for the Irish market</b></p>	<p>The FRC in the UK have issued auditing standards and a quality control standard which are based heavily on the international standards issued by the International Auditing and Assurance Standards Board ('IAASB'), referred to as International Standards on Auditing ('ISAs'), and International Standard on Quality Control ('ISQC 1'). The IAASB is an independent board of the International Federation of Accountants ('IFAC'). Where considered necessary the FRC augment the IAASB international standards with additional local requirements and guidance. The additional local material is distinguished from the IAASB text by the use of "grey shading". The FRC have also developed an ethical standard with the intention that it adheres to the principles of the IESBA's<sup>4</sup> Code of Ethics.</p> <p>Stakeholders will be aware that in Ireland prior to 17 June 2016, audit firms and auditors, together with the relevant audit personnel, were subject to ethical requirements from two sources:</p> <ul style="list-style-type: none"> <li>(a) FRC's Ethical Standards; and</li> <li>(b) the ethical requirements of the relevant Recognised Accountancy Body ('RAB').</li> </ul> <p>It should be noted that the six RABs recognised in Ireland have either based their Code of Ethics on the IESBA Code of Ethics or require their members to comply with the IESBA Code of Ethics.</p> <p>If the revised FRC framework were to be adapted, at a minimum each of the FRC's Ethical Standards would have to be updated for the current Irish legal position and other modifications may also be required to reflect the particular circumstance of the Irish market. It would also be within IAASA's competence to issue separate ethical standards on auditing as required.</p> <p>Adapting the FRC audit framework in Ireland would provide continuity of the existing practice, as Irish auditors have already developed audit systems and procedures in accordance with the FRC audit framework. Given that a number of Irish audit firms have audit clients in both Ireland and UK and</p>

<sup>4</sup> International Ethics Standards Board for Accountants which is also an independent board of IFAC

share technical resources across both jurisdictions, the continued use of the FRC audit framework may be beneficial for such firms. Following the introduction of the EU Audit Reform legislation, the current UK standards issued on 17 June 2016 were subject to revision and were updated for the new UK legislation. This process included an extensive consultation in both the UK and Ireland.

However, on 23 June 2016, the United Kingdom voted to leave the European Union ('Brexit'). The result of the UK Referendum has resulted in uncertainty in both political and economic landscapes. In this context, stakeholders should be aware that it is possible the FRC auditing standards may not remain in full compliance with EU law in the future. For this reason, Irish and UK audit frameworks may need to diverge significantly in the future.

It may be the case that IAASA could not commence any consultation on any new or revised Standard until the FRC has finalised the UK version of the standard. Stakeholders should be aware that this could result in delays in the introduction of an Irish standard.

It is envisaged that certain Practice Notes and Bulletins would be included in any license agreement with the FRC.

***Option 2 – adapt the international audit framework***

This approach would involve IAASA licensing the IAASB's International Standards on Auditing (ISAs) and the International Standard on Quality Control (ISQC) and adopting these standards in Ireland with or without amendment for the particular circumstances of the Irish market.

The FRC Ethical Standards would not be adapted because the Ethical Standards are not part of the IAASB Framework. IAASA would, therefore, need to develop a separate IAASA Ethical Standard. Some guidance notes may also be required and the status of existing Practice Notes and Bulletins would need to be explored.

It should be noted that a number of our European counterparts use the IAASB Framework [section 5 refers].

As entities and auditors become more globalised, adopting the same standards as are applied in other jurisdictions may be beneficial. ISAs issued by the IAASB do not contain legislative references and could, subject to licence, be introduced in Ireland as they are currently drafted. There would, however, be a continued need for guidance regarding the impact of law and regulations for Irish auditors. Under the FRC framework prior to 17 June 2016, the aforementioned guidance was included in the FRC audit framework and/or the relevant Practice Notes and Bulletins. Should IAASA adopt the IAASB framework there may then be a need for IAASA to issue guidance on relevant aspects of its audit framework.

If IAASA were to adopt the IAASB standards directly, then stakeholders should be aware that any audit firm providing audit services in both the UK and Ireland would need to be familiar with two frameworks (i.e. the FRC framework in the UK and the IAASA framework in Ireland). However, this may, in any event, be the situation post-Brexit, depending on how the UK chooses to adopt auditing standards going forward. In addition, it is expected that both the FRC and IAASA frameworks will still be based on the IAASB audit and quality control standards.

Adopting the IAASB standards without amendment for the Irish context would eliminate the need for any ongoing "care and maintenance" of the audit and quality control standards. Further, it should be noted that the amended Directive anticipates that the EU Commission may in the future choose to adopt the international auditing standards for use in all EU states.

**Option 3 –  
develop domestic  
standards**

This approach would involve IAASA developing a complete auditing framework, without reference to any existing framework.

The content of such a domestically developed framework would not necessarily be based on the framework of any other auditing standard setter. Given that there are well developed alternative approaches available, the development of Irish standards could lead to confusion for auditors, investors and audit clients as to why Ireland would adopt standards which have not been applied in other jurisdictions and have not been subjected to rigorous testing. There is a risk that such domestically developed standards could somehow be perceived as being less rigorous than extant standards.

If IAASA were to develop its own auditing standards, it may not be in a position to implement improvements of other standard setters into the Irish auditing standards due to licensing and copyright issues.

However, this option would allow the development of Irish auditing standards that can be specifically developed and tailored for the Irish market. IAASA would have control over the content, publication and implementation deadline for its own developed standards.

This option would require the development of a full standard setting process which would necessitate higher levels of funding and human resources. This process may involve a significant period of time to develop. Costs associated with the “care and maintenance” of such standards, once developed, could be significant.

The accountancy bodies in Ireland who are members of IFAC are obliged to require their members to apply the standards developed by the independent standard setting boards, being those discussed in option 2. As such, auditors and audit firms would be obliged to comply with those standards in addition to domestically developed standards.

Given these specific set of circumstances, the suite of Irish standards would not be developed before June 2017

## 5. Auditing framework applied in selected other jurisdictions

The following are examples of the current audit frameworks used in selected jurisdictions:

Country	Auditing framework in place
Austria	Austrian developed standards
Canada	Canadian Auditing Standards
Denmark	ISAs
France	ISAs with French additions
Germany	ISAs with German additions
Italy	ISAs with Italian additions
Luxembourg	ISAs. Some additional regulations on specific matters also adopted and a supplement to ISQC1
Portugal	Portuguese developed standards

Switzerland	ISAs with additional Swiss specific requirements
USA	There are specific standards developed in the USA with which auditors of US entities must comply. Audits in the USA comprise the issuance of audit opinions both on the financial statements and the internal control environment

## 6. Effective date

Consideration needs to be given to the effective date of any new auditing framework.

Respondents favouring a move away from the FRC framework (options 2 and 3) are requested to outline a lead-in time which they believe would be desirable and achievable. An illustrative timetable is outlined below.

Task	To be completed no later than
<b>IAASA to develop new standards</b>	30 May 2017
<b>Public consultation</b>	31 July 2017
<b>Adoption of finalised standards</b>	31 October 2017
<b>Effective date for new standards</b>	Financial years beginning on or after 17 June 2018

## 7. Matters on which IAASA is consulting

In light of the above, a number of matters are set out below on which IAASA is seeking views from stakeholders and interested parties.

No.	Matter on which views are sought
1.	Please indicate your preferred option for the development of an auditing framework to be adopted by IAASA for the Irish market and provide a detailed rationale for your preference
2.	Do you believe that another option not outlined in this Consultation Paper should be considered? If so, please outline this alternative option and specify your reasons for its use
3.	Please provide your observations as to the phases and timelines for implementation of your preferred option
4.	Please provide any additional observations you may have on the proposals set out in this Consultation Paper.

## 8. Making your submission

IAASA invites comments on all proposals put forward in this Consultation Paper and, in particular, on the specific matters set out in section 7 above.

Stakeholders and interested parties are invited to provide responses to the above questions by e-mail only to [submissions@iaasa.ie](mailto:submissions@iaasa.ie) no later than **5:30pm on Wednesday, 30 November 2016**.

Any submissions received after this time and all anonymous submissions will not be considered.

Comments are most helpful if they:



- (a) respond directly to the specific question posed;
- (b) provide a clear rationale for the position adopted by the respondent;
- (c) provide supporting evidence underpinning the views expressed/rationale proposed; and
- (d) describe in detail any alternative option(s) you wish IAASA to consider.

While responses may include attachments, such attachments must not be encrypted. All responses from identifiable individuals and organisations received by the deadline will be considered by IAASA.

Depending on the nature and scale of responses, IAASA may publish a feedback statement summarising the content of the responses. Respondents should note that, in the interest of transparency, their responses may be published in full or in part (and may be attributed to the respondent) by IAASA in that feedback statement.

## Appendix – Useful links

	Link
<b>European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016</b>	<a href="http://www.irishstatutebook.ie/eli/2016/si/312/made/en/pdf">http://www.irishstatutebook.ie/eli/2016/si/312/made/en/pdf</a>
<b>Financial Reporting Council</b>	<a href="https://www.frc.org.uk/">https://www.frc.org.uk/</a>
<b>Financial Reporting Council 2016 Auditing Framework</b>	<a href="https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors.aspx">https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors.aspx</a>
<b>International Auditing and Assurance Standards Board</b>	<a href="https://www.iaasb.org/">https://www.iaasb.org/</a>
<b>International Federation of Accountants</b>	<a href="https://www.ifac.org/">https://www.ifac.org/</a>
International Federation of Accountants – Code of Ethics for Professional Accountants	<a href="https://www.ethicsboard.org/iesba-code">https://www.ethicsboard.org/iesba-code</a>
International Standards on Auditing	<a href="https://www.ifac.org/publications-resources/2015-handbook-international-quality-control-auditing-review-other-assurance">https://www.ifac.org/publications-resources/2015-handbook-international-quality-control-auditing-review-other-assurance</a>
Irish <b>Auditing Standards</b> – for statutory audits with financial periods beginning before 17 June 2016	<a href="https://frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditing-standards.aspx">https://frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditing-standards.aspx</a>
Irish <b>Ethical Standards</b> – for statutory audits with financial periods beginning before the 17 June 2016	<a href="https://frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/2010-Ethical-standards-for-auditors.aspx">https://frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/2010-Ethical-standards-for-auditors.aspx</a>